

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)**STAFF REPORT****Issue**

Staff requests the approval of the IBank Board of Directors (Board) to retain the services of Macias, Gini and O'Connell LLP (Macias), the certified public accountant firm, to act as the IBank's auditor for fiscal years 2013-2014, 2014-2015, 2015-2016. Further, the IBank Staff requests that the Board authorize a contract for auditing services with Macias.

Background

In February 2014, the IBank issued Series 2014A Infrastructure State Revolving Fund Revenue Bonds totaling \$95,960,000 (Series 2014A Bonds) to provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program. Prior to the Series 2014A Bonds, the IBank had issued three series of infrastructure state revolving fund revenue bonds of approximately \$152 million. The only bonds currently outstanding of that series are IBank's 2008 Infrastructure State Revolving Fund Revenue Bonds (Series 2008 Bonds, collectively the Series 2008 Bonds and the Series 2014A Bonds are the ISRF Program Bonds). In October 2013, as a part of the Governor's reorganization plan, the Small Business Finance Center (Finance Center) was established at IBank and the Small Business Loan Guarantee Program (SBLGP) was transferred to the Finance Center. The IBank is currently the state administrator of the SBLGP.

To remain in compliance with the disclosure obligations with respect to the ISRF Program Bonds, the IBank must issue audited financial statements. In addition, the continuing disclosure agreements entered into by the IBank in conjunction with the issuance of the ISRF Program Bonds require the IBank to provide annual audited financial statements to the ISRF Program Bonds trustees and to each Nationally Recognized Municipal Securities Information Repository so long as the ISRF Program Bonds are outstanding.

Scope of Services

The scope of the initial services from Macias will include the completion of the IBank's Comprehensive Annual Financial Report (CAFR) that includes audited financial statements beginning with the 2013-2014 fiscal year.

Macias will prepare and express an opinion on the financial statements of the IBank, a description of its general business activities, and the financial position of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund) (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Initial Funds), and fairly present the IBank's

financial statements in conformity with the accounting principles and auditing standards generally accepted and the standards applicable to financial audits contained in Government Auditing standards used by the Comptroller General of the United States of America. Further, Macias shall include such tests of the accounting records and such other auditing procedures as shall enable the auditors to express an opinion as to the accounts and financial statements. In fiscal years 2014-2015 and 2015-2016, Macias' audit will include the Small Business Loan Guarantee Program Trust Funds (SBLGP Funds) (collectively, the Initial Funds and the SBLGP Funds are the Funds). The main focus of the effort is as follows:

- Establish an audit schedule for each year which will provide for the IBank's receipt of the audit report no later than September 30th of each fiscal year.
- Conduct three consecutive annual audits of the IBank and the Initial Funds beginning with the 2013-2014 fiscal year financial statements and of the IBank and all Funds for 2014-2015 and 2015-2016. Macias also will review and apply audit procedures to the required supplementary, including Management's Discussion and Analysis.
- Ensure that the IBank's Comprehensive Annual Financial Report complies with GASB standards and meets the requirements of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.
- Issue a "management letter" which includes recommendations, if any, for improvements in internal control, accounting procedures and other significant observations that are considered to be non-reportable conditions.
- Respond to the reasonable inquiries of the State Auditor's Office, the auditor of the State of California's financial statements and allow the State Auditor's Office to review working papers as needed to meet requirements of AU-C Section 600, Statement on Auditing Standards - Special Considerations - Audits of Group Financial Statements.
- Macias will be required to retain all working papers for seven (7) years at their expense.

Selection process

Consistent with the process of other state agencies and the Audit Procurement Policy adopted by the Board, the IBank Staff issued on April 25, 2014 a Request for Qualifications (RFQ) seeking proposals from auditing firms interested in providing auditing services to the IBank. This RFQ was (1) distributed directly to 11 firms (Attachment A), (2) posted to the State of California Contracts Register, and (3) posted to the IBank web site. Two firms submitted responses to the RFQ. The following two firms responded to the RFQ by the May 22, 2014 RFQ due date: Macias and Gilbert Associates, Inc.

The two responses received were reviewed by a committee consisting of the IBank's Executive Director, Deputy Executive Director, and the Fiscal Manager. Based upon the selection process criteria under the Audit Procurement Policy, which prescribes the auditing firm's required qualifications and experience, the competitiveness of the proposed fees, and the overall quality of the written response to the RFQ, the committee selected Macias.

