

To the Members of the Legislative Commission's Audit Subcommittee:

As you consider the awarding of the audit contract for the next four years, there are a few items we would like to bring to your attention. While this information is included in our proposal, certain questions come to mind when reviewing the proposals in the context of the ratings provided by the Legislative Auditor. We trust you will find this helpful.

1. Why did Eide Bailly's fees increase for the 2018-2021 audits?

- The fee had remained constant at approximately \$345,000 for eight years. During that period of time the cost of living continued to increase.
- Uniform Guidance, the most significant change to auditing federal awards in many decades, was first effective for the year ended June 30, 2015. This new mandate increased the work required to perform a single audit by approximately 30%. Auditing requirements for subrecipient monitoring, procurement, current year findings, follow-up on prior year findings and changes to the Data Collection Form all contributed to this significant increase.
- New standards of the Governmental Accounting Standards Board (GASB), particularly those related to tax abatements and the new pension standards, increased the amount of work in the financial audit significantly, as well. These were both new within the past two years. In fact, the pension standard was implemented and has already been amended. The landscape of governmental auditing is significantly more difficult than it was four years ago.
- GASB is showing no signs of slowing down. There are numerous new standards that will be implemented in the next four years. The one most likely to have a significant impact on the State of Nevada is GASB Statement No. 75. This new standard must be implemented during the year ending June 30, 2018 and will require a prior period adjustment to restate beginning net position. All of the Other Post-Employment Benefits (other than pensions) will now be reported as a liability on the State's financial statements, in the same manner as pensions. This new pronouncement alone will significantly impact the scope and complexity of the financial audit this year. But it doesn't stop there. New standards on leases, conduit debt (which changes the definition of debt) and a complete new financial reporting model promise to make the next four years very challenging, at the very least.
- During the last Legislative Session, funds were approved to begin the process of implementing a new financial reporting software program. The ramifications of this are significant and we considered this when developing our fee proposal for the next four years. Our policy is that we do not request change orders. We stand by our bid.

2. What does Eide Bailly bring to the table that sets us apart from the other bidders?

- We have been auditing the State of Nevada for the past twenty four years, the first twenty one as Kafoury, Armstrong & Co. and the past three as Eide Bailly LLP. Every person included in our proposal lives in, works in, pays taxes in and otherwise supports the Northern Nevada economy. We can spend less and support auditors who live and pay taxes in other states or we can spend a little more and support our own citizens, businesses and our Nevada economy.

- As a firm, we have been auditing Nevada governments for more than 50 years. We understand the Nevada Revised Statutes, the Nevada Administrative Code and we understand the link between local governments and the State. It isn't something we developed overnight; we devoted our resources over the years to become a complete resource to governments in Nevada. And while auditing Medicaid and Unemployment Compensation programs in other states sounds like an across the board match, it is not. If you think back a few years, when Nevada was approaching 15% unemployment, other States were experiencing very low unemployment. It has to do with local economy and the economic cycles. That's where Eide Bailly and those of us who live and work in the local community shine. We know what to expect and we know what is on the horizon. Similarly, Medicaid is handled differently in every State, depending on what is included in each State's State Medicaid Plan. In addition, we can be onsite in Carson City within 30 minutes. When tough decisions need to be made, doing so in person is preferable to doing so on a conference call.
- Last year, when the amendment to the pension standard became an issue, we caught the inconsistency, in part, because we audited both the State and many Nevada local governments. We understand that what was reported for the State (and its component unit, PERS) had to be reported consistently by the local governments.
- You'll notice that our estimate of hours are the lowest of all the bidders and our rate per hour is the highest. There is a simple reason for that. It is because we have learned over the years that due to the severe time constraints of this job and the complexity of both the financial and federal grant audit, it is not one that lends itself to the typical pyramid form of management (where a large percentage of the work is done by new staff with low billing rates. You will see that all of our staff are returning to the State audit, having worked on it in prior years and the bulk of the work is done at the senior staff level and above. This audit is not a training ground for our new auditors. Our hours are lower and our rate per hour is higher because we know the State and we know what it takes to audit the State. It takes the use of highly experienced staff.

3. Why is this bid different?

- For comparison purposes, four years ago, CLA submitted a bid that totaled just over \$2,200,000. Their proposal indicated they believed this was a fair fee. That same language appears in CLA's current proposal, but this time, they bid \$1.57 million, a decrease of \$630,000. I've just explained how new standards have increased the complexity of the audit over the past four years. It is hard to imagine why it would command a lower fee now.

4. But what about the rankings developed by the Legislative Auditor?

- We are ranked first when you consider competency, quality of the Firm and quality of the staff. The hidden cost of the State's employees training new auditors is significant. With Eide Bailly, there is no downtime for your staff to train new auditors. And we are ranked No. 1 by almost six points. When you add in fee, we are ranked No. 2, but only by 3 points, because we rank so much higher in technical ability.
- Our fee was developed given our best knowledge of what lies ahead. However, should the new financial reporting package end up not being implemented during the four years of this contract, our fee would be less than quoted, since it was a factor in developing our fee for year three of the contract. In addition, we would be willing to explore opportunities for the State to implement changes in timing and other efficiencies that would allow us to lower our quoted fee.

Thank you for your time. As you can tell, we are passionate about the State of Nevada audit and want only the best for the State. We have spent many years developing a strong partnership with the State of Nevada and we firmly believe that Eide Bailly is the best for the State.

Sincerely,

A handwritten signature in cursive script that reads "Eide Bailly LLP". The letters are fluid and connected, with a prominent "E" at the start and "LLP" at the end.

Eide Bailly LLP