

Office of the State Auditor

Division of State Audit

Request for Proposal #117-09-05

**To Perform Financial Statement Audits Of
The North Dakota Retirement and
Investment Office**

For Fiscal Years 2009, 2010 and 2011

Issued November 13, 2008

Robert R. Peterson
State Auditor



**REQUEST FOR PROPOSAL
INDEPENDENT FINANCIAL AUDIT SERVICES
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Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies

SECTION I - GENERAL PROPOSAL INFORMATION

A. Purpose of the Request for Proposal

The purpose of this Request for Proposal (“RFP”), including all of its exhibits, is to solicit proposals from qualified independent CPA Firms (“Firm” or “contractor”) who will provide the North Dakota Office of the State Auditor (“State” or “Auditor”) with annual financial audits of the North Dakota Retirement and Investment Office (“Client”), in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

B. Issuing Office

This RFP is issued by the Auditor. All proposals and questions concerning it should be addressed to (hereafter referred to as the “Audit Coordinator”):

Ronald I. Tolstad Jr., CPA, M. Acc.
Technical Specialist / Audit Manager
Office of the State Auditor
600 East Boulevard Avenue - Dept. 117
Bismarck, ND 58505-0060

Phone: (701) 328-2243
Fax: (701) 328-1406
E-mail: rtolstad@nd.gov

C. RFP Schedule of Events

This schedule of events represents the State’s best estimate of the schedule that will be followed for this RFP. If a component of this schedule, such as the deadline for receipt of proposals, is delayed, the rest of the schedule will be shifted by the same number of days.

The approximate RFP schedule is as follows:

- RFP Issued: **November 13, 2008**
- Deadline for receipt of questions and objections related to the RFP: **December 15, 2008**
- Responses to questions / RFP amendments (if required) **December 31, 2008**
- Deadline for the receipt of proposals: **5:00 p.m. February 20, 2009**
- RFP Opening: **February 23, 2009**
- Proposal Evaluation Committee evaluation completed by approximately : **March 9, 2009**
- State issues Notice of Intent to Award a Contract approximately: **March 16, 2009**
- State issues contract approximately: **March 23, 2009**
- Contract start: **June 2009**

D. Notice Provided

Notice of this solicitation has been provided in accordance with N.D.C.C. § 54-44.4-09.

E. Submission of Proposals

Four copies of the Firm's sealed proposal, signed by an authorized official of the Firm, must be received by the Auditor no later than the deadline specified in the RFP Schedule of Events. Proposals received after this date will not be accepted. To the extent practical, an electronic copy of the proposal should be submitted with the proposal. Proposals will not be publicly read at the opening.

Proposals may not be delivered orally, by facsimile transmission, by other telecommunication or electronic means. Offerors assume the risk of the method of dispatch chosen. The State assumes no responsibility for delays caused by any delivery service. Postmarking by the due date will not substitute for actual proposal receipt by the State. An offeror's failure to submit its proposal prior to the deadline will cause the proposal to be rejected. Late proposals or amendments will not be opened or accepted for evaluation.

F. Assistance to Offerors with Disability

Offerors with a disability that need an accommodation should contact the Audit Coordinator prior to the deadline for receipt of proposals that reasonable accommodation can be made.

G. Deadline for Receipt of Questions and Objections

Offerors must carefully review this solicitation, the contract, risk management provisions, and all attachments for defects, questionable, or objectionable material. All questions must be in writing and directed to the purchasing agency, addressed to the Audit Coordinator, and cite the applicable RFP. The Audit Coordinator must receive these written requests by the deadline specified in the RFP Schedule of Events to allow issuance of any necessary amendments.

This will also help prevent the opening of a defective solicitation and exposure of offeror's proposals upon which an award could not be made. Protests based on the content of the solicitation will be disallowed if these faults have not been brought to the attention of the Audit Coordinator, in writing, before the time indicated in the Schedule of Events.

If the question may be answered by directing the questioner to a specific section of the RFP, then the procurement officer may answer the question over the telephone. Other questions may be more complex and may require a written amendment to the RFP. The Audit Coordinator will make this determination. Oral communications is considered unofficial and non-binding on the State. The offeror must confirm telephone conversations in writing.

H. Vendors Must Be Approved Before Contract Award

Proposals will be accepted from vendors that are not currently approved vendors on the State's bidders list; however, the successful offeror will be required to become approved prior to award.

To Become an approved vendor, offerors must; 1) be registered with the North Dakota Secretary of State, and 2) submit a completed Bidders List Application to the North Dakota Vendor Registry Office.

I. Addendum to Request for Proposal

If an amendment to this RFP is issued, it will be provided to all offerors that were mailed a copy of the RFP and to those that have requested a copy of the RFP from the Audit Coordinator noted above.

J. Letter of Interest

Vendors interested in receiving any notices related to this RFP are invited to contact the Audit Coordinator with the name of their firm, contact person, mailing address, telephone number, fax number, and e-mail address. The sole purpose of the letter of interest is to provide the Auditor with a contact person to receive any notices related to the RFP. Submission of a letter of interest is not a requirement for submitting a proposal.

