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Audit Guide for Financial and Compliance Audits of Minnesota Counties

Audit Practice Division



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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Table of Contents

I.	Introduction	1
II.	Overview of Counties	2
III.	Financial Reporting Requirements	2
a.	Generally Accepted Accounting Principles.....	2
b.	COFARS.....	2
c.	Scope of the Financial Statements.....	3
d.	Audit Period.....	3
IV.	Audit Requirement.....	3
V.	Audit Scope.....	3
a.	Generally Accepted Auditing Standards (GAAS)	4
b.	Generally Accepted Government Audit Standards (GAGAS)	4
c.	Single Audit Act	4
d.	Minnesota Legal Compliance	4
e.	Additional Requirements	5
VI.	Audit Reporting.....	5
VII.	Obtaining An Auditor.....	7
a.	Annual Audit Requirement.....	7
b.	Selection of a Non-OSA Auditor	7
c.	General.....	8
VIII.	Desk and Audit Documentation Reviews.....	8
a.	Desk Reviews.....	8
b.	Audit Documentation Reviews.....	9
IX.	Communication With the Office of the State Auditor.....	11
a.	Predecessor-Successor Auditor Situations.....	11
b.	Availability of OSA Working Papers.....	11
c.	Notifications to the State Auditor	12
X.	Failure to Comply	13
	Appendix A – Additional Requirements for Minnesota County Audits.....	14
	Appendix B – Request for Proposal Guidelines.....	16
	<i>Supplement 1 – Checklist of RFP Contents.....</i>	<i>33</i>
	<i>Supplement 2 – Sample Proposal Evaluation Worksheet</i>	<i>35</i>
	<i>Supplement 3 – Reporting Matrix.....</i>	<i>38</i>
	Appendix C – Sample RFP	39

I. Introduction

The *Audit Guide for Financial and Compliance Audits of Minnesota Counties* sets standards for audits of counties in Minnesota. The specifications in this manual apply to all audits of counties, whether conducted by the Office of the State Auditor (OSA) or a certified public accounting (CPA) firm. This guide is effective for audits of counties for fiscal years ending on or after December 31, 2025.

No manual defining audit specifications or requirements can meet all the present and future needs of the counties or their auditors. Changes will occur with the issuance of new accounting and auditing pronouncements or as problems emerge. The OSA will periodically update this guide as changes occur. However, responsibility for complying with professional standards remains with the auditor, and the auditor should follow all currently effective pronouncements.

Organization of the Manual

The *Audit Guide for Financial and Compliance Audits of Minnesota Counties (County Audit Guide)* has 10 chapters, including this introduction. Besides the introduction, the audit guide includes:

- Chapter II, *Overview of Counties*, provides a general overview of Minnesota counties;
- Chapter III, *Financial Reporting Requirements*, discusses the financial reporting requirements for Minnesota counties;
- Chapter IV, *Audit Requirement*, identifies the annual audit requirement for the counties;
- Chapter V, *Audit Scope*, identifies the audit standards to be followed in conducting the audits of Minnesota counties, as well as any additional procedures required;
- Chapter VI, *Audit Reporting*, discusses the issuance and filing requirements of the counties' annual financial report and the related independent auditor's reports;
- Chapter VII, *Obtaining an Auditor*, discusses the counties' requirements for selection of either the OSA or a CPA firm to conduct their annual audit;
- Chapter VIII, *Desk and Audit Documentation Reviews*, discusses the OSA's process for reviewing the counties' annual financial reports audited by CPA firms and the OSA's review of the CPA firm's supporting working papers;
- Chapter IX, *Communication with the Office of the State Auditor*, discusses issues related to predecessor-successor auditor situations, access to OSA working papers, and situations when counties or certified public accountants should contact the OSA; and
- Chapter X, *Failure to Comply*, discusses what would happen if the requirements of this guide are not followed.

Chapter V, *Audit Scope*, discusses additional specific audit procedures unique to audits of county governments in Minnesota. The actual additional suggested procedures are presented in Appendix A of this guide. Minn. Stat. § 6.65 gives the State Auditor authority to issue minimum audit procedures for the audits of local governments, including counties, and thereby, help ensure the quality of local government audits. Additionally, the current auditing literature encourages governmental officials to provide auditors information on statutory or accounting requirements unique to a peculiar state or local government.

II. Overview of Counties

Counties are distinct legal entities organized as subordinate agencies of state government. They do not exist exclusively for the common benefit of their citizens, but as subordinate agencies of the state, are responsible for exercising some of its functions.¹ There are 87 counties in Minnesota. Counties have responsibilities in various areas, including elections, social services, public safety and corrections, child protection, library services, hospitals and nursing homes, public health services, planning and zoning, economic development, parks and recreation, water quality, and solid waste management.

Boards of commissioners are the governing bodies of Minnesota's counties. County commissioners are elected by district, serve four-year terms that are staggered among the board (not all elected at the same time), and are responsible for the operation of the county and the delivery of county services. The number of commissioners on most county boards is five. Counties with a population of over 100,000 people may, by board resolution, increase the size of the county board from five to seven members.²

County commissioners are the elected officials who oversee county activities as the governing body for the county. Newly-elected commissioners take office the first Monday in January following their election. County board chairs are elected at the board's first meeting in early January. County commissioners' salaries vary from county to county. Individual county boards set their salaries in the year prior to the year the salary takes effect. Most county board commissioners are considered part-time.

Other county officials are also elected. Therefore, county commissioners may not directly control all county activities. Commissioners approve a budget for these offices, but may have only a limited say in how these offices operate. Other elective offices of county government include county attorney, county auditor, county treasurer, county recorder, and county sheriff. Many counties have reduced the number of elected officials.

Counties are managed in a number of different ways. Many counties have a central administration led by either a county administrator or a county coordinator. In some counties, the county auditor or auditor/treasurer provides the administrative function.

III. Financial Reporting Requirements

a. Generally Accepted Accounting Principles

Minnesota counties shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB), a private sector organization, establishes generally accepted accounting principles (GAAP) for state and local governments in the United States.

b. COFARS

Pursuant to Minnesota law, the OSA prescribes the form and style of county financial reports and statements. This financial information is contained in *Minnesota County Financial Accounting & Reporting Standards* (COFARS). While the financial statements in COFARS are in conformity with

¹ Kasch v. Clearwater County, 289 N.W.2d 148, 151 (Minn. 1980).

² Minn. Stat. § 375.056

GAAP, counties should report the additional financial information required by COFARS in their annual financial report.

c. Scope of the Financial Statements

Often, various commissions, authorities, boards, and agencies are a part of the governmental reporting entity, but external to the primary government accounting system. Generally accepted accounting principles require that the annual financial report include the entire reporting entity, which includes all component units. Component units are legally separate entities for which the county is financially accountable. Generally, component units must also issue basic financial statements. The narratives and disclosures that accompany these financial statements should adequately identify the purpose of the financial statements and the differing legal entities and functions included within the financial statements. The financial statements should disclose the relationship of the county to certain other governmental units. These relationships may include the guarantee of debt, investments in joint ventures, and jointly governed or other related entities.

d. Audit Period

The annual financial and compliance audit covers the financial transactions of a single fiscal year. The single audit also covers a single fiscal year. Minnesota counties have a fiscal year-end of December 31.

IV. Audit Requirement

Pursuant to Minnesota law, Minnesota counties are required to have an annual audit. A county may choose to have the audit performed by the state auditor, or may choose to have the audit performed by a CPA firm meeting the requirements of Minn. Stat. § 326A.05. A county that plans to change to or from the state auditor and a CPA firm must notify the state auditor of this change by August 1 of an even-numbered year. Upon this notice, the following calendar year will be the first year's records that will be subject to an audit by the new entity. A county that changes to or from the state auditor must have two annual audits done by the new audit entity before it may change again.

V. Audit Scope

The scope of the audit indicates the extent of the audit procedures to be performed and any special audit requirements that must be met. Because audits can be undertaken for various purposes, the scope of an audit must be established clearly before any work is begun. Typically, a financial audit comprises an examination of the financial statements of all funds maintained by the governmental unit.

Scope of Reporting Entity to be Audited

The annual financial audit must cover all activities, funds, agencies, and operations of a county, including units determined to be component units for reporting purposes. The coverage should be indicated clearly in setting the scope. Compliance audits limited to certain funds, agencies, or operations should be identified in the audit contract. If required, a single audit on federal funds also will be included in the audit contract.

An auditor of a Minnesota county's annual financial report must conduct the audit in accordance with the requirements discussed in the following sections:

a. Generally Accepted Auditing Standards (GAAS)

The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) establishes auditing standards generally accepted in the United States of America.

b. Generally Accepted Government Audit Standards (GAGAS)

The audits of Minnesota counties also must follow standards applicable to financial audits contained in *Government Auditing Standards* promulgated by the Comptroller General of the United States (2018 Revision Technical Update April 2021³).

Additional GAGAS Standards

GAGAS prescribe additional standards for financial audits that go beyond the requirements contained in the AICPA's Statements on Auditing Standards (SAS). Auditors must comply with these additional standards when citing GAGAS in their audit reports. The additional GAGAS standards relate to:

- a. Independence (see paragraphs 3.02 through 3.63);
- b. Nonaudit services (see paragraphs 3.64 through 3.106);
- c. Auditor communication (see paragraphs 6.06 through 6.10);
- d. Considering the results of previous audits and attestation engagements (see paragraph 6.11);
- e. Fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse (see paragraphs 6.15 through 6.16);
- f. Developing elements of a finding for financial audits (see paragraphs 6.17 through 6.30);
- g. Audit documentation (see paragraphs 6.31 through 6.35); and
- h. Additional GAGAS requirements for reporting on financial audits (see paragraph 6.36).

c. Single Audit Act

Most Minnesota counties will be subject to the provisions of the federal Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Due to the federal Single Audit Act, a unit of government that expends \$1,000,000 or more in federal awards for years ended December 31, 2025, and beyond must have a single audit on those funds.

d. Minnesota Legal Compliance

The OSA prescribes minimum procedures for County audits in the *Minnesota Legal Compliance Audit Guide for Counties*. Minn. Stat. § 6.65 states:

The state auditor shall prescribe minimum procedures and the audit scope for auditing the books, records, accounts, and affairs of political subdivisions in Minnesota. The minimum scope for audits of all political subdivisions must include financial and legal compliance audits. Audits of all school districts must include a determination of compliance with uniform financial accounting and reporting

³ *Government Auditing Standards* can be found at: <https://www.gao.gov/assets/gao-21-368g.pdf>.

A new version of *Government Auditing Standards*, issued in 2024, is effective for audits of county years ending December 31, 2026.

standards. The state auditor shall promulgate an audit guide for legal compliance audits, in consultation with representatives of the state auditor, the attorney general, towns, cities, counties, school districts, and private sector public accountants.

The *Legal Compliance Audit Guide for Counties* is prepared by the OSA pursuant to Minn. Stat. § 6.65, in consultation with representatives from the Attorney General's Office, towns, cities, counties, school districts, and private sector public accountants. The *Legal Compliance Audit Guide for Counties* contains the minimum statutory compliance guidelines for verification by auditors engaged to audit counties.

The guide is divided into specific sections and presented in checklist form to assist the auditor of government units in the verification of statutory compliance. The guide is not meant to be a complete compilation of all laws affecting municipalities or a complete analysis of the laws cited throughout. The checklist is meant to act as a reference guide regarding minimum legal compliance, and auditors of local governments must examine, in addition to applicable laws cited in the guide, those laws creating, granting power to, and restricting the counties they are auditing.

