

Episode 14: Conducting an Auditor RFP

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Speaker: And welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management. Hosted by CAPTRUST's Heather Shanahan, each episode shares research, resources, and recommendations from industry insiders.

So your nonprofit can focus on what's most important, the mission.

Heather Shanahan: Hello and welcome to Mission and Markets. My name is Heather Shanahan and today I am joined by Robin Campbell with Elliott Davis, CPA, and we're going to talk about all things audit RFP. So Robin, welcome. If you'd share a little bit about.

Your background, obviously you and I have had the opportunity to work together, have known each other for a while, but for our listeners, if you'd share a little bit about you.

Robyn Campbell: Sure. Yeah. Thanks Heather, for having me. I'm excited to be here. So my background is that I started out in audit, fell in love with nonprofits, did a lot of audits of colleges and universities and some other nonprofits.

From there I went and I worked in industry at a large nonprofit where I got great experience. Dealing with federal grants and all different kinds of things that, that happen to nonprofits. And then from there, I came to Elliot Davis and I have been doing work in our consulting group, specifically in our accounting advisory services group.

And that's just where we do outsource accounting from CFO services. And I've also had the pleasure of serving on a couple of boards of nonprofits. So Robin,

Heather Shanahan: thank you. I really appreciate you joining us today. Um, we spent a lot of time talking about RFPs for advisors, but this is a big one that's important too.

So let's start with Trends. What are you seeing in the audit world? What's going on?

Robyn Campbell: The audit world is a little bit different right now. One of the main things we're seeing is really kind of a supply and demand issue. So there's not as many people graduating from college as there are retiring to come into the accounting community and especially into the audit world.

So one thing that kind of changed with COVID was that there were some So much information coming to auditors with PPP loans, SBA loans, there was just a lot of additional reports that they were needing to give out. Mm-Hmm. and firms were having trouble keeping up with that, and so it's kind of created a little bit more of even a supply and demand issue.

With that, we're seeing some increased prices in audit. Sometimes it can take a little bit longer to get on an auditor's schedule. If you aren't already on there and deliverables take a little bit longer to get, people give really specific time windows. Auditors say, okay, we can come out for these specific time periods.

And if you're not ready, then you're going to have to wait and get kind of in the back of the line again. I've even seen one of my clients received an engagement letter. That had a note in it, like our prices have increased due to there not being enough people coming into the industry and everyone is retiring.

And so it's, it is a real thing. I think that it'll be interesting to see kind of how that, that changes. But one thing we are seeing is that firms are trying to adapt to the younger generations, to be more of a fun place to work. I know at Elliott Davis, we've done several things, um, to try and make things a better work life balance.

Our department and our team is really great about that. People are moving in the right direction, but sometimes change is hard and it takes a little time. So

Heather Shanahan: things are taking longer, I guess under normal circumstances, how long, um, do you think a client, uh, you know, a nonprofit organization should expect their audit to take?

And then what are you seeing right now? Is it taking longer? It

Robyn Campbell: is taking longer and it's kind of twofold. I think that one thing that I have my clients push our auditors to do is do a planning, like an

interim work. Say your year end is June, have the auditors come in March for a week and get a lot of kind of preliminary work done.

And then whenever they come back in July, when they're doing everybody else's audits or probably more towards the August timeframe, it doesn't take as long. So we kind of encourage that and that can help with the time crunch, but. Say, it, it'd probably be a week of interim work and then a week or two of the actual audit work.

And then it does take time to go through the review process, of course. So, that's probably, uh, Two weeks to a month to get back the final audit reports. So that, that seems like a reasonable timeline to me, but I had one audit that just finished up. We were pushing the April 15th deadline. So it just depends on, on their load.

And when you get them stuff is a huge thing. If you can be really responsive and get them stuff as quick as you can, they're going to be able to fit it into their schedule and work with you a lot better than if it takes time.

Heather Shanahan: So Robin, do. Audit firms typically provide clients with a checklist of things that they can start putting together before they get there, before the official audit starts.

Does that help from a timeline perspective?

Robyn Campbell: Yes. Yeah. So most of the time you'll get what we call a PBC list, so prepared by client list. And They will send that to you ahead of time, and sometimes I ask for it even as we're closing the year. So go ahead and reach out to your auditors when you're, when you get ready to close year end and say, hey, can you send us that PBC list?