K. Proposal Evaluation

The Auditor seeks a proposal that is most advantageous to the State of North Dakota, audit plan, qualifications, price, and other factors considered. The Auditor reserves the right to hold all bids for a period of sixty (60) days after opening, waive any irregularities, reject any or all bids, and negotiate for the best proposal or parts of proposals.

Responses to the RFP will be evaluated based upon the Firm's ability to meet the intent and objectives outlined in this RFP, the fees involved in providing services, the Firm's experience in conducting similar audits, and a demonstrated, acceptable past performance record. Specifically, evaluation will assess the following criteria:

- a) Completeness and responsiveness of the bid proposal;
- b) The audit plan;
- c) Realistic time estimates of each major segment of the audit plan and the estimated number of hours for each staff level assigned;
- d) Technical experience of the firm and prior experience in auditing similar entities;
- e) Qualifications of the audit team, including consultants, to be assigned to the audit;
- f) General direction and supervision to be exercised over the audit team by the firm's management personnel and;
- g) If applicable, prior Auditor experience with the Firm.

L. Auditor Coordinator

The Auditor will designate a principal state auditor coordinator ("Audit Coordinator") to work with the firm throughout the audit. This individual will assist the firm to understand Auditor's requirements, state budgeting and reporting guidelines and generally help the firm conduct an effective and efficient audit.

The Firm will be required to notify the Coordinator in advance, of the estimated dates for starting and completing field work, as well as when the working papers will be ready for review.

M. Proposal Costs

The Auditor or the Client will not pay any cost associated with the preparation, submittal, presentation, or evaluation of any proposal.

N. Conflict of Interest

Offerors must disclose any instances where the firm or any individuals working on the contract has a possible independence problem or conflict of interest and, if so, the nature of that conflict (e.g. nonaudit services performed for the Client). The Auditor reserves the right to cancel the award if any interest disclosed from any source could either give the appearance of a conflict or cause speculation as to the objectivity of the offeror's proposal or auditor independence. The Auditor's determination regarding any questions of independence or conflict of interest is final.

O. Offeror's Certification

By signature on the proposal, an offeror certifies that it complies with:

- a) the laws of the State of North Dakota;
- b) North Dakota Administrative Code;
- c) all applicable local, state, and federal laws, code, and regulations;
- d) the applicable portion of the Federal Civil Rights Act of 1964;
- e) the Equal Employment Opportunity Act and the regulations issued by the federal government;
- f) the Americans with Disabilities Act of 1990 and the regulations issued by the federal government;
- g) all terms, conditions, and requirements set forth in this RFP;
- h) a condition that the proposal submitted was independently arrived at, without collusion;
- i) a condition that the offer will remain open and valid for the period indicated in this solicitation; and
- j) a condition that the firm and any individuals working on the contract do not have a possible conflict of interest.

If any offeror fails to comply with the provisions stated in this paragraph, the Auditor reserves the right to reject the proposal, terminate the contract, or consider the contractor in default.

P. Offer Held firm

Proposals must remain open and valid for at least 60 days from the deadline specified for submission of proposals. In the event award is not made within 60 days, the State will send a written request to all offerors deemed susceptible for award asking offerors to hold their price firm for a longer specified period of time.

Q. Amendments to Proposals and Withdrawals of Proposals

Offerors may amend or withdraw proposals prior to the deadline set for receipt of proposals. No amendments will be accepted after the deadline unless they are in response to the Auditor's request. After the deadline, offerors may make a written request to withdraw proposals and provide evidence that a substantial mistake has been made. The Audit Coordinator may permit

withdrawal of the proposal upon verifying that a substantial mistake has been made, and the Auditor may retain the offeror's bid bond or other bid type of bid security, if one was required.

R. Alternate Proposals

Offerors may submit only one proposal for evaluation.

S. Joint Venture and Subcontracts

Subcontractors may be used to perform work under this contract. If an offeror intends to use subcontractors, the offeror must identify in the proposal the names of the subcontractors and the portions of the work the subcontractors will perform.

If a proposal with subcontractors is selected, the offeror must provide the following information concerning each prospective subcontractor within five working days from the date of the State's request:

- a) complete name of the subcontractor;
- b) complete address of the subcontractor;
- c) type of work the subcontractor will be performing;
- d) percentage of work the subcontractor will be providing;
- e) evidence, as set out in the relevant section of this RFP, that the subcontractor is registered with the Secretary of State and, if applicable, holds a valid North Dakota business license; and
- f) a written statement, signed by each proposed subcontractor, which clearly verifies that the subcontractor is committed to render the services required by the contract.

An offeror's failure to provide this information, within the time set, may cause the Auditor to consider its proposal non-responsive and reject it. The substitution of one subcontractor for another may be made only at the discretion and prior written approval of the Audit Coordinator.

Joint ventures are acceptable. If submitting a proposal as a joint venture, the offeror must submit a copy of the joint venture agreement that identifies the principles involved and its rights and responsibilities regarding performance and payment.