Firm Qualifications

Macias was founded in 1987 as a limited liability partnership and has one of the largest public sector accounting practices in California. Macias is a professional public accounting firm holding a valid certification in the State of California, recognized within the accounting, tax and consulting industry and a member of the American Institute of Certified Public Accountants. They have eight offices throughout the State and are headquartered in Sacramento. The firm has a staff of approximately 250 full-time professionals. Macias indicated in their proposal, that Macias is currently the principal auditor for CalPERS, eight northern California counties and six of the top ten California cities. Macias has been the auditor for the IBank for the last three years.

Competitive Fees

Macias' fees for performing the scope of services outlined in the RFQ will be based on the all-in fixed amount for each year's audit. The cost includes indirect and direct costs, start-up costs and expected out-of-pocket expenses. The total all-inclusive fee schedules are as follows:

	Fiscal Year 2013/2014	Fiscal Year 2014/2015	Fiscal Year 2015/2016	Total
Audit	\$41,500	\$49,000	\$49,000	
Management Letter	\$ 2,500	\$ 2,500	\$ 2,500	
Total Fee Proposal	\$44,000	\$51,500	\$51,500	\$147,000

Macias' prior total fee was \$168,590. Macias' fees will be paid from accounts held by the trustee for the ISRF Program Bonds.

STAFF REPORT PREPARED BY: Teveia Barnes and Ruben Rojas

RECOMMENDATION: Staff recommends approval of Resolution 14-08 appointing Macias, Gini and O'Connell LLP to act as the IBank's auditor for fiscal years 2013-2014, 2014-2015, 2015-2016, and authorizing the Executive Director to execute a contract on behalf of the IBank for auditing services with Macias for this period that is consistent with the terms of this report.

Attachment A

Exhibit A									
LIST OF AUDITING FIRMS									
COMPANY NAME	ADDRESS	CITY	STATE	ZIP	PHONE	E-MAIL	CONTACT PERSON	State Audits	
CliftonLarsonAllen LLP	915 Wilshire Boulevard, Suite 2250	Los Angeles	CA	90017	213-236-0837	garren.cornelio@claconnect.com	Garren Cornelio	CalHFA & SWRCB	
Crowe Horwath LLP	400 Capitol Mall, Suite 1400	Sacramento	CA	95814-4498	916-441-1000	tina.treis@crowehorwath.com	Tina Treis	STRS	
Deloitte & Touche LLP	980 9th Street, Suite 1800	Sacramento	CA	95814	916-288-3100	karenturney@deloitte.com			
Ernst & Young	2901 Douglas Blvd., Suite 300	Roseville	CA	95661	916-218-1900	raymond.loyd@ev.com	Raymond Loyd		
Gilbert & Associates	2880 Gateway Oaks Dr, Ste 100	Sacramento	CA	95833	916-646-6464	peggy@gilbertcpa.com	Peggy Vande Vooren	prior I-Bank	
Grant Thornton	770 L Street, Suite 950	Sacramento	CA	95814	916-449-3991	linus.li@us.gt.com	Linus Li		
KPMG LLP	400 Capitol Mall, Suite 800	Sacramento	CA	95814-4407	916-448-4700	pmginther@kpmq.com	Peggy Ginther (555-1111)	CSU, Lottery, SCIF	
Macias, Gini & O'Connell LLP	3000 S Street, Suite 300	Sacramento	CA	95816	916-779-3542	sbrunner@mgocpa.com	Scott Brunner	Current I-Bank DWR & CalPERS	
PricewaterhouseCoopers LLP	400 Capitol Mall, Suite 600	Sacramento	CA	95814	916-930-8100	susan.m.coleman@us.pwc.com	Susan Coleman (930-8513)		
Richardson & Company	550 Howe Ave. Ste 210	Sacramento	CA	95825	916-564-8727	richardson@richardsoncpas.com		prior DWR	
Vavrinek Trine, Day & Co. LLP	2151 River Plaza Drive, Suite 308	Sacramento	CA	95833	916-570-1880	kpulliam@vtdcpa.com	Kevin Pulliam		