Under each section, except for the initial question establishing the transaction covered by the topic heading and except where the explanation of a given question indicates otherwise, all questions should be answered in the affirmative. A negative answer indicates a compliance problem, and the user of the checklist is directed to the statutory section indicated on the left-hand side of the page. If, after examination of the appropriate statute, the auditor using this manual is still unsure as to whether there has been legal compliance, he or she should check with legal counsel before rendering the conclusion on compliance contained at the end of each section.

e. Additional Requirements

In addition to the legal compliance issues identified in the *Minnesota Legal Compliance Audit Guide for Counties*, the State Auditor may identify both financial and compliance issues that should be included within the scope of the audit of a Minnesota County. The legal compliance issues will generally be included in a new section of the *Legal Compliance Audit Guide for Counties*. However, [Appendix A](#) identifies additional requirements for audits of Minnesota counties.

Pursuant to Minnesota law and as the State Auditor deems in the public interest, the State Auditor may require a CPA to provide additional information when a county is audited by the private CPA. The audit may be accepted by the State Auditor or, as the State Auditor deems in the public interest, the State Auditor may make additional examinations.

VI. Audit Reporting

The output of an audit should include the various independent auditor report(s) required by audit standards. Even though the auditor may draft the statements and footnotes, type and reproduce the statements on his or her stationery, and even bind the statements into a cover that carries the auditor's name, the financial statements are those of the county. That is, they are the responsibility of management of the county. Thus, the auditor is rendering an opinion on the fairness of the governmental unit's financial statements. Management has the ultimate responsibility for approving the statements and should not allow the financial report to be issued before carefully reviewing the statements for accuracy and adequate disclosure. Counties and independent auditors should be aware that independence standards place restrictions on the extent of additional services that an auditor can provide.

The audit's main objective is for the independent auditor to issue opinions on the fair presentation of the county's financial statements "opinion units". Typically, an auditor on a county audit will issue multiple opinions of four possible types of financial audit opinions. Depending on the outcome and/or the scope of the audit, the auditor should render one of the following types of opinions:

Unmodified Opinion. The opinion expressed by the auditor when the auditor concludes, with reasonable assurance, that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.⁴ For Minnesota counties this framework is in accordance with GAAP.

Qualified Opinion. The auditor should express a qualified opinion when:

- a. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements; or
- b. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.⁵

Adverse Opinion. The auditor issues an adverse opinion when, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.⁶

Disclaimer. The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.⁷ This may happen if there is no accounting system or transactions were not recorded or were incorrectly recorded. The reason for the disclaimer should be stated clearly.

One Audit, Multiple Opinions

The financial reporting model established by GASB highlights the concept of reporting units. GASB's Comprehensive Implementation Guide 2025, Question 7.4.1, states:

Decisions about what should be reported separately in the basic financial statements were based on the understanding that users need financial statements or information to be provided for certain reporting units within a primary government. Some information is required to be reported because of its quantitative significance; other information may be required for qualitative reasons rather than its monetary significance. Materiality determinations, both quantitative and qualitative, made in preparing financial statements should be responsive to, and consistent with, those requirements. That is, requirements in Statement 34 to provide separate financial statements or information are based on the belief that particular reporting units are "material."

⁴ *Statements on Auditing Standards* (clarified) issued by the ASB, the senior committee of the AICPA designated to issue pronouncements on auditing matter for nonissuers, as codified. U.S. Auditing Standards--AICPA (Clarified) AU-C § 700.12

⁵ AU-C § 705.08

⁶ AU-C § 705.09

⁷ AU-C § 705.10

These separate reporting units are considered significant to financial reporting for state and local governments. The guide further identifies the potential significant reporting units. Their significance typically will require separate opinions (opinion units) on these reporting units. As general-purpose governments, all counties will have at least reporting units for governmental activities, major governmental funds, and aggregate other fund information. Since most counties have at least three major governmental funds, typically you would expect at least five opinion units. Additional opinion units would be required if the county had business-type activities, major enterprise funds, and major discretely presented component units. So for an annual audit of a county there will be multiple opinions issued in the independent auditor's report.

Reports Required

Normally, the regular annual financial audit results in an unmodified opinion on the basic financial statements. The auditor is also required to issue a report on the county's overall compliance with laws and regulations and internal controls (per *Government Auditing Standards*). If the audit is done under the single audit standards, the auditor will issue an opinion on compliance with requirements applicable to each major federal program and report on internal controls over compliance for those programs. The reports to be used in the compliance audit must be considered in defining the scope of the audit.

Other Auditor Reports

In addition to the auditor's report on the basic financial statements and depending on the scope of the audit engagement, a certified public accountant may need to issue the following reports:

- Independent auditor's report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Independent auditor's report on compliance pursuant to the *Minnesota Legal Compliance Audit Guide for Counties*.
- Independent auditor's report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

VII. Obtaining An Auditor

a. Annual Audit Requirement

Pursuant to Minn. Stat. § 6.481, Minnesota counties are required to have a financial and compliance audit of their annual financial report. This statute requires counties to select their auditor; either the OSA or a certified public accounting firm. If not selecting the OSA, it is recommended that the county engage in a review process to select a licensed certified public accounting firm with appropriate competence to provide professional audit services to a local government entity. If a CPA firm is selected to conduct their audit, the county should follow the notification requirements to the OSA pursuant to Minn. Stat. § 6.481.

b. Selection of a Non-OSA Auditor

When selecting a private CPA firm to perform a local government audit, several steps are recommended to ensure that the firm has the necessary experience and expertise to perform the audit. The process should consist of identifying a selection committee, preparation of a request for

proposal (RFP), invitations to auditors to submit responses, possible oral presentations, evaluation of the submitted proposals, selection of the auditor, and completion of an engagement agreement.

To assist counties with the process of selecting an auditor, the appendices to this guide include information intended to provide direction to the counties in obtaining audit services from certified public accountants. There are many issues that should be considered when obtaining audit services, but the key issue is that both parties to the audit services contract understand the scope of the services being provided and their individual responsibilities. The appendices include a guide for preparing a request for proposals for audit services ([Appendix B](#)) and a sample RFP ([Appendix C](#)).

c. General

Engagement letters are strongly encouraged and should set forth the significant terms of the county audit:

- *Government Auditing Standards* for financial and compliance audits will apply.
- The Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), applies if the county has expended the threshold of federal funds.
- Generally accepted accounting principles established by the GASB will apply to all county financial statements and, therefore, the auditor's report must address conformity with generally accepted accounting principles.

Audit reports should be completed and issued within 60 days of the end of fieldwork, but must be completed and issued by the end of the ninth month following the end of the fiscal period being audited or reviewed. However, if the county did not make arrangements for the audit within the first eight months following the end of the period to be audited, the CPA firm will be allowed four months from the authorization date to complete the audit. This should in no way be interpreted to waive the reporting and filing requirements of the Single Audit Act Amendments of 1996. While reasonable effort should be made to complete the audit by the statutory deadline, the auditor should consider reporting appropriate Auditor's Comments and/or Findings and Questioned Costs related to federal financial assistance programs if audit completion deadlines cannot be met because the county did not arrange for an audit to be conducted in a timely manner.

VIII. Desk and Audit Documentation Reviews

The purpose of the desk and working paper reviews is to promote uniformity, consistency, and quality among county audits conducted by CPA firms and to ensure conformity with generally accepted government auditing standards and compliance with applicable laws and regulations.

a. Desk Reviews

Desk reviews are performed on county audit reports to determine compliance with applicable auditing, accounting, and financial reporting standards and related requirements in the financial statements and auditor's reports. The desk review is intended to identify any potential financial reporting issues that may exist in a county's annual financial report. It does not examine the underlying audit documentation and whether the auditor has performed sufficient and appropriate procedures to meet industry auditing standards; that is done through an Audit Documentation Review (see Section VIII.b.).

Each county audit report, after issuance and submission to the OSA, will receive a desk review by the OSA using the [Office of the State Auditor's Desk Review Checklist](#). This checklist shall be updated from time to time as necessary due to changes in GAAP, GAAS, GAGAS, or laws and regulations. Pursuant to Minnesota law, the cost of the desk review will be charged to the county reviewed.

The Process

The CPA firm that performed the county audit should identify the Auditor-in-Charge and the individual within the firm in charge of Quality Control with whom the OSA should communicate. After the OSA completes the Desk Review of the county audit report, it will communicate to the county and its CPA firm any technical errors and other matters noted during the review. The communication will be through a letter addressed to the County Board Chair and the county's chief administrative officer and copied to the contact(s) for the CPA firm. Copies may also be provided to the person(s) responsible for preparing the financial statements.

Review points identified in an attachment to the letter should be adequately resolved by the county or the firm when issuing the subsequent year's report. Pursuant to Minn. Stat. § 6.481, the state auditor determines whether the audit or its form meets industry standards. Therefore, if items identified during the desk review are extensive or material, the OSA may require reissuance of the report with corrections. The CPA firms are encouraged to work with OSA staff to resolve identified review points.

b. Audit Documentation Reviews

Audit documentation reviews, also known as working paper or workpaper reviews, may be conducted after the desk review of the audit report is completed. An audit documentation review is intended to determine if the auditor has sufficiently documented the nature, timing, and extent of the audit procedures performed and, thereby, determine if the audit does or does not meet recognized industry auditing standards. Pursuant to Minnesota law, the cost of the audit documentation review will be charged to the county reviewed.

Audit documentation reviews will be performed by experienced OSA staff. The OSA will conduct an internal quality control review of the OSA's documentation of the reviews. OSA staff will use a [CPA Audit Documentation Review Checklist](#), which shall be updated from time to time as deemed necessary.

There are two guiding principles to an audit documentation review:

- Standards require that audit documentation be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of the procedures performed; the results of the audit procedures performed and the audit evidence obtained; and the significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- In the audit industry, if the procedures performed, support obtained, and conclusions reached are not documented, then the presumption is the work was not done.

The Process

OSA audit documentation reviews start with the selection of a sample of county audits performed by CPA firms. The selection criteria and the number of audits reviewed per firm are based on various factors, including:

- The extent of technical issues noted during the desk review.
- Issues identified through inquiry of county personnel and/or past reviews.
- The number of county audits performed by a CPA firm.
- The experience of a CPA firm in conducting county audits.
- The length of time since an individual county's audit was last reviewed.
- Implementation of new accounting or auditing standards.

The OSA will inform the Auditor-in-Charge and the Quality Control individual identified for each CPA firm when an audit(s) it performed has been selected for review and request access to the corresponding workpapers. The CPA firm should make audit documentation available to the OSA within two weeks of the request. The assigned OSA staff member will make arrangements with the CPA firm to review the workpapers. During the review of workpapers, the OSA will communicate with the CPA firm to ask questions and attempt to resolve issues.

Upon completion of the initial audit documentation review:

- The OSA reviewer will prepare a list of comments still outstanding that were not resolved while communicating with the CPA firm during the initial review process. The list will indicate the review points that still require response or resolution by the CPA firm. For each review point, the reviewer will identify what the requirement is and what should have been documented. The OSA will provide the list to the CPA firm contact(s).
- The CPA firm will have three weeks to respond to the issues identified in the list of review points. When working to resolve noted deficiencies, the CPA firm should provide documentation such as photocopies, narratives, memoranda, references, and analyses, as applicable.
- After review of the CPA firm's response to review points, the OSA will provide the CPA firm with a letter of remaining unresolved findings. The CPA firm will be given three weeks to prepare its final response to these items. An option for an exit conference to be held during this three week period of time will be offered to the CPA firm.
- A final letter will be issued to the CPA firm and copied to the county, along with the firm's response.
- The OSA may, as it determines is in the public interest, publish a report on the audit documentation review. The report will include CPA firm responses that were received by the deadline.

Substandard Audits

If the condition of the audit documentation renders the audit substandard, the OSA will not accept the annual report and will consider it a failed audit. Additionally, if the workpaper review determines that the documentation of the audit is so deficient that the audit cannot be relied upon, the OSA, as it determines is in the public interest, may conduct a re-audit of the county for the period in question. Pursuant to Minnesota law, the cost of the re-audit will be charged to the county.

Independence

Reviewers must maintain their independence with respect to the CPA firm whose work is being reviewed. The independence policies of the OSA shall apply to reviews of CPA audit documentation.