T. Disclosure of Proposal Contents and Compliance with North Dakota Open Records Laws

All proposals and other material submitted become the property of the State and may be returned only at the State's option. All proposals and related information, including detailed cost information, are exempt records and will be held in confidence until an award is made, in accordance with N.D.C.C. § 54-44.4-10(2).

Offerors may make a written request that trade secrets and other proprietary data contained in proposals be held confidential. Material considered confidential by the offeror must be clearly identified, and the offeror must include a brief statement that sets out the reasons for confidentiality. See the North Dakota Office of the Attorney General website for additional information. <http://www.ag.state.nd.us/OpenRecords/ORM.htm>

U. Right of Rejection

The Auditor reserves the right to reject any proposals, in whole or in part. Proposals received from debarred or suspended vendors will be rejected. The Audit Coordinator may reject any proposal that is not responsive to all of the material and substantial terms, conditions, and performance requirements of the RFP.

Offerors may not qualify the proposal nor restrict the rights of the Auditor. If an offeror does so, the Audit Coordinator may determine the proposal to be a non-responsive counter-offer and the proposal may be rejected.

The Audit Coordinator may waive minor informalities that:

- a) do not affect responsiveness;
- b) are merely a matter of form or format;
- c) do not change the relative standing or otherwise prejudice other offers;
- d) do not change the meaning or scope of the RFP;
- e) are insignificant, negligible, or immaterial in nature;
- f) do not reflect a material change in the work; or
- g) do not constitute a substantial reservation against a requirement or provision,

The Auditor reserves the right to reject any proposal determined to be not responsive, and to reject the proposal of an offeror determined to be not responsible. The Auditor also reserves the right to refrain from making an award if it determines it to be in its best interest.

V. Clarification of Offers

In order to determine if a proposal is reasonably susceptible for award, communications by the Audit Coordinator or the proposal evaluation committee are permitted with an offeror to clarify uncertainties or eliminate confusion concerning the contents of a proposal and determine responsiveness to the RFP requirements. Clarifications may not result in a material or substantive change to the proposal. The initial evaluation may be adjusted because of a clarification under this section.

After receipt of proposals, if there is a need for any substantial clarification or material change in the RFP, an amendment will be issued. The amendment will incorporate the clarification or change, and a new date and time established for new or amended proposals. Evaluations may be adjusted as a result of receiving new or amended proposals.

W. Discussions and Best and Final Offers

The Auditor may conduct discussions or request best and final offers with offerors that have submitted proposals determined to be reasonably susceptible for award. The Auditor is not obligated to do so, therefore, vendors should submit their best terms (cost and technical). The purpose of these discussions is to ensure full understanding of the requirements of the RFP and the offeror's proposal. Discussions will be limited to specific sections of the RFP or proposal identified by the Audit Coordinator. Discussions, if held, will be after initial evaluation of proposals by the proposal evaluation committee. If modifications to the proposal are made as a result of these discussions, the modifications must be put in writing.

X. Preference Laws

The preference given to a resident North Dakota offeror will be equal to the preference given or required by the state of the nonresident bidder. A “resident” North Dakota bidder, offeror, seller, or contractor is one that has maintained a bona fide place of business within this State for at least one year prior to the date on which a contract was awarded. For a listing of state preference laws, visit the following website:

http://www.oregon.gov/DAS/SSD/SPO/detail_nd.shtml or contact the North Dakota State Procurement Office at 701-328-2683.

Y. Contract Negotiation

After final evaluation, the Audit Coordinator may negotiate with the offeror of the highest-ranked proposal. Negotiations, if held, will be within the scope of the request for proposals and limited to those items that would not have an effect on the ranking of proposals. If the highest-ranked offeror fails to provide necessary information for negotiations in a timely manner, or fails to negotiate in good faith, the Auditor may terminate negotiations and negotiate with the offeror of the next highest-ranked proposal.

If contract negotiations are commenced, they will be held at:

Office of the State Auditor
3rd Floor State Capitol
600 East Boulevard Avenue
Bismarck, North Dakota

If contract negotiations are held, the offeror will be responsible for all cost including its travel and per diem expenses.

Z. Failure to Negotiate

If the selected offeror:

- fails to provide the information required to begin negotiations in a timely manner;
- fails to negotiate in good faith;
- indicates it cannot perform the contract within the budgeted funds available for the project; or
- if the offeror and the State, after a good faith effort, cannot come to terms.

The Auditor may terminate negotiations with the offeror initially selected and commence negotiations with the next highest ranked offeror.

AA. Notice of Intent to Award - Offeror Notification of Selection

After the completion of contract negotiation the Audit Coordinator will issue a written Notice of Intent to Award and send copies to all offerors. The Notice of Intent Award will set out the names and addresses of all offerors and identify the proposal selected for award. The scores and placement of other offerors will not be part of the Notice of Intent to Award.

The successful offeror named in the Notice of Intent to Award is advised not to begin work, purchase materials, or enter into subcontracts relating to the project until both the successful offeror and the State sign the contract.

BB. Protest and Appeal

North Dakota law provides that an interested party may protest a solicitation. If an interested party wishes to protest the content of this RFP, the protest must be received, in writing, by the Audit Coordinator at least seven calendar days before the deadline for receipt of proposals.

