



# AUDITOR OF STATE OF OHIO

## Frequently Asked Questions and Answers For Clients Contracted to an Independent Public Accountant (IPA) for Financial Audit Services

As of August, 2020

### IPA CONTRACTING PROCESS

**Question (Q):** How does the Auditor of State (AOS) determine which clients will be audited by an IPA?

**Answer (A):** Each of the AOS' local and the state regional offices are responsible for financial audits of entities within their respective regions. Several factors including staff size, location, and expertise, as well as potential conflicts of interest and/or other potential situations which may prevent the AOS from conducting audits, are considered in determining the AOS' capacity to conduct audits during each audit cycle. Audits which cannot be conducted by the AOS are contracted to IPA firms.

**Q:** I have been notified the AOS intends to contract the audit of my entity to an IPA firm. What will I be asked to do/provide?

**A:** A representative of the AOS will work with your entity to prepare the Request for Proposal (RFP) document, which will be distributed to selected IPA firms to prepare their firm's bid proposal. The AOS representative will request specific information from your entity and provide your entity the opportunity for input into certain sections of the RFP related to scope, including preferred criteria (please refer to the "Tiering" section below for a description of preferred criteria), deliverables, timelines, etc. Your entity will also be provided the opportunity to assign preference points during the grading of the firm proposals.

**Q:** How do IPA firms become eligible to express interest to bid on my entity's audit contract?

**A:** Firms must register with the AOS and be approved in order to express interest to bid.

**Q:** Will a new firm, which has not previously contracted with the AOS, be able to compete to receive contracts?

**A:** Yes. A firm that has been approved for bidding may express interest in receiving an RFP in the same manner as firms which have previously contracted with the Auditor of State.

**Q:** In the past, IPA firms contacted my entity to express interest in bidding on my entity's audit contract. Should I expect IPAs to contact my entity?

**A:** Rather than contacting the client directly to express interest to bid, firms express interest via the IPA Open Bid List on the AOS website. Firms may still contact your entity; however, there should be no direct contact between the firms and your entity after the pre-proposal conference. If the IPA has questions after that time, the questions should be submitted to the AOS representative responsible for the contracting process for the specific entity. Any direct contact from an IPA firm to your office after the pre-proposal conference should be reported to the AOS representative.

**Q:** The AOS has provided a list of the IPA firms which have expressed interest to bid on the audit contract for my entity. May my entity add or remove firms from that list? How many IPA firms are permitted to bid on my entity's audit contract?

**A:** A maximum number of firms to receive a RFP will be established by the AOS for Tier 1 and Tier 2 clients. There is no limit for Tier 3 clients. (Please refer to the "Tiering" section below for questions regarding tiering.) For Tier 1 clients, your entity may add up to two additional IPA firms (provided the firms are registered with the AOS). For Tier 2 clients, your entity may add one additional IPA firm (provided the firm is registered with the AOS). Removal of IPAs from the list of firms to receive the RFP will be determined by the AOS, if necessary.

**Q:** How many years/audit periods will be included in the contract to the selected IPA firm?

**A:** The number of years/audit periods covered by the audit contract for your entity will be determined by the AOS and may vary depending on the circumstances.

**Q:** How many years can the same IPA firm conduct the audit of my entity?

**A:** The Auditor of State's current practice is to allow a firm to consistently conduct the audit of an entity generally for no more than a period of 10 years.

**Q:** How can I determine when the Request for Proposal (RFP) for my entity's audit has been distributed to the firms selected to receive the RFP?

**A:** Once the "request deadline" passes for expressing interest to bid, the client listing moves to the IPA Closed Bid List, which includes a section to indicate the date the RFP is distributed to the IPA firms. The client listing remains on the IPA Closed Bid List for 30 days after the RFP mail date. The list can be accessed on the AOS website at: [IPA Closed Bid List](#)

**Q:** Will pre-proposal conferences continue to be held?

**A:** The AOS is committed to ensuring information regarding the specific contract for bid is communicated and any questions are resolved. Therefore, the AOS will conduct a pre-proposal conference via conference call for all contracts. All firms receiving an RFP and the client(s) will be notified as to the date/time of the pre-proposal conference; however, attendance is not mandatory.