Competence

OSA staff members conducting CPA audit documentation reviews shall be knowledgeable about and proficient in performing audits in accordance with *Government Auditing Standards, OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and reporting on county governmental financial statements prepared in accordance with generally accepted accounting principles or other comprehensive bases of accounting frequently encountered in government.

IX. Communication With the Office of the State Auditor

a. Predecessor-Successor Auditor Situations

A change in the county's auditor may result in a CPA firm following the audit work of the OSA. Also, the reverse situation will occur where the OSA will be the successor auditor of CPA firms. In all audits of counties, both predecessor and successor auditors will cooperate to insure a smooth transition between audits.

When a change in auditor for an audit of a Minnesota county occurs, between the OSA and a CPA firm or between one CPA firm and another CPA firm, professional auditing standards and Minnesota statutes regarding communication requirements between predecessor and successor auditor must be followed. In particular, all auditors shall make prior audit working papers available for review.

b. Availability of OSA Working Papers

In order to encourage and promote efficiency in government audits, the OSA shall make its working paper files available to CPAs performing *subsequent audits*. CPAs are encouraged to allow successor auditors to review their working papers for the same reasons. Under Minn. Stat. § 6.481, (a) the CPA firm conducting the county audit must provide access to working papers and other data relating to the audit and is liable for unlawful disclosure of data as if it were a government entity under the Minnesota Government Data Practices Act, and (b) data relating to the audit are subject to the same data classifications that apply to the OSA. In addition, Minn. Stat. § 6.70 states, "[t]he state auditor and the public accountants shall have reasonable access to each other's audit reports, working papers, and audit programs concerning audits made by each of the political subdivisions."

Counties and CPA firms should contact the OSA to set up a time to review prior working papers. The OSA will provide access to the working papers within two weeks of the request date. CPA firms may review prior OSA audit working papers at the OSA in Saint Paul. If requesting copies of working papers, the OSA's Data Practices Officer will review the selected working papers for any private/non-public data. This process may take longer than two weeks. After they have been approved for copying, the working papers will be sent to the CPA firm. The OSA will charge the CPA firm the cost of duplicating the materials.

c. Notifications to the State Auditor

Situations will arise which require communication to the State Auditor. The situations identified in this section are specific instances when the State Auditor should be notified. However, the county or CPA firm should contact the OSA whenever unresolved issues or situations arise. The OSA will provide whatever assistance is possible to resolve the issue. Minn. Stat. § 6.68, in particular, states:

If in an audit of a political subdivision a public accountant has need of the assistance of the state auditor, the accountant may obtain such assistance by requesting the governing body of the political subdivision being examined to request the state auditor to perform such auditing or investigative services, or both, as the matter and the public interest require.

Audit Scope Limitations

The auditor should inform the OSA if he or she believes limitations on the scope of an audit would preclude the auditor from expressing an unmodified opinion. If an auditor or a county believes a scope limitation exists, they should contact OSA staff immediately to discuss the problem.

Opinions Other Than Unmodified

Auditors and/or the county should contact the OSA before issuing an independent auditor's report (opinion) that is other than unmodified. If an unmodified report is possible with additional audit work, the OSA staff will **require** that work to be done. If an unmodified report is not possible, the reason should be communicated to the State Auditor.

Evidence Pointing to Misconduct

The CPA firm must be aware of the requirements of Minn. Stat. § 6.67, which requires notification to the State Auditor when evidence of misconduct is identified during the conduct of the audit of the county or local government. This statute states:

Whenever a public accountant in the course of auditing the books and affairs of a political subdivision or a local public pension plan governed by chapter 354A or 424A or Laws 2013, chapter 111, article 5, sections 31 to 42, discovers evidence pointing to nonfeasance, misfeasance, or malfeasance, on the part of an officer or employee in the conduct of duties and affairs, the public accountant shall promptly make a report of such discovery to the state auditor and the county attorney of the county in which the governmental unit is situated and the public accountant shall also furnish a copy of the report of audit upon completion to said officers. The county attorney shall act on such report in the same manner as required by law for reports made to the county attorney by the state auditor.

Unable to Meet Deadline

If the CPA firm and county are unable to meet the report completion deadline noted, the reasons for the delay should be communicated to the OSA prior to the report deadline.

X. Failure to Comply

Pursuant to Minnesota law, failure to comply with the requirements of this audit guide could result in the OSA rejecting the audit and conducting additional procedures or examinations that are in the public interest. The counties are responsible for the cost of any additional examinations conducted by the OSA. Significant non-compliance with professional standards by a certified public accountant or certified public accountant firm could result in a report to the State Board of Accountancy and/or other oversight/regulatory agencies on the nature and substance of the non-compliance.

Appendix A - Additional Requirements for Minnesota County Audits

Pursuant to Minn. Stat. §§ 6.481 and 6.65, the OSA has identified the minimum audit procedures that are required for audits of Minnesota counties. These minimum procedures shall be performed on all audits of Minnesota counties whether conducted by the OSA or a CPA firm. This appendix identifies additional audit procedures/considerations that may not be required by auditing standards, but are significant to Minnesota counties.

- As identified in the County Audit Guide, additional testing is required by the [Minnesota Legal Compliance Audit Guide for Counties](#). Under each section, except for the initial question establishing the transaction covered by the topic heading and except where the explanation of a given question indicates otherwise, all questions should be answered in the affirmative. A negative answer indicates a compliance problem, and the user of the checklist is directed to the statutory section indicated on the left-hand side of the page. If, after examination of the appropriate statute, the auditor using this Audit Guide is still unsure as to whether there has been legal compliance, he or she should check with legal counsel before rendering a conclusion on compliance contained at the end of each section.
- Pursuant to Minn. Stat. § 6.67, if an auditor discovers possible misconduct by a county employee or official during the course of the audit, the auditor shall promptly inform the OSA in writing and the County Attorney.
- The CPA firm and/or county shall submit one electronic copy of the County's annual financial report, including all of the auditor's reports on internal control and compliance, schedule of findings and questioned costs and, if applicable the auditor's report on the schedule of expenditures of federal awards. If a separate "management letter" is issued, a copy should be submitted to the OSA.
- The workpapers should identify that all the auditor's reports and/or separate "management letter" were distributed to each member of the county board and all officials directly interested in the audit results (i.e., officials designated by laws or regulations to receive such reports, those responsible for acting on findings and recommendations, legislators, and those of other levels of government that have provided financial assistance to the auditee.
- Every county has decentralized fee collecting offices (i.e., sheriff's department, planning and zoning, county recorder, parks, landfill, health services, etc.). Although some are small in comparison to other county revenue sources, they are more susceptible to errors or fraud due to their small size. Therefore, these fee collecting offices should be reviewed for internal control deficiencies as part of the audit engagement. The reviews may be conducted on a cyclical basis of a review once every two - three years.

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| <ul style="list-style-type: none">• The CPA firm’s workpapers should document that the firm followed up on the prior findings and questioned costs/recommendations and identified the status of findings in the current year’s schedule of findings. |
| <ul style="list-style-type: none">• In previous years, accounting and financial reporting for state-aid to highways and other transportation revenues have been subject to errors and audit adjustments in the reported amounts. The auditors should prepare an analysis of highway revenue and receivable recognition as part of the audit engagement. |
| <ul style="list-style-type: none">• The CPA firm or county should obtain the state vendor payment run from the state for the county and compare significant receipts to what the county is reporting in their financial statements. |

Appendix B – Request for Proposal Guidelines

Section 1 – Introduction

Intended Use

This publication is intended for use by counties in contracting with private CPAs or CPA firms for professional financial and compliance auditing services. Auditing local government units involves expertise and experience that not all CPAs will have; differences in experience and expertise can affect the quality and efficiency of an audit. Counties should seek out qualified independent auditors by sending a Request for Proposal (RFP) in a form that will result in comparable and comprehensive proposals to assure that audit services are provided as specified in the request. Another important aspect in using the RFP process is that it provides certain assurances that competitive review and selection procedures were applied in contracting for the audit. Small and minority audit firms should also have maximum opportunity to submit proposals for auditing services.

It is essential that requests for proposals for auditing services be comprehensive and address all significant matters, issues, and subjects that have a bearing on the audit. Information about the entity to be audited and necessary elements of the audit requirements must be provided to the independent auditors to assure clear and complete responses. Interested respondents⁸ usually respond to requests for proposals with a detailed audit proposal that outlines the firm's qualifications, references, proposed audit work plan, and the price of doing the audit. However, RFPs issued by local governments and the audit proposals submitted in response to those requests often differ widely in style and scope. Because of such wide differences in RFPs, auditors may find them difficult to understand or may respond with a work plan that does not meet all audit requirements. These guidelines establish a reasonable degree of consistency in form and content of the Request for Proposal and of the expected response from independent auditors.

Counties should consider engaging the independent auditor for the two-year audit period described in statute. Contract documents should fully comply with legal requirements concerning extended service periods. Letters of understanding may be appropriate when multi-year engagements are desirable but where conditions preclude other than single-year service contracts.

These guidelines are stated in general terms to provide service requesters flexibility in tailoring each Request for Proposal to reflect their specific needs and requirements. They also give recognition to differences in relative size of an audit engagement.

Regardless of the size of a county, an effective audit can improve management operations and yield significant dollar savings. It can also help to avoid wasting the county's resources on a substandard audit. Taking steps to ensure a quality audit is especially important in light of reports issued by the Government Accountability Office (GAO); the U.S. Department of Labor; and the President's Council on Integrity and Efficiency that raised concerns about audit quality; as well as the AICPA's Enhancing Audit Quality Initiative, which is focusing on the need for improvement in audit quality.

⁸ For the purpose of this section, the terms respondents, responders, and bidders are used interchangeably.

Counties should never select private firm auditors without considering five basic elements of an effective audit procurement process:

- planning (determining what needs to be done and when);
- fostering competition by soliciting proposals (writing a clear and direct solicitation document and disseminating it widely);
- technically evaluating proposals and qualifications (authorizing a committee of knowledgeable persons to evaluate the ability of prospective auditors to effectively carry out the audit);
- preparing a written agreement (documenting the expectations of both the entity and the auditor); and
- monitoring the auditor's performance (periodically reviewing the progress of that performance).

These guidelines discuss these five elements of audit procurement. It also addresses the use of audit committees--independent committees composed of persons with knowledge of accounting, auditing, finance, or management--which, among other things, can assist entities in procuring audit services and overseeing the audit process. In addition, because many small counties do not have procurement systems as formal as those of large states or local governments, information on how the critical elements of a procurement system can be applied to the special needs of small entities is also presented.

Both the RFP technique and the Invitation to Bid (ITB) technique are similar. They both require competitive bidding, require public notice, and require the submission of sealed responses. The major difference between the two methods is in the evaluation process that takes place after bids/proposals are received.

The ITB is the traditional method of soliciting bids for the acquisition of goods or services. This method requires that specification requirements be couched in precise, concrete terms, for example, "shall be a minimum of...", "shall be no more than...", "shall be comparable to...", etc. Terms and conditions of the bid package must be equally concrete, such as, "delivery must be made on or before...". The responses to the ITB solicitation are required to be returned to a specific location, by a specific time. All responses received by the time and date set forth must be opened and read aloud in public.

The evaluation of responses to an ITB is relatively simple and straight-forward. The purchasing agent must first determine who met the specification requirements and then must determine which bidders were responsive to the terms and conditions of the ITB. The contract or order would be awarded to the bidder who met all the specification requirements, agreed to abide by all the terms and conditions of the ITB, and was the low monetary bidder. Cost is generally the predominant factor in deciding the winner using the ITB technique.

The RFP process is similar to the ITB process with several major exceptions. Cost is generally not the predominant factor in award decisions. More emphasis can be placed on the offeror's capabilities to perform a proposed project, i.e., managerial experience in similar projects, technical capabilities demonstrated in performance of similar projects, the feasibility of the approach or plans proposed in response to the RFP requirements, etc. Weighted factors can be applied to assist in the evaluation of the offeror's response.