An interested party may protest the award or proposed award of a contract. If an offeror wishes to protest the award of a contract or proposed award of a contract, the protest must be received, in writing, by the Audit Coordinator within seven calendar days after the date the Notice of Intent to Award was issued.

SECTION II - PROPOSAL REQUIREMENTS

A. Contractual Arrangements

Firm must offer and agree to furnish all items and services upon which any contract is made, at the prices offered, delivered according to the times specified in this RFP, and as directed by the Auditor.

It is anticipated a contract similar to the attached "Example Contract for Audit Services," will be awarded by the Auditor by the date specified in the RFP Schedule of Events. The contract award will be made to the responsive Firm whose proposal is most advantageous to the State of North Dakota, audit plan, qualifications, price, and other factors considered. The Auditor will notify all Firms after the award. The contract will specify the maximum fee to be paid for performance of the proposed audits as set forth in the successful proposal.

Progress billings may be submitted to the Client for up to 80% of the total fee. Billing for the final 20% of the contract fee will be accepted and paid after the audit has been approved in writing by the Auditor. Billings shall be for actual hours worked, at the discounted billing rate(s) quoted in the firm's proposal, not to exceed the contract price.

The Client reserves the right to withhold 10% of the total audit fee if the deadlines set forth under "Time Schedule" in this section are not met.

B. Standard Contract Provisions

The successful offeror will be required to sign and submit a contract based on the attached example included with this RFP. The contractor must comply with the contract provisions set out in this attachment. Any objections to the contract provisions must be set out in the offeror's proposal. No alteration of these provisions will be permitted without prior written approval from the Auditor.

Offerors are instructed to contact the Audit Coordinator in writing by the deadline set for questions with any concerns regarding the contract provisions.

C. Proposal as a Part of the Contract

This RFP and the successful proposal will be incorporated into the contract.

D. Additional Terms and Conditions

The Auditor reserves the right to add, delete, or modify terms and conditions during contract negotiations. These terms and conditions will be within the scope of the RFP and will not affect the proposal evaluations.

E. Supplemental Terms and Conditions

Proposals including supplemental terms and conditions will be accepted, but supplemental conditions that conflict with those contained in this RFP or that diminish the Auditor right's under any contract resulting from the RFP will be considered null and void. The Auditor is not

responsible for identifying conflicting supplemental terms and conditions before issuing a contract award. After award of contract:

- (a) if conflict arises between a supplemental term or condition included in the proposal and a term or condition of the RFP, the term or condition of the RFP will prevail; and
- (b) if the Auditor's rights would be diminished as a result of application of a supplemental term or condition included in the proposal, the supplemental term or condition will be considered null and void.

F. Contract Approval

This RFP does not, by itself, obligate the Auditor or the Client. The Auditor's and the Client's obligations will commence when the contract is signed. Upon written notice to the contractor, the Auditor may set a different starting date for the contract. The Auditor will not be responsible for any work done by the contractor, even work done in good faith, if it occurs prior to the contract start date set by the Auditor.

G. Contract Changes - Unanticipated Amendments

During the course of this contract, the contractor may be required to perform additional work. That work will be within the general scope of the initial contract. When additional work is required, the Audit Coordinator designated by the Auditor will provide the contractor a written description of the additional work and request the contractor to submit a firm time schedule for accomplishing the additional work and a firm price for the additional work. Cost and pricing data must be provided to justify the cost of amendments.

The contractor will not commence additional work until the Audit Coordinator has secured any required Auditor approvals necessary for the amendment, issued a written contract amendment that has been approved by the Auditor, and the amendment has been signed by both parties.

H. Indemnification and Insurance Requirements

Offerors must review the attached Risk Management Appendix for indemnification and insurance requirements. The indemnification and insurance provisions will be incorporated into the final contract.

Objections to any of the provisions of the Indemnification and Insurance Requirements must be made in writing to the attention of the Audit Coordinator by the time and date set for receipt of questions. No alteration of these provisions will be permitted without prior written approval from the Auditor in consultation with the North Dakota Risk Management Division.

Upon receipt of the Notice of Intent to Award, the successful offeror must obtain the required insurance coverage and provide the Audit Coordinator with proof of coverage prior to contract approval. The coverage must be satisfactory to the Auditor, in consultation with the North Dakota Risk Management Division. An offeror's failure to provide evidence of insurance coverage is a material breach and grounds for withdrawal of the award or termination of the contract.

I. Applicable Law and Venue

Any dispute arising out of this agreement will be resolved under the laws of the State of North Dakota. Any action commenced to enforce the contract must be brought and solely litigated in the District Court of Burleigh County, North Dakota.

J. Independent Entity

The contractor is an independent entity under this contract and is not a state employee for any purpose. The contractor retains sole and absolute discretion in the manner and means of carrying out the contractor's activities and responsibilities under the contract, except to the extent specified in the contract.

K. Assignment

Contractor may not assign or otherwise transfer or delegate any right or duty without the Auditor's express written consent. However, the contractor may enter into subcontracts provided that the subcontract acknowledges the binding nature of this contract and incorporates this contract, including any attachments.