**Q:** How is the IPA firm selected to perform my entity's audit determined?

**A:** Each bidding firm will be required to submit separate technical and cost proposals based on the criteria in your entity's RFP. The AOS will score the proposals based on elements included on score sheets for each client tier level, including any preference points assigned by your entity. A total of 100 points are possible for Tier 1 and 2 client proposals, while Tier 3 client proposals may receive up to 50 total points. The IPA firm receiving the highest number of points, in total, will be awarded the contract.

**Q:** How many preference points may my entity assign to each proposal's score? (UPDATED)

**A:** Client preference points are optional for your entity. If your entity wishes to assign points and is classified as Tier 1 or Tier 2, you may designate up to 6 points for each IPA firm proposal; however, only **one** firm may receive 6 points. If your entity is classified as Tier 3, you may designate up to 3 points for each IPA firm proposal; however, only **one** firm may receive 3 points.

**Q:** Will my entity be required to use the AOS score sheet to grade the proposals received?

**A:** No. Each entity can use any method they determine appropriate to review and award their client preference points for each IPA firm proposal.

**Q:** After the winning IPA firm is determined, how is the contract executed? (UPDATED)

**A:** The AOS will notify the winning IPA firm and provide the Memorandum of Agreement (MOA) and Certificate of Compliance (COC) for signature via email. The non-winning firms will also be notified of the decision via email. The entity's contact person will be copied on all email correspondence. The winning IPA firm will sign the MOA and forward it to your entity for signature. Your entity should then sign both the MOA and COC and return the signed documents to the AOS representative responsible for your audit contract. An AOS designee will approve the MOA and the final signed MOA will be sent to the winning IPA firm and your entity via email. The audit may commence after the final MOA is received.

**Q:** Will my entity's representative be able to electronically sign required documents?

**A:** Yes. Electronic signatures on the MOA, COC, and other contract-related documents are preferred. However, if your entity does not have the ability to sign electronically, the entity

representative should print, sign, and fax/email the completed document to the designated AOS representative.

## **TIERING**

**Q:** My entity has been classified in a tier. How are clients tiered?

**A:** Clients are designated as either Tier 1, 2 or 3. The Tier 1 clients are large, complex and/or high profile clients which require specialized IPA experience as determined by the AOS. The list of AOS designated Tier 1 clients is available on the website at: [Tier 1 Clients](#). Tier 3 clients are small and/or low risk clients where customization and specialized IPA experience are not required as determined by the AOS. Entities which prepare CAFRs are excluded from Tier 3. All clients which are not classified as Tier 1 or Tier 3 are classified as Tier 2. The tier designation for each client will appear on the bid list as engagements are posted and on the RFP cover page.

**Q:** How are any specialized skills necessary for the IPA firm to conduct the audit of my entity determined and evaluated?

**A:** The AOS may designate “required” or “preferred” criteria for contracts on the IPA Open Bid List. Firms will be asked to respond describing how the firm meets the criteria as part of expressing interest to bid. For contracts of Tier 1 clients, the AOS will always include “preferred criteria.” For Tier 2 clients, the AOS may include “required” and/or “preferred” criteria in association with the IPA experience, training, etc. Clients may provide input regarding preferred criteria desired. The firm’s responses to the criteria may be used in determining the firms to receive the Requests for Proposals for the specific engagement. These criteria will be further evaluated by the AOS as part of each proposal’s scoring.

**Q:** Will IPA firms be required to provide oral presentations related to their firm’s proposal?

**A:** Generally, oral presentations only relate to Tier 1 clients; however, the AOS will determine if oral presentations will be requested from bidding firms. If the AOS determines oral presentations are not required, the client has the option to request that the AOS still conduct oral presentations for their entity’s contract.

**Q:** I have been informed the AOS will bundle the contract for audit services for my entity. What does that mean?

**A:** In order to reduce the time/effort necessary to execute the contract, the AOS will “bundle” certain entities together for contracting purposes. The AOS has determined all Tier 3 clients should be included in a bundle, unless special circumstances are identified. The AOS may also bundle related Tier 1 and Tier 2 clients as they determine appropriate. The AOS will determine which entities will be combined with other similar entities in small groups (generally 10 or less)

and be included in one RFP contract. The reporting cycle for all entities must be the same and consideration will be given to the type, geographic location, and other characteristics of the entities. Although the entities will be contracted together, each client will receive separate letters of intent and Memorandums of Agreement, costs will be specified by client in the IPA cost proposals, and entity will be invoiced separately. Each entity will also have the opportunity to separately award client preference points. These points will be averaged to determine the overall client preference points for the final score sheet. The firm awarded the contract will audit all entities in the bundle.