The major difference in the handling of responses to an RFP solicitation versus those used in handling the responses to an ITB solicitation is the responses to an RFP are kept confidential until an award has been made. At the time and date set for proposal opening, only the names of the proposers are made public. The contents of each offeror's response are not revealed to other competitors.

The specifications in an RFP package are generally divided into two sections--mandatory requirements and desirable features. To be eligible for an award of a contract, an offeror must first meet all mandatory requirements. If it has been determined that an offeror has met all mandatory requirements, the desirable features offered can be evaluated. Weighted factors must be assigned to the desirable features to assist the evaluation team in scoring how well an offeror has responded to such features. A general reference to these factors must also be included in the RFP document for the offeror's information. Detailed evaluation criteria must also be developed by the government entity for use by the evaluation team members to assist them in evaluating and scoring responses.

Since the contents of the proposals are not revealed, the RFP solicitation technique allows for flexibility in the evaluation process that is not possible using the Invitation to Bid process; that is, under certain circumstances, where a response to a particular requirement is not clear, an offeror can be contacted and asked for clarification. This option is not available when the ITB solicitation technique is used. If an offeror fails completely to address a feature contained in the RFP document, no clarification can be solicited. If this failure was in response to a mandatory feature, the offeror must be disqualified. If this failure was in response to a desirable feature of a proposed project, then such a failure would be scored in accordance with the weighting factors.

If it becomes evident that changes become necessary to the specifications contained in the initial RFP document during the evaluation phase, all proposers can be contacted and asked for "best and final" offers; that is, an offeror can be asked to respond to specific changes and provide both technical and cost impacts to their initial offer. This "best and final" offer cannot be used to begin an auction to determine if the offeror will lower prices.

Section 2 – Planning

Planning to procure a quality audit requires time and attention. But, the resources a county spends on planning are likely to be rewarded by a smoother, timely, and often less expensive audit.

The following matters should be considered:

- Defining the entity to be audited. Counties are often composed of smaller, sometimes legally separate, entities. Decisions should be made regarding which of these units to include in the scope of the audit, taking into account any legal requirements and generally accepted accounting principles.
- Delineating the scope of the financial audit. For audits of financial statements, a determination should be made on whether the auditor should limit the examination to the basic financial statements, the minimum allowable audit scope, or to extend the examination to cover additional statements, such as supplementary nonmajor fund information or the combining and individual fund financial statements.

- Determining the specific audit requirements. To determine the audit requirements of the county--a sometimes difficult task--it may be advisable to seek the assistance of knowledgeable persons. An audit committee composed of people with backgrounds in accounting, auditing, finance, or management ideally provides this assistance. Entities without audit committees may want to seek the assistance of other government personnel with specialized knowledge of accounting and auditing.
- Deciding on the appropriate auditing standards. While generally accepted auditing standards (GAAS) are typically used for both private and public sector audits, the county may be subject to grant terms, state statutes, federal regulations, or the Single Audit Act and, thus, is required to use generally accepted government auditing standards (GAGAS) or *Government Auditing Standards*, which are issued by the Comptroller General of the United States. The OSA, as part of the minimum audit standards for audits of counties, requires the use of GAGAS for the audit of all Minnesota counties. These standards involve additional auditor responsibilities, including special reporting on internal control and on compliance with applicable laws and regulations.
- Determine whether the Single Audit Act applies to the government entity. The Single Audit Act of 1984 established supplemental audit requirements in the areas of internal control and compliance reviews. In 1996, the Single Audit Act was amended. It will be necessary to determine if the governmental entity is affected by this legislation as amended. The Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, provides the guidance for a single audit. Another good reference document is the American Institute of Certified Public Accountants' (AICPA) audit and accounting guides: *State and Local Governments* and *Government Auditing Standards and Single Audits*. The Single Audit Act adds significant additional audit requirements upon both auditor and auditee.
- Identifying the attributes necessary in an auditor. It is recommended that the personnel performing the audit have experience with audits of counties or similar entities as well as required continuing professional education in governmental accounting and auditing. Moreover, they should comply with applicable requirements for peer review and continuing professional education.
- Deciding how to evaluate prospective audit firms. Developing a systematic procedure for evaluating firms' qualifications is essential. Although price is important, technical qualifications should be a critical criterion in selecting an auditor.
- Reviewing legal requirements. It will be necessary to review applicable laws, regulations, and grant conditions to ensure that both the procurement process and the audit itself will meet legal requirements.
- Considering a multiyear agreement. The first year of an audit engagement usually involves significant start-up costs as auditors devote considerable time to learning about the entity and its internal control systems. Having completed this groundwork, the auditor usually is able to work at less cost in the succeeding years. A multiyear agreement has a dual advantage: it enables an auditor to propose a price that takes into account the savings to be realized in subsequent years and saves the county the costs associated with repeating the selection process. At the same time, it provides for an out to the agreement should performance not meet expectations.

- Establishing a work schedule. It is important to develop a schedule both for internal use and for the auditor to be selected. This schedule should set forth dates by which certain milestones in the audit process must be reached. The only way to ensure the timely preparation and issuance of financial statements and related reports is to develop and adhere to such a schedule.

Section 3 – Competition and Solicitation

Full and open competition is basic to government procurement. Encouraging as many qualified audit firms as possible to submit proposals for auditing the county increases the likelihood that a quality audit will be performed at a fair price. The next step is to communicate the county's audit needs to potential bidders. This step is critical, because bidders who do not clearly understand exactly what services the county needs might not respond.

There are many ways to solicit bids for an audit, but the most reliable method is a written Request for Proposal, or RFP. RFPs should be clearly written; set forth all terms, conditions, and evaluation criteria as well as the scope of the work required; and be sufficiently well distributed and publicized to ensure full and open competition.

The use of an audit committee is advisable when writing an RFP. Committee members should have a clear understanding of both the audit function and the government entity's audit needs. Consideration should also be given to compiling a list of potential auditors from general and professional directories and from past experiences with audit firms. Maintaining an updated list makes it easy to distribute the RFP to the firms that are most likely to be interested in bidding on the audit.

Essential Elements of an RFP

The prime consideration in preparing the RFP is that it contains enough information to provide bidders with a common basis by which to prepare proposals that address all audit needs and requirements. It is also important, however, to consult with the county's purchasing or accounting department and/or legal counsel to ensure that the RFP conforms with laws, regulations, and grant terms applicable to the governmental entity. At a minimum, the RFP should contain the following elements:

Notice of Proposal

The Request for Proposal document should be communicated to the independent auditors by any appropriate form and manner to assure open and competitive coverage. A public notice may or may not be required. Also, other methods of communicating requests for auditing services may be desirable, such as contact with the State Society of Certified Public Accountants. Invitation to bid listings in newspapers are the commonly used public notice.

The notice of proposal (or letter of transmittal) to prospective respondents should briefly summarize all-important information regarding the RFP. It may include:

1. Name and address of entity issuing the RFP.
2. Name, address, title, and telephone number of person(s) to contact regarding questions.
3. Response due date, time deadline, and consequences of late responses.
4. Number of copies of response.
5. Contract period [year(s) to be audited]. Clarify if multiyear contract proposal.

6. Specific location and method of delivery of response. Specify sealed response/price requirements, if any.
7. Other stipulations and clarifications as required.

Introductory Information

The RFP package may include an introductory or preliminary section covering general explanatory information to clarify any special points or items of interest. For example, this section could be used to discuss preproposal (bidders') conference plans and procedures, as well as general information on evaluation of proposals and the bid opening and notification process. If used, the section would amplify on the detailed materials to follow in the package to enhance reader understanding. This section is optional. Its use may be dependent on the size and complexity of the audit.

Description of Entity and Records to Be Audited

This section should contain detailed information, as follows:

- Give needed general information about the county, including population, and budget size. Identify the component units included in the reporting entity, their size, their auditors and their fiscal year operating period. Indicate when their financial statements and auditor's reports (if covered separately) will be available.
- Specify the number and type of funds and the basis of accounting used during the year and at year-end. Also, a preliminary identification of the major funds or number of major funds expected. Specify differences in accounting among funds to be audited. Clearly identify whether the audit is to be conducted at the basic financial statement level or the individual fund level.
- Describe budget records, and state whether revenues, appropriations, and encumbrances are recorded in the accounting records. Indicate the magnitude of the financial activity, including the number and location of bank accounts, number of receivable accounts, number of employees, and payroll listings.
- Describe systems, records, and procedures:
 - a. Note any available manuals, written policies, and procedures covering such items as cash, receivables, capital assets, liabilities, deferred inflows, and deferred outflows.
 - b. Identify the major segments of the accounting records that are computerized and the availability of related system documentation. Also, identify hardware, operating system, and software packages.
 - c. Describe internal audit program, staff size, and extent of internal audit coverage, if applicable.
 - d. Identify individuals responsible for maintaining records and preparing reports.
 - e. Identify known problems related to the accounting system or the internal control, or other issues. State any known exceptions to generally accepted accounting principles or any other accounting problems.

- f. In those rare cases where records cannot be made available for inspection during the proposal process, describe the condition and completeness of the records the auditor should assume in his proposal.
- State whether copies of the prior year’s audit reports, management letters, financial statement, and budget are available.
- Describe sub-recipient entities and related records to be audited.

Nature of Services Required

The scope of audit services being requested should be specified, indicating what type(s) of audits are required and any special scope requirements. The audit scope should be stated in detail in the Request for Proposal.

1. *Financial and Compliance Audits Under the Single Audit Act*

Under the Single Audit Act Amendments of 1996, each state, local government, and not-for-profit entity that expends \$1,000,000 or more in federal financial assistance in a fiscal year for the year ending December 31, 2025, and beyond, is subject to the requirements of the Act and any implementing regulations prescribed by the U.S. Office of Management and Budget (OMB).

The additional audit requirements imposed by the Single Audit Act and the OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) may be omitted from the RFP if the governmental unit is not subject to the Act. For example, counties expending less than \$1,000,000 are exempt from requirements of the Act. If unsure if that threshold will be met, the RFP should either include that language or contain provisional clauses if the threshold is met.

A. *Scope of the Audit*

The Single Audit Act provides that:

- The audit shall be made by an independent auditor. An “independent auditor” means (1) a state or local government auditor who meets the independence standards specified in the generally accepted government auditing standards, or (2) a public accountant who meets such independence standards.
- The audit shall be made in accordance with generally accepted government audit standards covering financial and compliance audits. These standards mean the standards for financial audits set forth in *Government Auditing Standards*, developed by the Comptroller General (GAO). The current edition, 2018 Revision Technical Update April 2021, should be used as reference (2024 Revision has been issued and will be effective for December 31, 2026 audits).
- The audit shall cover the entire operations of the state or local government, or at the option of that government, it may cover subordinate units that received, expended, or administered federal financial assistance during the fiscal year.

B. *Requirements of the Auditor*

The OMB Uniform Guidance specifies that the auditor shall determine whether:

- the financial statements of the government, department, agency or establishment present fairly its financial position and results of its financial operations in accordance with generally accepted accounting principles (GAAP);
- the organization has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations; and
- that the organization has complied with laws and regulations that may have a material effect on its financial statements and on each major federal assistance program.

2. *Financial Audit Only*

If a county is exempt from the requirements of a single audit, the audit shall be conducted in accordance with generally accepted auditing standards and the requirements for financial audits contained in *Government Auditing Standards*. However, the audit requirements of the Uniform Guidance would not be applicable.

3. *Both Financial and Single Audits*

All audits of Minnesota counties are subject to the minimum audit procedures prescribed by the State Auditor pursuant to Minn. Stat. § 6.65. These minimum procedures are discussed in Chapter V of the *Audit Guide for Financial and Compliance Audits of Minnesota Counties* and the *Minnesota Legal Compliance Audit Guide for Counties*.