L. Description of Entity and Records to Be Audited

The scope of the audit engagement will consist of financial statement audits of the Client including the ND Teachers' Fund for Retirement and the State Investment Board, which has a fiscal year end of June 30. A copy of the client's annual report may be viewed at: <http://www.nd.gov/rio/SIB/Publications/CAFR/AnnualReport.pdf>

RIO uses the Connect ND system for payment of administrative expenses, payroll and fixed assets. Great Plains Dynamics is used for the general ledger. All administrative activities, investment activities and retirement program activities are posted to Great Plains and financial statements are generated from this system.

RIO uses CPAS software for its teachers' retirement program administration.

The Client administers the investment program of the State Investment Board and the retirement program of the Teachers' Fund for Retirement. The investment program is made up of 22 state and political subdivision investment funds. The agency is responsible for allocating investment activity from the investment pools to the individual funds. There are approximately 42 external investment managers and 90 investment relationships in the program. The current value of the all investments under the supervision of the SIB is approximately \$5 billion. Investments include both traditional stock and bond portfolios as well as numerous "alternative investments".

The TFFR retirement program administers the retirement plan for state teachers. There are over 17,500 active and retired members/beneficiaries in the fund. The program offers preretirement counseling for active teachers as well as payment of benefits upon retirement or refund upon termination of employment. Member and Employer contributions from the employers are reported and collected monthly and applied to the individual member accounts as well as to the employer accounts. There are currently about 235 employer units.

The principal accounting records of the Client are located at the Retirement and Investment Office at 1930 Burnt Boat Drive, Bismarck, ND. Details can be obtained from Ms. Connie Flanagan, Fiscal and Investment Officer, at (701) 328-9892. The Client did not receive or expend any federal funds during fiscal year 2008.

M. Price

The price proposal must include a separate fee quotation for each fiscal year. The total price includes the Firm's expenses for labor, travel, printing costs and all other expenses. The labor portion of the price must itemize the estimated number of hours and billing rate for each level of person working on the audit.

The cost of accounting work such as preparation of schedules, financial statements, notes to the financial statements, etc., should be included in the above price proposal. It is the Firm's responsibility to determine what work will be performed by the Client, and what work the Firm will be expected to perform. This can be accomplished by reviewing section below, and by interviewing the Client.

N. Assistance Available To Firm

The Client was previously audited by the CPA firm of Brady Martz and Associates, P.C., Bismarck, ND, for fiscal year 2008.

Assistance to be supplied by the Client, including arrangements for working space, preparation of schedules and answering of questions, will be discussed and coordinated with Ms. Connie Flanagan, Fiscal and Investment Officer, at (701) 328-9892. The Client does maintain an internal audit function. The Firm is encouraged to meet with the Client to identify areas of coordination and cooperation between internal and external auditors to increase the efficiency, effectiveness, and economy of the entire audit process.

The staff of the Client will prepare the following statements, schedules and workpapers for the selected audit firm:

1. Trial Balance that is cross referenced to the Basic Financial Statements.
2. Management's Discussion and Analysis
3. Statement of Net Assets – Fiduciary Funds.
4. Statement of Changes in Net Assets – Fiduciary Funds.
5. Notes to the Financial Statements.
6. Required Supplementary Information.
7. Combining and Individual Fund Financial Statements.
8. Supplementary Information.
9. Bank Reconciliations.
10. Cash Transfers Listing.
11. Receivable Listings.
12. Payable Listings.
13. Investment Reconciliations.
14. Fixed Asset Listing (including Depreciation).
15. Copies of Leases and Contracts.
16. Schedule of Leave Activity.
17. List of all nonstandard entries and year-end adjusting entries.

18. Summary schedule of prior audit findings
19. Corrective action plan

All other information required to be included in the financial statements and audit report will be prepared by the Firm. The Firm is strongly encouraged to meet with the above named individual to determine exactly what information the Firm will be expected to prepare.

O. Entrance & Exit Conferences

An entrance conference should be held with the appropriate Client personnel prior to the start of the audit. If desired by the Client a formal exit conference is to be held with the appropriate representatives of the Client.

The draft audit report must be presented to the Client. The Client will be required to respond in writing to all recommendations and findings included in the draft audit report. Responses by the Client will be included in the draft and finalized copy of the audit report.

P. Mandatory Minimum Qualifications

- 1) The CPA firm and the partner in-charge of the audit must be properly licensed to practice in the State of North Dakota.
- 2) The CPA firm and audit team members must be independent in accordance with:
 - a) Government Auditing Standards, issued by the Comptroller General of the United States, and;
 - b) AICPA standards, including Ethics Interpretation 101-10, entitled "The effect on independence of relationships with entities included in the governmental financial statements."
- 3) Auditors engaged in the audit must meet the continuing education requirements of Government Auditing Standards.
- 4) The Firm's most recent peer review, or quality review report, must have been unqualified.

