

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBANK)

STAFF REPORT

ISSUE.

Staff requests approval of the Board of Directors (Board) to retain the auditing services of CliftonLarsonAllen LLP (CLA), a certified public accounting firm, to act as IBank's auditor for fiscal years 2023-2024, 2024-2025, 2025-2026, 2026-2027, and 2027-2028. Further, IBank Staff requests that the Board authorize IBank's Executive Director to enter into a contract for auditing services between IBank and CLA.

Additionally, and subject to a different Resolution, IBank Staff requests approval of minor technical updates to the existing Audit Procurement Policy.

BACKGROUND AND NEED FOR AUDITED FINANCIALS.

IBank from time-to-time issues bonds that require audited financial information. The most recent issuance was December 2022, when IBank issued additional ISRF Bonds, Series 2022A in the amount of \$103,785,000 to finance and refinance ISRF loans. Prior to this, in December 2020, IBank issued the Series 2020A Bonds in the amount of \$324,340,000 to advance refund and defease all of the prior outstanding ISRF Revenue Bonds Series 2014A, Series 2015A, and Series 2016A, and to provide funds for direct loans to municipalities with the Infrastructure State Revolving Fund (ISRF) Program.

Audited financials are also required for compliance with the continuing disclosure agreements entered into by IBank for the Series 2020A Bonds and the Series 2022A Bonds. As long as the bonds remain outstanding IBank is required to provide annual audited financial statements to the ISRF Bonds trustees and to a nationally recognized municipal securities information repository. In addition, Government Code Section 63035 requires IBank to include the Annual Comprehensive Financial Report (ACFR) with its Annual Activity Report, which is due to the Legislature each January.

Requirements of IBank's Audit Procurement Policy

IBank is required by its Audit Procurement Policy adopted by the IBank Board on April 24, 2007 (pursuant to Resolution 07-12) to actively seek the participation of qualified firms to respond to a Request for Qualifications (RFQ) seeking proposals from auditing firms interested in providing auditing services to IBank. Prior auditor appointments for a period of three years (2019-2021 under Resolution 19-16), and a two-year extension (2022-2023 under Resolution 22-08) were conducted pursuant to this policy.

IBank's Audit Procurement Policy states, among other things, the contract with the selected independent auditor shall be for a term not to exceed five years.

RFQ Selection Process.

In accordance with the Audit Procurement Policy, IBank published its RFQ on March 7, 2024, to the IBank's website and Cal eProcure. CLA, Moss Adams, and Eide Bailly all responded to the RFQ.

In April and May 2024, IBank staff reviewed the RFQ responses to determine the most qualified auditing firm. The review committee consisted of the IBank's Chief Deputy Executive Director, Deputy Director of Compliance and Administrative Services, and Chief Accounting and Administrative Officer.

The RFQ's selection criteria specify consideration of the auditing firm's required minimum qualifications and experience, including without limitation, experience auditing financial statements for the State of California or at least one State agency, department, board or authority in the last three years. The respondent firm's financial audit experience must have covered revenue bonds or general obligation bonds issued by a government entity. The committee also considered the competitiveness of the proposed fees, and the overall quality of the written response to the RFQ.

Based on these considerations the selection committee recommends CliftonLarsonAllen LLP to provide auditing services to IBank for the fiscal years ending June 30, 2024, June 30, 2025, June 30, 2026, June 30, 2027, and June 30, 2028.

CLA's Scope of Services.

CLA's Scope of Services includes the independent auditing of IBank's financial statements beginning with the 2023-24 ACFR. CLA will prepare and express an opinion on the financial statements of IBank, a description of its general business activities, and the financial position of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund), the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund), the California Small Business Expansion Fund (Expansion Fund), and the Climate Catalyst Revolving Loan Fund (Climate Catalyst Fund), and any other fund for which IBank is responsible.

CLA will ensure they present 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, CLA will 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.

CLA's Firm Qualifications and Experience.

CLA was established on January 2, 2012, and continues the legacy of quality, service, and experience that Clifton Gunderson and Larson Allen has built for more than 60 years. CLA is a certified public accounting firm that has accountants licensed to practice accountancy in the State of California. CLA is a national professional services firm built around three entities - a public accounting and consulting firm, a wealth advisory firm and an outsourcing firm - highly integrated and seamless in the delivery of their services.

CLA has one of the largest governmental audit and consulting practices in the country serving more than 4,200 governmental clients nationwide. Public sector clients represent approximately one-third of all firm-wide revenue. CLA employs more than 8,500 people, with more than 130 locations nationwide, and a global affiliation. CLA currently performs audit services for California Housing Finance Agency (CalHFA), California State Water

Resources Control Board, and Sacramento Housing and Redevelopment Agency (SHRA). And CLA has been IBank’s auditor for the previous 5 years.

CLA’s Reasonable Fee Structure.

CLA’s 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. CLA has proposed the following fees for performing the audit of IBank’s financial statements for the five fiscal years are as follows:

	Fiscal Year 2023/24	Fiscal Year 2024/25	Fiscal Year 2025/26	Fiscal Year 2026/27	Fiscal Year 2027/28	Total
Audit/Management Letter	\$66,685	\$68,700	\$70,800	\$72,900	\$75,100	\$354,185

When compared with the other two responses, CLA fees were 57% lower than the most expensive bid and only 9% higher than the lowest bid.

Staff Analysis of CLA as IBank’s Auditors. Staff has determined that it is advisable to select the existing audit firm CLA with a five-year contract for the following reasons:

- **Satisfactory Service.** The IBank staff has been satisfied with the service it has received from CLA during the previous contract period of fiscal year ending 2019 through 2023.
- **Familiarity.** CLA is already familiar with IBank’s programs, processes, and internal controls. Since a significant amount of staff time is needed to bring a new audit firm up to speed on the IBank, its programs, and accounting policy, procedures and records, staff believes it would be most efficient to continue with the firm as compared to hiring a new audit firm that is not familiar with the IBank’s accounting processes and procedures.
- **Multiyear Agreement.** A five-year audit contract is consistent with the Government Finance Officer Association’s recommended audit procurement best practices that state governmental entities should enter into multi-year agreements of at least five years in duration when obtaining the services of independent auditors. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.

RECOMMENDATION: Staff recommends approval of Resolution 24-07 appointing CliftonLarsonAllen LLP to act as the IBank’s auditor for fiscal years 2023-2024, 2024-2025, 2025-2026, 2026-2027, and 2027-2028, and authorizing the Chief Deputy Executive Director, in a manner consistent with this report, to execute a contract on behalf of IBank with CliftonLarsonAllen LLP for auditing services.

Proposed Amendment to Audit Procurement Policy.

The existing Audit Procurement Policy requires a selection committee composed of certain IBank titles and roles that existed when it was approved in 2007. The prescribed membership of that committee is now out of date and incorrect. Certain position titles referred to no longer exist at IBank.

It is requested that the updated membership of the selection committee be IBank's Chief Deputy Executive Director, Deputy Director of Compliance and Administrative Services, and Chief Accounting and Administrative Officer. This was the team that was used in the selection of CLA.

RECOMMENDATION: Staff also recommends approval of Resolution 24-08 updating the membership of the selection committee in IBank's Audit Procurement Policy.