Mandatory Qualification of the Auditor

The following information must be requested from all respondents:

1. An affirmation that the proposer is properly licensed for public practice as a certified public accountant.
2. An affirmation that the proposer meets the independence requirements of *Government Auditing Standards*, promulgated by the Comptroller General's Office.
3. An affirmation that the respondent does not have a record of substandard audit work or disciplinary actions. (This can be determined by communicating with the Minnesota State Board of Accountancy, 85 East Seventh Place, Suite 125, St. Paul, Minnesota 55101, telephone 651-296-7938 or 800-627-3529 and/or through the national database of disciplinary actions <https://cpaverify.org/>). There can be a delay in reporting to the national database, so requesters of audit services may wish to ask respondents for disclosure of enforcement actions against them or implicating their work, or other matters which may reflect on their professional qualifications.
4. An affirmation that the respondent meets any other specific qualification requirements imposed by state or local law. (Specifics should be detailed if applicable.)

Period of the Audit

The audit proposal should clearly state the period to be audited. This may be a one-year period or longer. If the period to be audited is for two or more years, the requester should specify that the entire audit period since the last audit must be covered.

Term of the Engagement

As mentioned above, the term of the contract period covered in the RFP may be for a period different from the period to be audited. Request for Proposals may cover an extended period of time that would, of course, span a series of audit periods.

Requesters may wish to consider engaging the independent auditor for more than one annual audit, but also may wish to avoid extended engagements with the same auditor to assure auditor independence.

Entrance/Exit Conference Requirements

The RFP should specify whether audit entrance and exit conferences are to be held and, if so, the contact person for setting up the meeting, where the meeting is to be held, and the persons with whom to meet. Conferences are a matter of individual preference and may also include progress reporting. However, standards require the auditor to communicate certain information to those charged with governance. The proposal should also establish the frequency of progress-reporting conferences, including with whom and where.

Assistance Available to Proposers

Provide the following information to proposers:

- Give the name of the auditor who performed the most recent audit, the period covered, report date, and type of opinion.
- State whether previous audit working papers are available for inspection and where they are located.
- If the audit opinion was qualified, state whether the condition causing the qualification has been corrected.
- State the names of the requester's staff available to assist the proposer by providing information and explanations.
- State whether the accounting staff can prepare schedules, reproduce documents, pull documents, etc.
- State whether any internal auditing time is available and whether internal audit reports are available.
- State whether the data processing staff, equipment, and generalized user software are available for auditing purposes, and specify the make and model of the computer to be used and what type of operating system is used.
- State whether legal counsel is available.

- State the names and titles of officials who, if required, will issue representation letters for inventory evaluations, pledged assets, contingent liabilities, or potential litigation.
- State whether interfund and interdepartmental reconciliations were made.
- State the location of available work areas and equipment and its location in relation to the records.
- Give the place, date, and time of the proposer's conference. (A proposer's conference is advisable for large audits to save the requester's time answering individual questions about the RFP and to guarantee equal treatment to each proposer. Following the proposer's conference, the county can show the accounting and other applicable records to proposers.)
- State whether conference questions will be responded to in writing and whether the RFP will be amended, if necessary.

Reports Required

The RFP should specify the reports required at the conclusion of the audit, and the reports required to be submitted on the audit, including special reports (or copies of reports) to Federal, state, and other agencies. For example, the RFP must be tailored to fit the audit; however, if it encompasses a single audit, the requester should cite the certain minimum requirements. The audit report shall state that the audit was made in accordance with the provisions of OMB Uniform Guidance.

The audit report shall include, at minimum:

- The Independent auditor's reports on the basic financial statements.
- Independent auditor's report on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Independent auditor's report on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Independent auditor's report on compliance pursuant to the *Minnesota Legal Compliance Audit Guide for Counties*.
- Independent auditor's report on internal control over compliance in accordance with OMB Uniform Guidance (if applicable).
- Independent auditor's report (opinion) on compliance with requirements that could have a direct and material effect on each major program in accordance with OMB Uniform Guidance (if applicable).
- A summary of auditor's results and a schedule of findings and questioned costs, if any, required by OMB Uniform Guidance (if applicable).

Time Requirements

An important consideration to bear in mind is that the RFP procedure should be completed in time to permit the auditor to commence preliminary work prior to the close of the period to be audited. Ideally, the auditor selection and contract award should be completed prior to the year-end to be audited or as early as possible into the audit period.

The following dates should be specified to the extent applicable. The RFP should state that the dates are firm unless waived in writing by an authorized person.

1. Date of bidder's conference.
2. Date and time for proposal submission. The preparation of audit proposals is an expensive, time-consuming process for the proposer; therefore, a reasonable time must be allowed--at least three weeks to a month.
3. Date, time, and place for selected proposer interviews, if desirable.
4. Date of contract award.
5. Dates audit work can be commenced:
 - a. Preliminary work prior to closing accounts.
 - b. Post-closing work. (Some requesters may not want auditors working during closing.)
6. Date for preliminary report completion and exit conference.
7. Date for final report submission. The audit report normally should be submitted as soon as possible after the audit exit conference. Single audit reports are due within nine months after the end of the audit period. Even if not subject to the Single Audit Act, all audited county annual financial reports should be submitted to the OSA within nine months after the close of the county's fiscal year.

Contractual Arrangements

Provide general information about the contract to be awarded, including billing and payment arrangements, and contract cancellation provisions. Specify the period of the contract.

Normally, a multiyear contract offers advantages to both parties. However, a county might want to include the option to cancel in any of the following years. If the contract will be limited to one year, state the requester's intent regarding its renewal, perhaps by issuing a letter of understanding.

Report Review, Timing, and Number of Copies

The RFP package should clearly cover all requirements concerning procedures of reporting, frequency, number of copies, special reporting, etc., as follows:

1. Draft submission for review by the auditee. The name of the individual responsible for reviewing and responding to the draft audit report should be stated.
2. For single audits, the requirements for preparing and submitting the reporting package to the Federal Audit Clearinghouse.

3. Specify that management reports should be submitted as part of the audit report.

Working Papers

Regarding audit working papers, the RFP should:

1. Specify that the working papers will be retained for at least six years (more, if necessary).
2. Note that (a) the CPA firm conducting the county audit must provide access to working papers and other data relating to the audit and is liable for unlawful disclosure of data as if it were a government entity under the Minnesota Government Data Practices Act, and (b) data relating to the audit are subject to the same data classifications that apply to the OSA. In addition, the proposal should specify that the working papers will be available for examination by authorized representatives of the oversight Federal audit agency, the OSA, and other appropriate government agencies. The County may want to consider language to the proposal specifically authorizing its access to appropriate working papers.

Right to Reject

The RFP should state that the requester reserves the right to reject any and all proposals submitted and to request additional information from all proposers. It should also state that any contract awarded will be made to the independent auditor who, based on evaluation of all responses, applying all criteria and oral interviews, if necessary, is determined to be the best qualified to perform the audit.

During the solicitation process, it is helpful to schedule a bidder's conference with prospective proposers to allow them an opportunity to ask questions seeking clarification relative to the contents of the RFP document. Written questions may be required to be submitted prior to the bidder's conference; however, the government agency must be prepared to respond to "off-the-cuff" questions during the conference. Answers to questions may be deferred during the conference; however, all questions must be answered and answers provided to all proposers with the minutes of the conference. The county should also plan to have personnel attend the conference to answer technical questions that may be asked by the prospective proposers. Although the objectives of a bidders' conference could be accomplished by letters and individual conversations, bringing all bidders together at the same time to hear the same information is efficient and helps ensure that all bidders are treated equally. This is especially important, since unsuccessful bidders may challenge the procurement if their competitors were given significantly different or more information.

Small Counties

Obtaining an extensive list of potential bidders may be difficult for small entities in rural areas. Soliciting lists from nearby, larger entities and from CPAs in the region that have experience with governmental audits often is helpful.

Note:

The OSA has developed a sample RFP utilizing the recommended format, which is included as [Appendix C](#). The resources of the OSA are available to assist in developing an RFP which will meet the needs of a county.

Section 4 – Technical Evaluation

Once the due date for proposals has passed, the evaluation of bidders' qualifications can begin. The technical evaluation is important for two reasons:

- it provides a systematic framework for selecting an auditor on the basis of the county's established RFP criteria, and
- it documents that the auditor was selected fairly.

By comparing the governmental entity's requirements with the auditors' plans, skills, experience, commitment, and understanding of the audit requirements and then reviewing bidders' price proposals, the governmental entity will be able to select the firm that can provide the best audit at the fairest price.

To limit errors in judgment and to bring varied perspectives to the technical evaluation of the proposals, the establishment of an evaluation committee is recommended. The committee should be composed of people with experience in accounting, auditing, budgeting, or another specialty field pertinent to the required audit work. The audit committee can also play an important advisory role in this process.

Separate evaluations of technical ability and price are urged. The technical evaluation addresses the firms' technical qualifications and ability to perform the audit. Although the price for the work to be performed is a significant factor in the selection of a qualified audit firm, the government entity will be more likely to get a high-quality audit at a fair price if both price and technical ability are taken into account in selecting the successful bidder.

As a first step, all bidders must be required to meet certain minimum standards before evaluating either their technical qualifications or their price proposals. Doing so will spare the entity the needless and time-consuming technical evaluation of firms that do not meet the requirements. A firm can determine these minimum standards by reviewing the laws governing the county, its general internal policies, and its policies regarding specific audit engagements. However the requirements are delineated, the minimum standards must include that the firms:

- meet the appropriate state licensing requirements;
- meet the applicable independence standards;
- have a record of responsible work; and
- comply with applicable requirements for peer review and continuing professional education, including providing the county with their firm's most recent peer review report and letter of comments.

Methodology

The method of evaluating proposals may vary considerably with the size and complexity of the county and the scope of services required. If the method of evaluation has been predetermined, it should be described in an attachment to, or made part of, the RFP, giving a brief summary of how the selection process will work. Clarifying the rating method, point range, and other factors would also be desirable.

To have a meaningful evaluation, care must be taken in selecting evaluators. The evaluators must have the background and experience necessary to make accurate and meaningful comparisons of the proposals. Items of comparison include general qualifications of the auditor, alternative approaches to the audit work plan, assessment of the number of hours to do the audit, and evaluating the staffing level and experience of assigned staff for the type and complexity of the audit desired. In addition, evaluators should be provided appropriate criteria to ascertain which proposer best meets the requester's needs. Occasionally, several proposals may be so similar in qualifications that oral interviews may have to be arranged and scheduled to assist in making the final selection.

At a minimum, the evaluation committee should be able to answer "yes" to the following questions:

- Does the proposal, both in the statement of the audit requirements and elsewhere, demonstrate that the firm has an understanding of the audit's objective(s), the needs of the county, and the final products to be delivered?
- Does the proposal contain a sound technical plan and a realistic estimate of time required to complete the audit?
- Does the proposal show the bidder's intention to start the audit when required and complete the audit in a timely fashion?
- Does the technical plan show a practical approach to meeting benchmarks and specific deadlines?
- Does the proposal indicate that the firm will use (1) a systematic approach to examining systems and internal controls; and (2) effective procedures, including consideration of risk and materiality, to determine the extent of audit testing and review necessary?
- Does the proposal indicate the bidder's willingness to use other auditor's work, to the extent possible, to avoid duplication of effort?
- Does the firm have experience in performing the required work for entities of a similar size and type?
- Do prior clients have a positive opinion of the firm?
- Does the proposal clearly show the collective experience of the team to be assigned to the project?
- Does the proposal specify, in concrete language, that key personnel have education and experience in the type of work that the audit entails?
- Is the experience explained in terms of specific audit engagements?
- Is the continuing professional education of key personnel explained in detail?
- Does the proposal indicate the extent to which the county's personnel would be expected to contribute to the work effort?

- Does the proposal specify that the county must be notified in writing of changes in key personnel?
- If the audit is a group audit, does the proposal discuss the firm's plan for managing the group audit?
- If the proposal is for a multiyear contract, does it provide an approach for planning and conducting the work efforts of the subsequent year(s)?

Note:

If other audit firms are to be used (subcontractors), the above technical factors should also be applied to those audit firms.