Q. Time Schedule

The proposal must include a time schedule showing the start date of the field work and estimated dates for field work completion and draft report issuance. The Firm will coordinate with the Client for the performance of field work. Three copies, or an electronic copy, of the preliminary draft of all financial statements, and notes to the financials must be made available to the Auditor, by September 15th (or earlier if possible) of each year. Any extensions of this deadline must be approved by the State Auditor's Office in advance. The finalized audit report for the Client must be issued no later than October 15th following the end of the fiscal year.

R. Nature of Services Required

1. Scope of the Audit

The auditor shall express an opinion on the fair presentation of the basic financial statements of the Client. The Firm must give an opinion on supplementary financial information in relation to the basic financial statements taken as a whole. The firm will

report on required supplementary information in accordance with the current guidance from the AICPA.

The Firm shall also perform such accounting work which is necessary and which will not be performed by the Client as indicated under "Assistance Available To Firm" as noted above.

2 Description of Funds to be Audited

The audits shall cover the entire operations of the Client.

3. Periods to be Audited

An annual audit for the Client is to be performed for the fiscal years ending June 30, 2009, 2010 and 2011.

4. Type of Audit Required

The audits shall be financial statement audits as defined in Government Auditing Standards.

Audits will be done in accordance with: generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies, issued by the Auditor, and; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

The Firm shall also follow the guidance of the AICPA Audit and Accounting Guide "Audits of State and Local Governmental Units," and any other applicable AICPA audit and accounting guide.

5. Compliance Testing

The engaged CPA firm will be expected to test for compliance with applicable state and federal laws and report violations of any laws regardless of financial materiality (unless clearly inconsequential). Testing shall include, but not be limited to the provisions of title 15-39.1, 21-10 and 54-52.5 of the North Dakota Century Code (NDCC) and applicable Session Laws (testing of appropriation laws and legislative intent relating to transfers). Specific NDCC Sections to be tested shall include:

15-39.1-05.2	21-10-01
15-39.1-08	21-10-02
15-39.1-09	21-10-02.1
15-39.1-10	21-10-06
15-39.1-10.1-11	21-10-06.1
15-39.1-26	21-10-06.2
	21-10-07
15-39.2-01	21-10-08
15-39.2-01.1	
15-39.2-05	54-52.5-03

6. Other Tests

The CPA firm will also perform each of the following tests:

- a) Examine fixed asset equipment additions and deletions for propriety.
- b) Determine that all clearing accounts are approved by the State Auditor.
- c) Examine recorded liabilities and perform a search for unrecorded liabilities, to ensure that expenditures were charged to the proper fiscal year, and proper biennial appropriation.
- d) Physically inspect a sample of equipment items.
- e) Determine that a physical inventory was taken in accordance with NDCC section 44-04-07.
- f) Determine whether bond coverage is reviewed and evaluated on an annual basis, and appears adequate (NDCC 26.1-21-08)
- g) Determine whether receipts are being deposited into the appropriate fund(s), and disbursements are being made out of the appropriate fund(s)
- h) Determine whether all receipts are being deposited with the State Treasurer's Office, unless there is a specific statutory exception or attorney general opinion to the contrary.
- i) Agree final appropriation amounts on statement of appropriations, to OMB printouts.
- j) Determine that legislative intent included in appropriation laws has been complied with.
- k) Determine whether there were Emergency Commission or Budget Section changes to the Client's appropriation, and if so, whether the Client complied with the documented intent of the changes.
- l) Determine the legality of investments.
- m) Select a sample of administrative expenditures and determine compliance with OMB policy and state purchasing requirements with an emphasis on contracting for services.
- n) Determine that all public moneys were paid over to the state treasurer, and were disbursed only pursuant to appropriation made by the legislature. [State Constitution, Article X, Section 12.]
- o) Determine if the Client's budget request included a list of every individual asset or service, excluding real estate, with a value of at least fifty thousand dollars and every group of assets and services comprising a single system with a combined value of at least fifty thousand dollars acquired through a capital or operating lease arrangement or debt financing arrangement by a state agency or institution. The list should include assets or services acquired in the current biennium and anticipated assets or services to be acquired in the next biennium. [NDCC 54-44.1-06 #8]
- p) Determine if the Client performed a 'written analysis' of operating leases. If the Client entered into a lease arrangement that was not the most economical decision, consider writing up a recommendation. [NDCC 54-27-21.1]

S. Audit Report Contents

The audit report should be addressed to the Governor of North Dakota and the Legislative Assembly in addition to the Client.

The audit report must also include the following:

- Auditor's Report on Financial Statements and Supplementary Information.
- Management's Discussion and Analysis.
- Comparative Financial Statements.
- Notes to the Financial Statements.
- Statement of Appropriations.
- Comments addressing each of the items under section "Special Comments Requested by the Legislative Audit and Fiscal Review Committee" in "Guidelines to Independent CPA's," issued by the Auditor.
- Non-Federal Findings, Recommendations and Agency Response.
- Auditor's Report on Internal Control and on Compliance and Other Matters.
- Schedule of Expenditures of Federal Awards.
- Schedule of findings and questioned costs.
- Summary schedule of prior audit findings.