And they will put it together and send it to you, and then you can just kind of use that as year end close checklist too. Okay,

Heather Shanahan: well that's helpful at least. Um, In general, how frequently do you advise that organizations conduct an RFP for auditors?

Robyn Campbell: As far as how frequently, maybe you should get an RFP.

The only really regulations around that are if you're an SEC organization, and no nonprofit is. You might have RFP every five years, but there's no like regulations unless you're an SEC company as far as doing that. Generally, we

see a range from 3 to 5, even 7 years is kind of the average because things can change.

In the market, but they're not changing so quickly that you need to do it any more frequently than three years. We sort of that five years is a good timeframe and then you can go to seven years. One thing that we're seeing is that firms are less likely to give multi year contracts. Previously, it would be that you would get a three year contract from a firm whenever you would sign the engagement letter.

But a lot of firms are not doing that anymore just because the environment is changing so rapidly as far as regulatory environment. And they don't want to commit to a three year engagement whenever they don't know. What the future is going to hold. One additional thing, as far as how frequently to change auditors, there's this fine balance, right?

And that you don't want to lose efficiency, but you don't want your auditors to get too comfortable. So there are some other ways around that. If you don't want to change firms completely, sometimes you can request a new partner to come onto the job. And that can be a lot less of a painful process than going to a completely new audit firm, because.

The independence and everything kind of sits with the partner. So you could still have some of the same team members and even fade over the next couple of years, if you want a whole new team, like the partner rolls off and the manager rolls off and that way you don't lose all of the efficiency you've gained, um, but it's a little kind of, um, to still make some small changes.

Heather Shanahan: So there would be a standard kind of due diligence cycle of three years, five years, seven years. Are there any red flags or anything that an organization should be mindful of that might prompt an audit change or RFP outside of that?

Robyn Campbell: Yeah, so you want to be careful any time you have a board member that is involved with the firm.

I mean this happened to me when I was in industry. We had a board member that was working at a firm and so we get an RFP from that firm because of that. So if you have a board member roll on then you might need to change auditors but most the time everybody is really careful to avoid that. And so that doesn't happen.

That makes sense.

Heather Shanahan: Audits are not inexpensive. It sounds like, you know, they're continuing to increase in price. Just like you said, supply and demand issues. Do nonprofits automatically need an audit? Um, is there, you know, are there options there?

Robyn Campbell: Yeah, they don't automatically need an audit. There are some things that make it required, but those things are going to be that you have a debt covenant, for example, that says that you have to get an audit, that's one, a common thing.

If you have federal funding over. million this year, then you have to get an audit. And then there are some state agencies that require it, but it's different for every state. Like I think California and Georgia require an audit once you hit a certain revenue threshold, like the million, 2 million mark, but it is not required for most states, so just whatever state you're in, double check that standard.

But those are kind of the three instances that we see when you would be required to have. An audit. And then another thing to think about is if you think you're going to be getting a loan in the next five years, you might want to go ahead and have an audit so that you have a nice clean audit whenever you apply for that loan.

Cause a lot of times banks do ask for an audit in that case.

Heather Shanahan: So if you're not going to do a full blown audit, then, but you feel like you need a second set of eyes, you know, what, what can organizations do? What are those step down options look like?

Robyn Campbell: Yeah, so they're really kind of three options. So audit is going to be your most expensive, most intensive.

And then the step down from that is a review and that's just not as much testing, but you still get a report that says, this is not an audit. It's a review. And we still look at things. And then even a step down from that is called a compilation. And that's going to be, we didn't do an audit or a review, but here's a letter that says, We did something, but it's not an audit review.

I think the review is probably going to be the best bang for your buck, like the best deal you can get if you're not going to do a full audit. The compilation doesn't really offer a whole lot of assurance for anybody. So it's really that

review would be what you can do. And I also encourage my clients, if they think they're going to have an audit, it might be nice to kind of dip your toe in and have a review first and move to the audit in the next couple of years.

So there's some options there. Yeah, definitely.

Heather Shanahan: So, all right. Organization says we're ready to go. Um, you know, time to do an RFP. What are some of the most important considerations?