**Q:** What is considered a “related” Tier 1 or Tier 2 client?

**A:** Examples of related clients could consist of a Primary Government and its related component units or entities with the same fiscal agent. The bundling of related clients will be determined by the AOS.

**Q:** My entity has been classified as a Tier 1 client by the AOS. Can we request to be classified as Tier 2 instead?

**A:** The determination of Tier 1 client classification is determined by the AOS and may only be modified by the AOS.

**Q:** My entity has been classified as a Tier 3 client by the AOS. Can we request to be classified as Tier 2 instead?

**A:** Requests for Tier 3 changes may be submitted in writing for evaluation by the Auditor of State; however, requests do not result in an automatic change in the tiering assignment. Each request will be evaluated on the merits of the request and the reason(s) for the potential change.

## **CONTRACT MODIFICATIONS AND CONTRACT EXTENSIONS**

**Q:** If my entity is contracted to an IPA firm and has been determined to be eligible for reduced audit procedures under Auditor of State Bulletin 2012-007, can the procedures be performed by the IPA firm?

**A:** In accordance with the Bulletin, IPAs can perform agreed-upon procedures (AUPs), but only the AOS can perform “basic audits,” as defined in the Bulletin. If your entity is under contract for an audit from an IPA firm and is eligible for an AUP rather than a full audit, the contract may be modified for the IPA to perform those services. Questions regarding this situation should be directed to the AOS regional office for your entity.

**Q:** What situations require a modification to the audit services contract between my entity, the IPA firm, and the AOS?

**A:** Situations requiring a modification, such as a change in accounting and auditing standards, a change in laws or regulations, a change in scope, a change in IPA report due date, a change in minority firm, etc., are only appropriate for audit services that were not known at the time of the original proposal and could not have reasonably been anticipated by the parties during the bid process. The hourly rate for modified services may not exceed the hourly rate originally proposed by the IPA firm. In these circumstances, a Modification Agreement Form must be approved by all parties (refer to explanation below).

**Q:** What procedures are required to modify the contract?

**A:** It is important to emphasize the IPA firm should not modify the procedures to be performed prior to agreement by the client and the AOS. Generally, the IPA firm and the client will discuss the need for a contract modification and agree to the related fee (note: the fee must align with the hourly rate identified in the original contract). In some circumstances, the firm should discuss the modification with the AOS representative. The IPA firm then completes the Modification Agreement form, via the IPA Portal, and submits for client review and approval electronically. The client will receive an email notification from [IPACorrespondence@ohioauditor.gov](mailto:IPACorrespondence@ohioauditor.gov) with instructions to review and approve the Modification Agreement form via their AOS eServices account. Upon approval by the client, the Modification Agreement form is automatically submitted to AOS for review and approval. The form must be signed by a representative of the entity with contracting authority. The contract modification is not considered enforceable until approved by all parties.

**Q:** Is a change in the deadline for submitting the final audit report considered a contract modification?

**A:** Yes. IPA report due dates are included in the contract between the AOS, the IPA firm and the client. The Modification Agreement Form is to be utilized for any contract modification; and, therefore, will be required for any changes to the IPA report due date. Report due date extensions will only be granted for issues which were not known at the time of the original contract and/or extenuating circumstances outside the control of the firm and with the knowledge of the client.

**Q:** Are contract extensions permitted?

**A:** Existing contracts, with the exception of Metropolitan Housing Authorities (MHAs) due to HUD contract limitations, are permitted to be extended without utilizing the bidding process as

long as certain conditions are met and all parties are in agreement. The extension period cannot exceed the number of years of the original contract and cannot result in a firm performing an engagement for the same client for more than ten (10) consecutive years.

**Q:** What procedures are required to extend a current contract?

**A:** The AOS will initiate contract extensions. The following procedures will take place:

- The AOS will determine if the subsequent audit of the client will be conducted by the AOS.
- For any client which the AOS determines should continue to be audited by an independent public accounting (IPA) firm, the AOS will determine if the incumbent IPA firm is in good standing and meets minimum quality score requirements.
- The AOS will contact the client representative to determine if the client agrees to proceed with a contract extension.
- The AOS will contact the incumbent IPA firm representative to determine if the firm also agrees to proceed with a contract extension.
- The AOS will prepare the extension documentation and provide it to the client and IPA to complete, approve, and return to the AOS for final approval.