The audit report will include all of the aforementioned sections bound together as a single document. This document must be in an electronic format, preferably Word in addition to a hard copy. In addition, instances of fraud, waste and illegal acts, or indications of such, including all questioned costs, must be included in the audit report.

T. Special Considerations

1. The financial statements of the Client will be included in the basic financial statements of the State of North Dakota. The work of the Firm will be relied on and referred to by the Auditor. The basic financial statements will be included in the Comprehensive Annual Financial Report (CAFR) of the State of North Dakota.
2. If the financial statements of the Client are not prepared in accordance with generally accepted accounting principles, or if the Firm's report is other than unqualified, the Auditor must be notified as soon as possible.
3. The State's CAFR will be submitted to the Government Finance Officers Association for the purpose of obtaining a Certificate of Achievement for Excellence in Financial Reporting.
4. The Firm agrees to cooperate with the Office of Management and Budget, and/or the Auditor in matters affecting the adjusting, consolidating, combining or eliminating of the Client accounts, for inclusion in the basic financial statements of the State of North Dakota. This includes providing the information necessary for the State to qualify for the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
5. The FIRM shall consider the AUDITOR as an audit committee when making the required GAS and AICPA audit committee communications.

The Firm will be responsible for presenting the final audit report to the Legislative Audit and Fiscal Review Committee and the Audit Committee of the State Investment Board. The Firm may also be required to present the audit report to others as determined by the Client.

U. Number of Audit Reports

Three copies of the draft audit report, including the management letter and any informal recommendations made to the Client will need to be submitted to the Auditor. Copies of the draft audit report will also need to be submitted to the Client. Twenty eight copies of the final audit reports will be sent to the Auditor. Additional copies of the final audit reports will be sent to the Client as required. Upon request from the Client the final audit report will also be made available to the Client in a PDF or Microsoft Word® compatible file.

V. Inspection & Modification - Reimbursement for Unacceptable Deliverables

The contractor is responsible for the completion of all work set out in the contract. All work, including audit documentation is subject to inspection, evaluation, and approval by the Auditor. The Auditor will complete a review of the draft audit report within two weeks after receipt of the draft report. The Auditor will send to the CPA firm comments for correction and clarification within one week after the completion of the review. The CPA firm must respond to the questions and comments, in writing, within the following week, and final resolution of all points must take place within the subsequent week.

Final approval of the audit will not be given until all points raised by the Auditor have been satisfactorily resolved. Should the Auditor determine that corrections or modifications are necessary in order to accomplish the contracts intent, the Auditor may direct the contractor to make changes. The contractor will not unreasonably withhold changes.

Substantial failure of the contractor to perform the contract may cause the Auditor to terminate the contract. In this event, the State may require the contractor to reimburse monies paid (based on the identified portion of unacceptable work received) and may seek associated damages.

In the event that the audit report or audit documentation is found to be substandard and deficiencies not corrected to the satisfaction of the Auditor, one or more of the following additional steps may be taken by the Auditor:

- Refuse to give final approval of the audit report.
- Remove the firm from the list of firms with which we will contract. Depending upon the seriousness of the substandard work, this will range from a specified period with required CPE in governmental auditing, to permanent removal.
- Refer the firm to the State Board of Accountancy, and/or the American Institute of Certified Public Accountants.

All pertinent records and audit documentation must be retained for three years after the report has been finalized, or until advised otherwise by the Auditor.

The CPA firm must make available with the audit documentation a listing of the actual number of hours used on the audit, by audit area and individual, and a copy of the management letter.

Audit documentation must be made available without charge to the Auditor in Bismarck, for examination by representatives of the Auditor or the Federal Government.

W. Contract Personnel

The Audit Coordinator must approve any change of the contractor's project team members named in the proposal, in advance and in writing. Personnel changes that are not approved by the Auditor may be grounds for the Auditor to terminate the contract.

X. Termination for Default

If the Audit Coordinator determines that the contractor has refused to perform the work or has failed to perform the work with diligence as to ensure its timely and accurate completion, the Auditor may, by providing written notice to the contractor, terminate the contractor's right to proceed with part or all of the remaining work.

This clause does not restrict the State's right to termination under the contract provisions of the Service Contract, attached.

Y. Confidentiality

The CPA firm must conform to current North Dakota statutes and administrative code provisions regarding confidentiality of employer and employee records and files accessed in the performance of services under a contract. The CPA firm must refer all requests for information received from outside parties, sought under the Open Records laws of the state, to the Auditor.

Z. HIPAA Confidentiality

The CPA firm must agree that any protected health information disclosed to it under this contract will remain confidential and be used or further disclosed only as required by law or for the purpose for which it was disclosed to the Auditee, and the Firm must agree to notify the State Auditor of any instances of which it becomes aware in which the confidentiality of any information to which it has been given access has been breached.

AA. Media Releases

The CPA firm will not make media releases pertaining to this RFP or to the services to which it relates without prior written approval from the Auditor.

BB. Other Services

Other services, if any, by the firm are not a part of this request for proposal and will be contracted and billed separately with the Client. The contractor is required to inform the Audit Coordinator of any nonaudit services performed for the Client.