Robyn Campbell: Yeah, I think when you go out for the bid, one, one big thing to kind of know first is your finance committee is really the one who is hiring those auditors.

Going to them first and saying, what is your all's expectations for what an audit firm would do for us and that kind of thing. I think that a lot of times auditors get a bad rap that they're in there to, you know, find stuff and get you, but honestly, most auditors just want to teach you and help you to be better.

They want to make sure that you're in compliance because nonprofits have to be great stewards of their money because they're liable to the public. You know what I mean? It's not their money. It's the public's money. So most sometimes auditors just want to make sure that you're doing that and in the best way that you can.

So I think when you go to your finance committee saying, okay, what do you guys want and then asking What type of firm should we start looking at initially? There's big four firms, or might be big five now. I'm a little bit out of the lingo. But the bigger firms, and then there's regionally sized firms and local firms, and I think you're going to get a different experience at each firm.

So kind of seeing what is important to your finance committee. Um, once you kind of decide what type of firm you want to work with, then you need to be thinking about, okay, do we want it to be onsite or virtual? Right? So that's a big thing nowadays is, It used to be that you would get your little box and you'd have your little printer backpack and you'd go to the client and now you can do it mostly virtually.

So I think you just want to talk to the auditors and see how do you guys do audits? Do you do it in person? Do you do it virtually? Can we get a mixture? What's important to you, to your organization as far as how you interact with the auditors? And then outside of that, who are you going to be working with on a day to day basis at the audit firm?

Is it going to be a manager? Is it going to be an associate? Who's going to be there with you kind of every step of the way? Nothing wrong with virtual. I remember my first time

Heather Shanahan: I went through the audit, I was like, Why, why do they need to be here again? And then COVID happened and then it just wasn't an option anymore.

So, so, you know, from a technical side, how do you assess an organization? You have your, if you're going through your RFP process, what are, what are, What should organizations look for?

Robyn Campbell: Right. So the good thing is CPA firms are regulated anyway, right? So we have the ACPA and different regulatory agencies that are over us.

So most firms, you're not going to have to worry about are they really technically sound or that kind of thing because we have that in place, which is nice. I think that The important thing to think about is, do they do non profit audits because it is so unique? You know, if you're talking to a firm and they don't have any other non profits, then that's probably not a good fit.

I think it also depends on the type of non profits they audit, right? So I joke, but when you've met one non profit, you've met one non profit, even whenever it's Standardized across, you know, even when it's like a franchise kind of profit, they're still all very different. So if you can find an audit firm that does, you know, what you're doing, then that's a great fit.

That makes sense.

Heather Shanahan: So how many firms should a committee typically consider in their process? What's best practice there?

Robyn Campbell: So the federal guidelines normally say, so this is going back to if you have federal grants, they normally say to get three bids anytime you're doing a proposal. And so I think that's a good standard.

It's enough to give you a good variety, but not too many that you're just tracking down all these proposals. Yeah, yeah,

Heather Shanahan: so all right committee sends out RFPs to a handful of firms What should the expectation be in terms of responses timelines the type of responses from a firm?

Robyn Campbell: So I think that's something really important to pay attention to because the way they respond They're probably putting their best foot forward right and how they respond So I think that you want to make sure that they're responding to you, your initial email requests within 24 to 48 hours.

That's kind of our standard is that you respond to emails within 24 hours. So even giving them a little day's grace, if you don't hear back from them by then, then that's probably a red flag. And then kind of as far as like timeline from there, once it's sent out, then they should reach out to you. They need to learn about you.

You know, you can't just If they're just giving you a flat price or putting together something, then that's kind of a red flag too, because there's no way they can give you a good price unless they actually look at something that you have and kind of learn a little bit about your organization. So my expectation would be you reach out, they respond to set up a time to meet with you.

Talk to you a little bit and then from there they would take that information and put together a proposal and that Typically takes about one or two weeks I think it's best when they send it back to you so you can get over the sticker shock first And then have a conversation with you like, you know Talk you through it and kind of explain the proposal.

Um, and again, I think if they don't do that, that's another red flag. I just think a lot of communication during the RFP process with them is a good sign that they're going to be communicative whenever they actually come out to do the audit. Yeah.

