



**METROPOLITAN
TRANSPORTATION
COMMISSION**

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Memorandum

TO: Administration Committee

DATE: January 4, 2012

FR: Executive Director

W. I. 1152

RE: Contract: PriceWaterhouseCoopers, LLP

Staff recommends that the Committee approve the selection of PriceWaterhouseCoopers, LLP (PWC) as the external auditor for MTC, MTC SAFE, BATA, BAIFA, and BAHA for fiscal year ending June 30, 2012 through June 30, 2015. The RFQ authorizes a four year contract subject to annual review, based on satisfactory continuing performance. MTC may elect to extend the contract through two consecutive one-year options for a total of six years.

On October 27, 2011, a Request for Solicitation was posted on MTC's website. A total of five firms responded:

- PWC
- KPMG
- Crowe Horwath
- MGO
- Marcum

All of these firms met minimum qualifications for experience and maintain local offices.

On December 14th, an evaluation including Commissioners Kinsey and Rein Worth and four Finance staff, met to review the proposals and interview the five firms. Following the interviews, the committee unanimously recommended PWC for approval. While KPMG offered an excellent proposal, the committee felt that PWC provides a superior breadth of firm and key staff experience with the variety of complex issues that affect MTC and its operating components.

PWC has been involved in audit work with MTC and BATA since 1999. PWC was the first audit firm to work on BATA providing the close-out audits for both the RM1 and the transition of the seismic retrofit program from Caltrans to BATA. In 2002, PWC was first selected to audit the entire MTC organization during the complex financial conversion to comprehensive annual financial statements under GASB 34. PWC has made significant contributions to MTC's implementation of GASB accounting pronouncements, as well as the addition of new accounts and funds over the years.

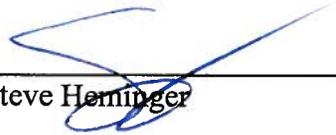
PWC's record since their retention in 1999 has been outstanding; however, there is a question of whether audit firms should be required to rotate in order to maintain independence. There is no nationally adopted standard requiring or suggesting that audit firms be rotated for anything other than performance related issues. In fact, given the cost, expense and increased potential for audit error, current professional practice generally avoids formal audit rotation policies. While there are no formal rules regarding the rotation of audit firms, there are strict Security & Exchange Commission (SEC) rules governing how long individual staff members may serve on private sector clients. There are no governmental standards regarding staff rotation. In fact, of the other firms interviewed, one firm will rotate staff after 10 years while the other firms do not rotate audit staff unless requested by the client. PWC's internal policy follows the SEC requirements which limit partner and senior manager participation to seven years, regardless of whether the client is public or private sector. In this regard, the committee felt PWC exceeded the accepted standards for staff rotation.

In addition to the general external audit firm, MTC maintains a group of qualified firms to conduct other consulting, audit and contract review work. The firms obtained for these functions currently are:

- Deloitte & Touche
- KPMG
- MGO
- Marcum

This group provides "on-call" assistance for work such as contract compliance, RM2 project expenditure compliance, federal regulatory compliance pre-award audits, grant closeouts and internal control testing for technology systems such as the Clipper operating center. Based on the interview, staff recommends adding Crowe Horwath to the list.

The selection panel believes that PWC represents the most experienced team and overall value and unanimously recommends their appointment for external auditor to MTC and its component limits. The annual audit engagement will be for four fiscal years. Staff recommends a 4-year agreement with two additional option years based on continuing acceptable performance. PWC has agreed to maintain their base audit cost of \$685,166 for the third straight year with an additional \$55,350 increase due to the addition of the Bay Area Headquarters Authority (BAHA) fund. As such, cost for FY 2011-12 audit shall not exceed \$740,516 with subsequent year increases limited to 2%. We will return to this Committee annually to secure funds for each annual audit, based on continuing satisfactory service. The RFQ also permits two consecutive one-year options for a total of six years.



Steve Heminger

SH/BM

REQUEST FOR COMMITTEE APPROVAL

Summary of Proposed Contract

Work Item No.: 1152

Consultant: PricewaterhouseCoopers, LLP, San Francisco, CA

Work Project Title: Audit and Professional Services

Purpose of Project: To obtain services of an Independent Auditor

Brief Scope of Work: To perform a comprehensive fiscal and compliance audit of MTC, BATA, BAIFA, and MTC SAFE for FY 2010-11. Auditor will render appropriate reports as required by the A-133 Single Audit and in accordance with the financial and compliance type described in the Government Auditing Standards, published by the Comptroller General of the United States.

Project Cost Not to Exceed: \$740,516

Funding Source: Included in FY 2011-12 Operating Budget

Fiscal Impact: Project costs are included in the FY2011-12 budget

Motion by Committee: That the Executive Director or his designated representative is authorized to negotiate and enter into a contract with PricewaterhouseCoopers, LLP for services as described above. The Chief Financial Officer is authorized to set aside funds in the amount of \$740,516

Administration Committee:

Dave Cortese, Chair

Approved:

Date: January 11, 2012