CC. Public Information

Materials submitted in response to this RFP become the property of the State Auditor. All proposals received remain confidential until an award is made. Thereafter, proposals will be public records as defined in Chapter 44-04 of the North Dakota Century Code.

DD. Taxes and Taxpayer Identification

The contractor must provide a valid Vendor Tax Identification Number as a provision of the contract.

The Auditor is not responsible for and will not pay local, state, or federal taxes. The State sales tax exemption number is E-2001, and certificates will be furnished upon request by the Firm.

SECTION III - FORMAT OF THE PROPOSAL RESPONSE

All proposals must include the information requested in this section and be organized in the same manner as this section.

A. Title Page

Show the RFP subject, firm name, local address, telephone number, name and title of contact person, and date of submission.

B. Letter of Transmittal

Limit the transmittal letter to no more than two pages, and include the following information:

1. A brief understanding of the audit service to be performed.
2. A positive commitment to perform the audit in accordance with the requirements of the Request for Proposal.
3. The names of individuals authorized to make representations for the firm, their titles, addresses and telephone numbers.
4. A statement that if selected, the firm agrees to execute a formal contract incorporating the RFP and the firm's proposal.

C. Profile of the Firm

- State the size of the firm and whether it is local or regional.
- Give the location of the office from which the work is to be done and the number of professional staff employed at that office.
- Describe the range of auditing and accounting activities performed by the local office.
- Describe the local office's capability to audit information systems, including the qualifications of personnel skilled in information systems who will work on the audit, if required.

D. Summary of the Firm's Qualifications

- Include a description of the qualifications and experience of each audit team member, including staff, who will be engaged in performing the audits, including staff from other than the local office. It is assumed that the audit staff identified in the proposal will be used on the audit engagements. Any substitution of audit manager(s), supervisor(s), or in-charge auditor(s) must have prior approval of the Auditor. A written request for substitution of audit personnel must be accompanied by a listing of relevant continuing professional education (CPE) courses and recent audits in which the individual has participated.
- If the Firm is a joint venture, the qualifications of each Firm comprising the joint venture should be separately identified and the Firm that is to serve as the principal auditor should be noted.

- Include an itemized listing of relevant CPE courses attended by each member of the audit team during the last three years.
- Include an itemized listing of audit engagements performed by the local and regional offices similar to the type of audit requested. This listing must include only those audits completed during the last four years.
- Include a minimum of three client references who can respond regarding the Firm's performance. References should be clients who have purchased the types of services described in the RFP within the last four years.
- Include a copy of the firm's most recent external quality review, or peer review report, including any letter of comments, with a statement indicating whether the review included a review of specific government engagements.

E. Firm's Approach to the Examination

Submit an audit plan to accomplish the scope of the examination. The audit work plan should demonstrate the Firm's understanding of the audit requirements as outlined in the request for proposal.

The planned use of specialists should be specified, especially in the areas of the actuary, investments and the review of the information systems.

The following information must be included in the audit work plan:

1. Proposed segmentation of the engagement;
2. Level of staff and number of hours to be assigned to each proposed segment of the engagement;
3. Planned substantive audit approach including sample sizes and the extent to which statistical sampling is to be used in the engagement;
4. Approach for compliance testing required by Section II, subsection R. (Nature of Services Required).
5. Approach to be taken to gain and document an understanding of internal control (including controls surrounding information systems);
6. Anticipated reliance on the Client's internal control, and
7. Materiality methodology including percentages used and how materiality is applied.

F. Delivery Schedule

A schedule of performance of the contract and delivery dates of the required report(s).

G. Compensation

The price proposal must be submitted as the total price of the audit and accounting services for the Client. There shall be a separate total price for each fiscal year called for in this request for proposal. The total price is to include the Firm's expenses for labor, travel, and all other expenses. The labor portion of the price must itemize the estimated number of hours and billing rate for each person working on the audit. Firms should use the following format for each year bid:

<u>Position</u>	<u>Fiscal year 2009</u> <u>Rate</u>	<u>Hours</u>	<u>Total</u>
Partner	\$XXX	XX	\$XXX
Manager	\$XXX	XX	\$XXX
Staff	\$XXX	XX	\$XXX
Clerical	\$XXX	XX	\$XXX
Travel			\$XXX
Other			\$XXX
	Total for fiscal year 2009	XXX	\$X.XXX

Subsequent years should follow the same format with a grand total for the total cost of the contract.

H. Nonaudit services

A listing of nonaudit services performed for the Client should be included along with documentation of the Firm's consideration of the independence implications of the nonaudit services as discussed in paragraph 3.13 of Government Auditing Standards. This consideration should address the safeguards stated in paragraph 3.17 and, if applicable reference to applicable items contained in Government Auditing Standards: Answers to Independence Standards Questions.

If the Firm is granted the audit contract for the Client, during the duration of the contract the Firm will obtain written approval from the Auditor before entering into additional nonaudit services.

I. Additional Data

Since the preceding sections contain only data that is specifically requested, any additional information considered essential to the proposal should be included in this section.