Rating the Proposals

Initial evaluations should be based on the bidders' proposals as submitted. As the proposals are evaluated, a list of the strengths and weaknesses of each should be made to support its technical rating. It is strongly recommended that proposals be ranked according to the technical factors first, and then consider the proposed cost. For example, the evaluation process may rank the proposals only on technical factors, then a selection of the best qualified proposals could be made of perhaps three to five from the total responses. From these "best qualified" responses, the evaluation could proceed with evaluations of the cost factors.

Cost Factors

Cost of work to be performed is important and often is a significant factor in selection of the proposal for entering into a contract for services. Cost should not be given primary and dominant weighting in selecting the auditor. Cost for the audit should be given consideration when all other evaluation criteria have been met and the proposals are relatively equal in qualifications. If there is reason to believe that an unreasonably low proposal has been submitted, it should be rejected. One method of measuring reasonableness is to identify hours to complete the audit (or identify hours to complete each segment of the audit), divide each cost estimate by these hours, and compare results with the other proposals. It may be helpful to develop a general standard as to hourly rates and time on each audit task regarding what might be expected.

This section outlines general information on the process for evaluation of proposals. Detailed procedures and a suggested worksheet for handling the evaluation process are shown in [Supplement 2](#) of these guidelines.

Final Determination

After the technical evaluation is completed and the prices offered by the bidders have been reviewed, the county may be prepared to select the proposal most advantageous to the entity. If, however, the feeling exists that more information is needed before selecting a proposal, individual discussions with bidders who have a reasonable chance of being selected can be held. This will allow these bidders to respond to the entity's concerns and, if necessary, submit revised proposals by a specified date. Care should be taken during these discussions not to reveal proprietary information submitted by other bidders. The revised proposals should then be evaluated as described above, and the contract can be awarded on the basis of both technical competence and reasonable price.

Small Counties

Using a committee to carry out the evaluation process is especially important for small entities with limited resources. A more comprehensive analysis of the bids is likely to be achieved by having more people involved in the evaluation process.

Section 5 – The Written Agreement

The lack of a written agreement between the county contracting for the audit and the audit firm can contribute to substandard audits performed by certified public accountants. To foster sound and productive communication and to avoid misunderstandings, both parties should agree in writing on important audit-related matters. Before bidders spend time assessing the nature of the job and estimating its costs, they should be cognizant of the fact that they are expected to sign a formal document as the culmination of the proposal process. Audit firms unwilling to commit themselves to signing such a document are better avoided.

A signed agreement represents a contract and is binding upon both parties. For that reason, when drafting the agreement, seeking the advice of the county's legal counsel on the agreement's form and substance is important.

Content of the Written Agreement

When an RFP has been used, the written agreement should incorporate by reference the terms of the RFP and those of the successful bidder's last proposal. The letter should be signed by the entity and the audit firm. The written agreement will then clearly specify the:

- audit scope, objective, and purpose;
- deadlines for work to be performed;
- audit cost;
- report format;
- type and timing of support to be provided to the auditor by the entity; and
- professional auditing standards to be followed in performing the audit.
- Furthermore, the agreement should make the following points about the auditor/entity relationship, changes in the kind or amount of work required, and access to and ownership of audit products.
- The relationship of the auditing firm to the county is that of an independent contractor.
- At any time, the county may, by written notice, make changes in or additions to work or services within the general scope of the agreement. If such changes are made, an equitable adjustment will be made in the cost of the audit using the rates specified in the agreement.
- If the contractor believes that a change in or addition to work is beyond the general scope of the agreement, it must notify the county in writing within a specified time and before beginning that work. The agreement should indicate where the final administrative authority rests in deciding disputes.

- The CPA firm conducting the county audit must provide access to working papers and other data relating to the audit and is liable for unlawful disclosure of data as if it were a government entity under the Minnesota Government Data Practices Act; data relating to the audit are subject to the same data classifications that apply to the OSA. These documents should be retained for a period to be designated in this agreement and made available to the county, the Office of the State Auditor, and other appropriate governmental agencies upon request.
- All reports rendered to the entity by the contracting auditor are the exclusive property of the entity and subject to its use and control, according to applicable laws and regulations.

Small Counties

In the absence of an RFP, many small engagements are documented only by an engagement letter prepared by the CPA that protects the CPA more than the entity being audited. If the government entity decides to use an engagement letter as its written agreement, it is strongly advised to include the information listed above and ensure that the document is signed by both parties.

Section 6 – Audit Monitoring

Monitoring the progress of the audit is the most effective way to ensure that the governmental entity receives both the type and quality of audit services specified in the written agreement. This is a role that the entity's audit committee can carry out most effectively. This group of experts can evaluate the audit while it is taking place, thereby addressing and resolving problems before the audit is completed. It can also review audit results and assist in post-audit quality evaluation. Thus, not only does the audit product improve; working relationships between the audited entity and auditor are enhanced.

Monitoring is especially beneficial during the first year of a new auditor's contract and during the audit of a particular unit or segment(s) of an organization that is unique or complex. Furthermore, monitoring is beneficial throughout the term of a multiyear contract. It provides status reports and helps coordinate the auditing firm's activities with the audit's requirements. While the responsibility for a quality audit rests ultimately with the auditor, monitoring the work being performed as a quality assurance measure is a good idea.

Monitoring can be accomplished by requiring periodic progress reports as well as by holding regular meetings to discuss issues that need to be resolved. Furthermore, meeting after the completion of the audit to discuss the draft report can help ensure a clear understanding of the report and its findings.

Small Counties

Few small counties have the resources to thoroughly monitor the work of an auditor. When audit committee members are unavailable within a county, composing a committee from people outside the county may be the answer.

Supplement 1 – Checklist of RFP Contents

The prime consideration in preparing an RFP is that it contain enough information to provide bidders with a common basis by which to prepare proposals that address all audit needs. It is also important, however, to consult with the government entity's purchasing office and/or legal counsel to ensure that the RFP conforms with the laws, regulations, and grant terms applicable to the entity. At a minimum, the RFP should contain the following:

- the name and address of the government entity;
- the entity to be audited, scope of services to be provided, and specific reports, etc., to be delivered;
- the period to be audited (with an explanation if the RFP calls for a multiyear procurement);
- the name and telephone number of a contact person at the government entity;
- the format in which the proposals should be prepared;
- the address to which proposals should be delivered or sent;
- the date and time proposals are due;
- the number of proposal copies to be submitted;
- the criteria to be used in evaluating the bid and their relative importance to each other;
- the method and timing of payment; and
- any other important points, including the consequences if due dates are missed or work does not meet audit standards.

The likelihood of receiving high quality proposals will be enhanced if the RFP:

- explains the work the government entity does;
- explains what is to be audited, e.g., basic financial statements, specific funds, or both;
- describes in some detail the entity's accounting system, administrative controls, records, and procedures;
- informs prospective bidders whether the Single Audit Act applies to this audit;
- identifies the appropriate auditing standards;
- informs prospective bidders if data from prior years (audit reports, management letters, etc.) will be available, whether major audit findings remain open from prior years, and whether any audits of subrecipients are required;

- explains that (a) the CPA firm conducting the county audit must provide access to working papers and other data relating to the audit and is liable for unlawful disclosure of data as if it were a government entity under the Minnesota Government Data Practices Act, and (b) data relating to the audit are subject to the same data classifications that apply to the OSA; and notifies prospective bidders of requirements for workpaper retention and for making the workpapers available to the entity as well as the OSA and citizens when requested;
- describes expected audit products, the required format of the audit report, and the format of any required progress reports;
- explains any assistance that the county will offer, such as staff support to assist the auditor (which could materially reduce audit costs); and
- outlines the expected schedule of work (completing field work, issuing reports, etc.).

Finally, a well-prepared RFP will elicit certain information from prospective bidders. For example, it will ask bidding firms to state:

- how they would conduct the audit and, if it were a multiyear contract, how they would approach the work efforts of the subsequent year(s) and if there is any impact on the price for these subsequent years;
- their qualifications, those of their local office, if applicable, and those of the proposed audit staff, including their prior government auditing experience;
- their policies on notification of changes in key personnel;
- whether the proposed staff have received continuing professional education in government accounting and auditing during the last two years;
- whether they are independent, as defined by applicable auditing standards;
- whether they have received a positive peer review within the last three years;
- whether they have been the object of any disciplinary action during the past three years; and
- their fee.

Supplement 2 – Sample Proposal Evaluation Worksheet

This evaluation worksheet is intended to provide assistance and guidance on a satisfactory evaluation and selection of the best-qualified independent auditor to perform the audit requirements specified in the RFP. It is incumbent on the requesters not only to clearly state their audit requirements but also select the best-qualified respondent, all factors considered, to do the audit.

Example of a Proposal Evaluation Method

The following is an example of a method for evaluating proposals. The evaluation formula and the values assigned to the criteria given illustrate an evaluation scoring method. Requesters should design formulas and criteria that meet their own needs.

Suggested Formula

The following formula may be used to establish a process for evaluating the proposals and making the final selection of the best-qualified independent auditor to perform the audit.

The total score of each proposal should be determined by adding the points awarded for technical qualifications (maximum of 75 points) to the points received for the cost of doing the audit (maximum of 25 points). The total score should be determined by applying the following formula:

Technical Score for This Firm -----	x 75	=	Technical Score
Highest Technical Score Received			
Lowest Cost of All Bids -----	x 25	=	Cost Score
Cost of Bid for This Firm			_____
Subtotal			_____
Oral Interview (if necessary) (Points from 1-10 – Score)			_____
Total Points			_____

In the event that oral interviews are necessary to break a tie or for making final clarification in the evaluation process, additional points may be awarded on any reasonable scale, but from 1 to 10 would be appropriate. It should be understood that while the total score is a significant factor, the requester of the services reserves the right to consider other factors in making the final selection.

Although this is true, requesters should be very careful in the evaluation process to formulate a defensible evaluation plan, document the procedures used and points awarded on each proposal, and retain the material for a reasonable time in the event of a protest or questions raised on the scoring, contract award, etc.

Professional Qualifications

The evaluation of professional qualifications of the proposals should be based on the following criteria:

1. Mandatory Criteria

Proposals should not be considered for further evaluation unless they meet all of the following mandatory criteria:

- Must be an independent auditor properly licensed for public practice.
- Must meet the independence standards of the *Government Auditing Standards*.
- Must not have a record of substandard work. This can be determined by checking with the State Board of Accountancy and/or by requesting information on positive enforcement, ethics infractions, or references from the respondents.
- Must meet any specific qualifications requirements imposed by state or local law or rules and regulations.

2. Technical Criteria

Those proposers who have met each of the criteria in Section 1 above will be evaluated on the following criteria:

<u>Item</u>	<u>Technical Criteria</u>	<u>Evaluation</u>
1.	Responsiveness of the proposal in clearly stating an understanding of the work to be performed.	Total: (0-25)
1a.	Comprehensiveness of audit work plan.	(0-15)
1b.	Realistic time estimates of each major segment of the work plan and the estimated number of hours for each staff level, including consultants, assigned.	(0-10)
2.	Technical experience of the firm.	Total: (0-20)
2a.	Auditing of the type under consideration.	(0-10)
2b.	Auditing similar entities.	(0-10)
3.	Qualifications of staff, including consultants, to be assigned to the audit. Education, including continuing education courses taken during the past three years, position in the firm, and years and types of experience will be considered. This will be determined from the resumes submitted.	Total: (0-25)
3a.	Qualifications of supervisory personnel, consultants, and of the audit team doing field work.	(0-15)
3b.	General direction and supervision to be exercised over the audit team by the firm's management personnel.	(0-10)
4.	Size and structure of the firm.	Total: (0-5)
	TOTAL TECHNICAL POINTS:	(0-25)

3. Cost Criteria

The envelopes containing information on the cost of the audit should now be opened and scheduled by each proposal and amount. The information should be arrayed from low to high cost estimates for applying the formula and computing the cost criteria score and recording on the evaluation summary sheet, or similar record.