**Q:** Is Section I.D.1. of the Request for Proposal, which indicates an option to extend for ONE additional period, exercisable at the discretion of the Auditor of State, still applicable?

**A:** The Contract Extension policy change, effective June 2015, modifies Section I.D.1. of the Request for Proposal for all contracts currently in place.

### **REPORT DUE DATES, DUE DATE CHANGES, AND BILLINGS**

**Q:** When will my entity receive our final audit report?

**A:** The deliverable dates may be different for each client and will be included in the RFP. Generally, the IPA is required to submit the final report to the AOS' Center for Audit Excellence (CFAE) within 6 months after the end of the audit period. After the CFAE's review and approval of the report, it will be released by the AOS and made available on the AOS website. Upon release of the report, your entity's designated representative will be notified and sent a copy of the report; however, the entity may obtain a copy of the report from the IPA firm at any time after submission to the AOS, provided the report is accompanied by a Transmittal Letter including the following language:

*"This report is subject to review and acceptance by the Auditor of State's office, and the requirements of Ohio Revised Code § 117.25 are not met until the Auditor of State certifies this report. This process will be completed by the Auditor of State in a reasonable timeframe and reports are subject to change if the Auditor of State determines that modification of a report is necessary to comply with required accounting or auditing*

*standards or Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”*

**Q:** When should my entity pay the IPA firm’s audit fee?

**A:** Progress payments will be made on the basis of **actual hours of work completed during the billing period** in accordance with the firm’s cost proposal. IPA firms are required to submit requests for invoice approvals electronically using the AOS IPA Portal. Upon invoice submission via the IPA Portal, the IPA firm and the client’s contact person on file with the AOS will receive an email notification from [IPACorrespondence@ohioauditor.gov](mailto:IPACorrespondence@ohioauditor.gov) with the Subject: Notification of Approved IPA Invoice. The notification email provides instructions to the client to access their AOS eServices account to download a pdf copy of the invoice approval. For clients without email access, the IPA firm must provide the invoice and the AOS approval email to the client to request payment. **The entity should not pay any invoices that are not approved by the AOS.**

**Q:** Is there a time limit for an IPA to submit an invoice for payment?

**A:** Yes. Per the contract requirements, the final invoice for each project must be submitted within 90 days after the report is released by the AOS’s Clerk of the Bureau (COB).

**Q:** In addition to the invoices from the IPA firm, my entity has received an invoice(s) from the AOS for services. Why am I receiving invoices from the AOS?

**A:** As indicated in the Letter of Intent, “in addition to the IPA audit cost, you can expect to be billed by AOS for the costs incurred in preparing the Request for Proposals, reviewing the proposals, monitoring the work of the IPA, and reviewing the audit report, per the terms of the RFP.” In addition, per the RFP, the Auditor of State’s Center for Audit Excellence will also select some engagements to undergo working paper reviews, which are generally conducted subsequently to the report review and release. Costs associated with the Auditor of State contract preparation, administration, and quality review processes will be borne by the entity.

## **COMMUNICATIONS AND QUESTIONS**

**Q:** I have other questions regarding the AOS IPA Contracting Process. Who do I ask?

**A:** You may direct any additional questions to the AOS regional office handling your entity’s audit or to [ipacorrespondence@ohioauditor.gov](mailto:ipacorrespondence@ohioauditor.gov).

**Q:** What are the IPA contracting email addresses for each AOS regional office?

**A:** The IPA Contracting email addresses are:

Central Region	<a href="mailto:Central_IPA@ohioauditor.gov"><u>Central_IPA@ohioauditor.gov</u></a>
East Region	<a href="mailto:East_IPA@ohioauditor.gov"><u>East_IPA@ohioauditor.gov</u></a>
Northeast Region	<a href="mailto:Northeast_IPA@ohioauditor.gov"><u>Northeast_IPA@ohioauditor.gov</u></a>
Northwest Region	<a href="mailto:Northwest_IPA@ohioauditor.gov"><u>Northwest_IPA@ohioauditor.gov</u></a>
Southeast Region	<a href="mailto:Southeast_IPA@ohioauditor.gov"><u>Southeast_IPA@ohioauditor.gov</u></a>
Southwest Region	<a href="mailto:Southwest_IPA@ohioauditor.gov"><u>Southwest_IPA@ohioauditor.gov</u></a>
State Region	<a href="mailto:State_IPA@ohioauditor.gov"><u>State_IPA@ohioauditor.gov</u></a>
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