Cost Criteria	Evaluation
Cost of the Audit	0-25
Technical and Cost – Maximum Points	100

4. Oral Interviews (if necessary)

The requester should develop a list of criteria or special factors which may be used in the oral interviews. The factors should seek to clarify points of interest on the proposers' qualifications to do the audit. The oral interviews may bring out additional information to clearly make the final determinations.

Oral Interviews Criteria	Evaluation
Interview Points Awarded	1-10
Total Technical, Cost and Interview Points – Maximum	100

Final Selection Determination

After the proposals have been reviewed and ranked based on the mandatory and technical criteria, a natural cutoff point in the evaluation process may become apparent. For example, those proposals that did not meet the mandatory criteria have been eliminated and the low ranked proposals may now be eliminated as not being competitive or qualified. The evaluation process may now elect to choose the top three to five proposals for the final phase of the review.

The next step is to proceed to the cost criteria. The finalists should be rated using the cost criteria formula and the points recorded for determining the best-qualified proposals. If final scores are tied or very close, making selection difficult, the oral interview procedure may be necessary and appropriate for making the final selection of the independent auditor to do the audit.

Supplement 3 – Reporting Matrix

<u>Report</u>	<u>Type of Report</u>	<u>Required By GAAS</u>	<u>Required By GAGAS</u>	<u>Required By UG</u>	<u>Required By Other</u>
Basic financial statements	Opinion	X	X	X	
Internal control based on GAAS procedures	Report		X	X	
Compliance and other matters based on GAGAS procedures	Report		X	X	
Minnesota Legal Compliance	Report				X
Federal Financial Assistance:					
Supplementary Schedule of Expenditures of Federal Awards	In relation to basic financial statements			X	
Compliance with laws and regulations governing major federal programs	Report			X	
Compliance with specific requirements:					
Major program	Opinion			X	
Internal Control Related to Federal Financial Assistance	Report			X	

Abbreviations used in the above table are explained as follows:

- GAAS - Generally Accepted Auditing Standards
- GAGAS - Generally Accepted Government Auditing Standards
- UG - Single Audit Act/OMB Uniform Guidance
- Other - Minnesota Statutes

Appendix C – Sample RFP

This sample request for proposals for professional audit services is an example that a county can use as a starting point for developing its own request. This sample must be modified to the unique nature of a particular county, which will provide the information necessary for a CPA firm to submit a complete and appropriate audit services proposal.

_____ COUNTY
SAMPLE REQUEST FOR PROPOSALS
FOR PROFESSIONAL AUDIT SERVICES

I. INTRODUCTION

A. General Information

_____ County, hereafter known as the County, is requesting proposals from qualified firms of certified public accountants to audit its annual financial statements for the County's fiscal years ending December 31, 202X, and December 31, 202Y.

There is no expressed or implied obligation for the County to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

To be considered, three (3)⁹ copies of a proposal must be received by:

_____(Audit Contact Person)
_____(Title)
_____(Address)
_____(Address)

The proposal should be received by the County by ____ (time) on ____ (date).

⁹ Proposal should be directed to County personnel that will serve as the contact person for the audit. The number of copies would depend on the number of members on the Selection Committee.

The County reserves the right to reject any or all proposals submitted. Proposals submitted will be evaluated by a three (3)¹⁰-member Selection Committee consisting of:

- the County Administrator/Coordinator/Manager
- the County Auditor/Auditor-Treasurer/Treasurer
- the Finance Director/Controller
- a Board member

During the evaluation process, the County reserves the right to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. Firms may be requested to make oral presentations to the Selection Committee as part of the final evaluation process.

The County reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the County and the firm selected.

It is anticipated the selection of a firm will be completed by _____, 202X. Following the notification of the selected firm, it is expected a contract will be executed between both parties following the _____, 202X, meeting of the County Board.

B. Term of Engagement

A two-year contract is contemplated, subject to the annual review and recommendation of the Selection Committee, the satisfactory negotiation of terms (including a price acceptable to both the County and the selected firm), and the concurrence of the Board of County Commissioners.

II. Nature of Services Required

A. Scope of Work to Be Performed

The County desires the auditor to express an opinion on the fair presentation of its basic financial statements in conformity with governmental accounting principles generally accepted in the United States of America.

The County also desires the auditor to provide an “in-relation-to” opinion on the supplementary information based on the auditing procedures applied during the audit of the basic financial statements. The auditor is not required to audit the statistical and required supplementary information sections of the report. However, the auditor shall also be responsible for performing certain limited procedures involving the required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards. Also, the auditor is to provide an “in-relation-to” report on the County’s schedule of expenditures of federal awards based on the auditing procedures applied during the audit of the financial statements.

¹⁰ The number and who makes up the selection committee should reflect the needs and structure of the individual county.

The auditor will perform procedures and issue a report on compliance pursuant to the requirements of the [Minnesota Legal Compliance Audit Guide for Counties](#). Pursuant to the Single Audit Act Amendments of 1996¹¹, the County is required to have an audit performed on the major federal programs of the County. The auditor will be required to test internal controls and compliance for major federal award programs administered by the County. It is anticipated the County will require a Single Audit for each year covered by this request.

B. Auditing Standards to Be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits set forth in the Government Accountability Office's (GAO) *Government Auditing Standards* (2018 revision); the provisions of the federal Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133 (if applicable) and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and the minimum procedures for auditors of local governments prescribed by the OSA pursuant to Minn. Stat. § 6.65.¹²

C. Reports to Be Issued

The auditor shall prepare the following reports at the completion of the audit:

- Independent auditor's reports on the basic financial statements.
- Independent auditor's report on internal controls over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Independent auditor's report on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Independent auditor's report on compliance pursuant to the *Minnesota Legal Compliance Audit Guide for Counties*.
- Independent auditor's report on internal control over compliance for major federal programs in accordance with OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- Independent auditor's report (opinion) on compliance with requirement applicable to each major federal program in accordance with OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- A summary of auditor's results and a schedule of findings and questioned costs, if any, required by OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

¹¹ The Single Audit threshold is \$1,000,000 in expenditures of federal awards.

¹² The OSA promulgated the minimum auditing procedures after consulting with representatives of counties and others, including private sector public accountants.

D. Additional Nonaudit Services¹³

In addition to the audit services described above, the County is requesting the following additional assistance or services:

- Preparation of all required basic financial statements.
- Preparation of the notes to the financial statements.
- Preparation of the following additional statements and schedules:¹⁴
 - Combining and individual fund financial statements
 - Budgetary comparison schedules
 - General capital asset schedules
 - Schedule of investments
 - Schedule of taxable valuations
 - Individual ditch balance sheet
 - Schedule of intergovernmental revenue
 - Schedule of expenditures of federal awards
- Preparation of supporting schedules and trial balances for the financial statements. The County will decide the format and methodologies for these schedules and trial balances.¹⁵
- Assist in the preparation of the statistical section of the annual comprehensive financial report.¹⁶
- Typing, copying, and binding of the annual financial report. The firm will provide the County _____ bound copies and one electronic (PDF) version of the annual financial report. The County will provide front and back covers for the report.
- The firm will provide the County with _____ copies of their report(s) on the internal control and compliance in accordance with the audit guide and standards for compliance with the Single Audit Act and the Uniform Guidance, as may be required.
- Assistance with filing the annual financial report and any applicable reports with appropriate state agencies and departments¹⁷, including one (1) electronic copy to be filed with the OSA.

¹³ The county may need or desire additional nonaudit services related to the audit. These services normally would be outside the scope of a standard financial and compliance audit. The County should be aware that independence issues may arise from the providing of certain additional services by the firm conducting the annual audit. For additional guidance on the services that can be provided by the audit firm, see *Government Auditing Standards* (2018 Revision Technical Update 2021 Version).

¹⁴ Identify additional information required requested by your county.

¹⁵ The County should identify the supporting schedules with which they require assistance. County management must make all key decisions regarding these schedules.

¹⁶ Only required for GFOA's certificate program.

¹⁷ This is primarily to meet requirements as subrecipients of federal funds. However, there may be additional requirements for filing financial statements. The County should decide whether they want the firm to provide this assistance in determining filing requirements.

- A letter to management containing appropriate suggestions for improvement of accounting procedures and internal controls for the County's consideration. This letter should contain comments and recommendations for controlling any internal weaknesses discovered and shall be discussed with appropriate personnel before finalizing.
- Assist with the County's response to prior year comments from the Government Finance Officers Association (GFOA) relating to the Certificate of Achievement for Excellence in Financial Reporting Award Program.
- Assist with the preparation and submission of the reporting package, required by the Single Audit Act Amendments of 1996 as identified in the Uniform Guidance, to the Federal Audit Clearinghouse. This package includes the annual financial report; the supplementary schedule of expenditures of federal awards; the required auditor's reports, including any current findings and questioned costs; a summary schedule of prior audit findings; and a corrective action plan.

E. Special Considerations

1. The submitting firms should be aware that, pursuant to Minnesota law, the State Auditor may require additional information from the private certified public accountant as the State Auditor deems in the public interest. The State Auditor may accept the audit or make additional examinations as the State Auditor deems to be in the public interest.¹⁸ The firm will need to submit all required reports to the Office of the State Auditor (OSA). In addition, the firm should make available all work papers and information required by the State Auditor.
2. The County will not/will rely on the auditors for assistance in preparing the financial statements.^{19,20}
3. The County will send its annual comprehensive financial report to the GFOA for review in their Certificate of Achievement for Excellence in Financial Reporting program.²¹

F. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of six (6) years, unless the firm is notified in writing by the County of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the County.

Pursuant to Minnesota law, the State Auditor may require additional information, including all audit engagement work papers, from the private certified public accountant as the State Auditor deems in the public interest. The State Auditor may make additional examinations as

¹⁸ By law, the County shall pay the cost of any additional examination by the State Auditor. The County should consult with the County Attorney as to whether to include provisions about any impact on the fees paid to the firms if its audit is deemed incomplete or inadequate.

¹⁹ Should revise based on the expected level of assistance needed from the audit firm.

²⁰ The GAO generally considers financial statement preparation a significant threat to an auditor's independence that should be addressed in the auditor's audit documentation.

²¹ This item is applicable only to a small number of counties participating in the GFOA's certificate program.

the State Auditor deems to be in the public interest. Your work papers must be available to the OSA for review.

All data relating to the audit, including work papers, will be subject to the same data classifications that apply under [Minn. Stat. § 6.715](#). The auditor conducting a county audit must provide access to such data relating to the audit and is liable for unlawful disclosure of the data as if it were a government entity under Minn. Stat. ch. 13.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. Description of the Government

A. Name and Telephone Number of Contact Person

The audit firm's principal contact with the County will be _____ (name), _____(title), at _____ telephone number) who will coordinate the assistance to be provided by the County to the auditor.

B. Background Information

The County was established in _____ and has the powers, duties, and privileges granted counties by state law, codified in Minn. Stat. ch. 373. The County serves an area of _____ square miles, with a population of _____. The County's fiscal year begins on January 1 and ends on December 31. The County is governed by a _____-member Board of County Commissioners representing separate districts within the County. In addition, the offices of County Attorney, Sheriff, Auditor, Treasurer, Recorder, and Coroner are elected on a County-wide basis²².

The County offers a full range of services appropriate in courts, property tax administration, law enforcement and corrections, public works, human services, parks, landfill and other solid waste management, library, community health, nursing home, county extension, economic development, and general administration²³. The County employs approximately _____ full-time and _____ part-time employees.

The County is organized into _____ departments. Most of the accounting and financial reporting functions of the County are centralized. However, certain accounting and grant reporting requirements are performed by accounting staff of the Human Services and Public Works Departments.²⁴ _____ departments collect and remit fees for services provided and _____ departments maintain separate checking accounts.

More detailed information on the government and its finances can be found in the Budget Document and previous annual financial reports. Contact _____ at _____ concerning access to these documents.

²² Adjust based on the offices that are elected for your individual county.

²³ Identify key services provided by your county.

²⁴ Identify any additional departments with accounting staff.

C. Reporting Entity

The reporting entity of the County is defined, for financial reporting purposes, in conformity with the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. Using these criteria, the following component units are included in the County's financial statements as either blended or discretely presented:²⁵

<u>Component Unit</u>	<u>Presentation</u>
Regional Railroad Authority	Blended
Housing and Redevelopment Authority	Discretely Presented

The firm will/will not audit the component units.²⁶

D. Fund Structure

The County uses the following fund types²⁷ in its financial reporting:

<u>Fund Type</u>	<u>Number of Individual Funds on December 31, 202X</u>	<u>Number with Legally-Adopted Annual Budgets</u>
Special revenue funds	1	1
Debt service funds		
Capital projects funds		
Permanent funds		
Enterprise funds		
Internal service funds		
Private-purpose trust funds		
Investment trust funds		
Pension (and other employee benefit) trust funds		
Custodial funds		

E. Budgetary Basis of Accounting

The County prepares its budgets on a basis consistent with generally accepted accounting principles. The county includes the budgetary comparison presentations for the general and major special revenue funds as required supplementary information/part of the basic financial statements.²⁸

²⁵ Identify all component units and whether they are presented within the financial statements as blended or discretely presented. A couple possible examples are provided.

²⁶ Depending on the nature of the component unit, this RFP could include the audit services for any component units, including any separately issued financial statements or a separate RFP for the component unit could be issued.

²⁷ Insert the number of funds and number of budgeted funds for each type.

²⁸ The County has the option of reporting these presentations as required supplementary information or within the scope of the auditor's report on the basic financial statements.

F. Federal Financial Assistance

The County has identified the following grants and federal revenues expended by the County during the fiscal years to be audited.²⁹

Federal Department/Agency State or Local Administering Agency Federal Grant/Program	202X Estimated Amount
Department of Agriculture Minnesota Department of Health WIC Special Supplemental Nutrition Program for Women, Infants, and Children	\$
Department of Housing and Urban Development Minnesota Department of Trade and Economic Development Community Development Block Grants/Entitlement Grants	
Department of Justice Direct Aid Public Safety Partnership and Community Policing Grants	
Department of Public Safety Crime Victim Assistance	
Department of Transportation Minnesota Department of Transportation Highway Planning and Construction	
Department of Homeland Security Minnesota Department of Public Safety Disaster Grants – Public Assistance (Presidentially Declared Disasters) Hazard Mitigation Grants Emergency Management Performance Grants	
Department of Health and Human Services Minnesota Department of Human Services Temporary Assistance for Needy Families Foster Care Title IV-E Social Services Block Grant – Title XX Medical Assistance Program	
Minnesota Department of Health Block Grants for Prevention and Treatment of Substance Abuse Maternal and Child Health Services Block Grant to the States	

²⁹ The examples provided are some typical federal programs for counties. The RFP should be modified for the individual federal programs administered by your county.

G. Pension Plans³⁰

The County participates in the following pension plans administered by the Public Employees Retirement Association of Minnesota (PERA):

General Employees Retirement Plan
Public Employees Police and Fire Plan
Local Government Correctional Service Retirement Plan

All of these funds are multiple-employer, cost-sharing defined benefit plans. Elected officials of the County also participate in PERA's Public Employees Defined Contribution Plan. Significant amounts relating to the County's net pension liabilities, pension-related deferred outflows and inflows of resources, and pension expense will be provided by PERA.

H. Joint Ventures³¹

The County participates in the following joint ventures with other governments:

Name of Joint Venture	Name of Other Member Governments	Type of Services Provided
-----------------------	----------------------------------	---------------------------

I. Magnitude of Finance Operations³²

The County Auditor's Office/Finance Department³³ provides the budgetary, accounting, information systems, purchasing, collections, accounts receivable, and accounts payable functions. The Department has a staff of _____ full-time and _____ part-time employees.

J. Computer Systems³⁴

The day-to-day transactions of the County are conducted with the aid of a computerized governmental accounting system. The computer hardware is an iSeries, and the financial accounting software, Integrated Financial System (IFS), is supported by _____ of _____. The County also uses personal computers on a _____ network.

K. Availability of Prior Audit Reports and Working Papers

Interested proposers who wish to review prior years' audit reports and management letters should contact _____ at _____. The County will use its best efforts to make prior audit reports and supporting working papers available to proposers to aid their response to this request for proposals. The County and proposers recognize and

³⁰ Adjust for applicable pension funds for your county.

³¹ Most counties participate in a number of joint ventures or jointly-governed organizations. The importance to the audit is that there are some note disclosure requirements in the County's financial statements for these entities.

³² Adjust this section based on which department(s) handle the different accounting functions for your county.

³³ Adjust for the County department primarily responsible for these functions.

³⁴ Purpose is to identify key automatic accounting systems for the County. Adjust based on your specific county systems.

agree that all actions related to government data must comply with the Minnesota Government Data Practices Act, Minn. Stat. ch. 13.

IV. Time Requirements

The auditors must be able to meet the following essential dates for the fiscal year audit:

Preliminary work completed by December 31.
Fieldwork completed by _____.
Draft reports completed by _____.
Final printed and bound reports by September 25.³⁵

V. Assistance to Be Provided to the Auditor and Report Preparation

A. Finance Department and Clerical Assistance³⁶

The Finance Department/County Auditor's Office staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation, and explanations. The preparation of confirmations will be the responsibility of the County as directed by the auditor.

In an effort to contain audit costs, the County has historically prepared as many audit worksheets and schedules as is practical to reduce the clerical work to be performed by the independent auditor. It wishes to continue this practice.

B. Report Preparation³⁷

Report preparation, editing, and printing shall be the responsibility of the auditor. The County will prepare covers and dividers.

VI. Proposal Requirements

A. General Requirements

1. Inquiries

Inquiries concerning the request for proposals and the subject of the request for proposals must be made to.³⁸

Contact name and information

³⁵ If the County is subject to the Single Audit Act, it must issue its financial statements and related auditor's reports within nine months after their year-end. The date used was chosen to meet that deadline, but the County can adjust this date forward to meet their needs.

³⁶ Adjust this section based on the level of assistance the County intends to provide.

³⁷ This should be adjusted if the County is able to produce its own annual financial report or if the firm will prepare under its cover.

³⁸ Identify specific contact information.

2. Submission of Proposals

The following material is required to be received by _____, 202____³⁹, for a proposing firm to be considered:

- a. A master copy (so marked) of the proposal and two (2) copies⁴⁰ to include the following:

- i. Title Page

Title page showing the request for proposals subject; the firm's name; the name, address, and telephone number of the contact person; and the date of the proposal.

- ii. Table of Contents

- iii. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the engagement, and a statement that the proposal is a firm and irrevocable offer for 90 days.

- iv. Detailed Proposal

The detailed proposal should follow the order set forth in Section VI.B. of this request for proposals.

- b. Proposers should send the completed proposals to the following address:

_____(Audit Contact Person)
_____(Title)
_____(Address)
_____(Address)

B. Audit Proposal

1. General Requirements

The purpose of the proposal is to demonstrate the qualifications, competence, and capacity of the firms seeking to undertake an independent audit of the County in conformity with the requirements of this request for proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The proposal should demonstrate the qualifications of the firm and of the particular staff to

³⁹ Deadline for submitting proposal.

⁴⁰ Or enough copies for each Selection Committee member.

be assigned to this engagement. It should also specify an audit approach that will meet the request for proposals requirements.

2. Independence

The firm should provide an affirmative statement that it is independent of the County as defined by the generally accepted auditing standards/the U.S. Government Accountability Office's *Government Auditing Standards*.

3. License to Practice in Minnesota

An affirmative statement should be included that the firm and all assigned key professional staff are properly licensed to practice in Minnesota.

4. Firm Qualifications and Experience

The proposal should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed, and the number and nature of the professional staff to be employed in this engagement on a full-time basis and on a part-time basis.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

5. Partner, Supervisory, and Staff Qualifications and Experience

The proposal should identify the principal supervisory and management staff, including engagement partners, managers, other supervisors, and specialists, who would be assigned to the engagement. Indicate whether each such person is registered or licensed to practice as a certified public accountant in Minnesota. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted, or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of the County. Other audit personnel may be changed at the discretion of the firm provided that replacements have substantially the same or better qualifications or experience.

6. Similar Engagements with Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements performed in the last three years that are similar to the engagement, in particular counties, described in this request for proposal. Also, indicate those municipalities that achieved the Certificate of Achievement for Excellence in

Financial Reporting award while your firm was engaged as their auditors.⁴¹ Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact. Specifically identify those engagements at which the managers and other supervisors who will be assigned to this engagement have worked.

7. Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed. Firms will be required to provide the following information on their audit approach:

- a. Proposed timing of the engagement
- b. Level of staff and number of hours to be assigned to each proposed segment of the engagement
- c. Sample sizes and the extent to which statistical sampling is to be used in the engagement
- d. Extent of use of computer software in the engagement
- e. Type and extent of analytical procedures to be used in the engagement
- f. Approach to be taken to gain and document an understanding of the County's internal control over financial reporting
- g. Approach to be taken in determining laws and regulations that will be subject to audit test work

8. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems, and any special assistance that will be requested from the County.

C. Dollar Cost

1. Total All-Inclusive Maximum Price

Attachment A must be completed and signed. Attachment A's price should specify all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price is to include all direct and indirect costs, including all out-of-pocket expenses. The County will not be responsible for expenses incurred in preparing and submitting the proposal. Such costs should not be included in the proposal.

⁴¹ This sentence could be deleted if your county is not participating in the certificate program.

2. Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each

The cost schedule should include a schedule of professional fees and expenses broken into the above categories, if appropriate.

3. Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's proposal. Interim billings shall cover a period of not less than one calendar month.

VII. EVALUATION PROCEDURES

A. Selection Committee

Proposals submitted will be evaluated by a _____-member Selection Committee consisting of the _____, the _____, and the _____.

B. Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria that will be considered during the evaluation process.

1. Mandatory Elements

- a. The audit firm is independent and licensed to practice in Minnesota.
- b. The audit firm's professional personnel have received adequate continuing professional education within the preceding three years.
- c. The firm has no conflict of interest with regard to any other work performed by the firm for the County.
- d. The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal.
- e. The firm submits a copy of its last external quality control review report, including any letter of comments, and the firm has a record of quality audit work.

2. Technical Qualifications

- a. The firm exhibits expertise based on past experience and performance on comparable government engagements.

- b. The firm has demonstrated an ability to assist its governmental clients in attaining and retaining the GFOA Certificate of Achievement in Financial Reporting.⁴²
- c. The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation.

3. Price Consideration

Cost will not be the primary factor in the selection of an audit firm.

C. Oral Presentations

During the evaluation process, the Selection Committee may, at its discretion, request firms to make oral presentations. Such presentations will provide firms with an opportunity to answer any questions the Selection Committee may have on a firm's proposal. Not all firms may be asked to make such oral presentations.

D. Final Selection

The County Board will select a firm based on the recommendation of the Selection Committee.

It is anticipated that a firm will be selected by_____, 202____. Following notification of the firm selected, it is expected a contract will be executed between both parties following the_____, 202____, _____County Board meeting.

E. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the County and the firm selected. The County reserves the right, without prejudice, to reject any or all proposals.

⁴² If applicable to this engagement.

ATTACHMENT A

_____ COUNTY AUDITING SERVICES

FEE STRUCTURE

	Fiscal Year	
	202X	202Y
ACFR, etc.*	\$	\$
Single Audit	\$	\$
Draft Financials	\$	\$
Total	\$	\$

*Annual Financial Report, Management Letter, Minnesota Legal Compliance Letter, GFOA Certificate Response

FIRM SUBMITTING PROPOSAL:

_____	_____
Signature of Authorized Representative	Title

_____	_____
Name of Authorized Representative	Date