Heather Shanahan: Is there a difference in formality of RFP process as well?

Robyn Campbell: Yeah, there is. You can do it very formally where it's maintaining strict independence in look. Especially like, you know, you put together what you want in an audit firm and you send it out to firms and then they respond. So that's probably the most formal way you can do it. And then you can do varying degrees from there.

A lot of times it's Okay, who do we know that does audits? That are like our organization. A lot of times it's word by mouth and then you can just send an email and ask them to put together something. And then of course, anything in between that too.

Heather Shanahan: Do you have any examples of the types of questions that should be included in

Robyn Campbell: the RFP?

So here's some good questions that you can kind of include in your RFP, um, or just whenever you have the conversation with them. What steps do you take to ensure a transition from the prior auditor, right?

Heather Shanahan: Yeah, that's important.

Robyn Campbell: How are they going to manage that process? What's the scope of the audit that you're going to plan to do?

What's the timing of when you would do it? Do you do that interim period that we talked about? How do you plan to find any fraud or illegal activity? I mean, most of the time that's a fraud interview, but it's nice to know that kind of ahead of time. Are they going to address that? Because that's one of the main things of having an audit, right?

Right. I would say, how do you approach audits? Do you have a teaching mindset? Are you willing to give us some ideas on how to improve our processes along with just like doing the actual audit?

Heather Shanahan: Sometimes organizations don't know what they don't know. And I think if an audit firm can help you take a look at internal controls and how to be better at that, or if you've got some issues that you need help unwinding, um, You know, are you properly recording endowments or, you know, all of those things.

I think there's so many, um, ways that an auditor can be constructive and a partner and not coming in like, you know, a policing relationship. So, start to finish. What do you think in terms of how long an organization should plan for their RFP process to take?

Robyn Campbell: Yeah. So I think that it starts with that finance committee meeting.

So look at your schedule, see when those meetings are happening and plan kind of a kickoff. For that, normally finance committees meet quarterly. A lot of times I see they're not meeting every month. So it might even be that you have a

special meeting to kickstart that process, depending on when you want to make the change.

I always think it's good to make the change probably in the middle of the year, when you're not in the middle of any audits, right? Or year ends, you're just budgeting at that point. I think that go to that finance committee. And then I would say give yourself probably a couple of weeks from that time to get together an RFP and to find firms you're going to reach out to.

So that's about two weeks, say, and then give the firm time to you. Probably two weeks too to respond and get your proposal and then the finance committee needs to vote, right? So you'll have to present all the proposals to your finance committee and then they vote on which auditor So I would say it's probably a two month process I don't think it's something you can be really quicker than that if you want to do a good job at it,

Heather Shanahan: right?

Yeah, there's no point in short cutting. Do you think it's important to check references?

Robyn Campbell: Yes. Very important. I think that it's great to request that they put references in there and call them and call and talk to the references, say, Hey, how is it to work with them? Do I have a new, um, staff coming up to me every audit that has no idea what they're doing or is it, do I get to work with the same people and build this relationship with them?

And I think that's a great way to, to go about it.

Heather Shanahan: We see a lot of times that finance committees are really, um, heavy with investment professionals that may not be CPAs, certainly may not have audit experience. Do you ever see organizations put together an ad hoc committee just specifically for the purpose of this audit RFP process?

Robyn Campbell: I haven't, but sometimes I feel like they, they have relied on, they like find the CPA in the group and then it's okay, what do they have to say. So I'm not seeing a specific committee, but I think that normally there is like one CPA on staff and they really hone in on that person during that time. Good deal.

Heather Shanahan: All

Robyn Campbell: right.

Heather Shanahan: Well, um, anything else, any other words of wisdom that you would share with our

Robyn Campbell: listeners? I would say it can seem maybe like a little bit of a daunting process, but remembering that most auditors are there to help you and they just want your organization to be successful and for you to be accountable, so they're here to help.

Fantastic.

Heather Shanahan: Well, thank you, Robin. It's a pleasure to, um, to see you, of course, and to have this conversation, but really appreciate your taking the time. Cause this is definitely, um, you know, audits are, um, sometimes a challenge in and of their self and themselves, and then making a change and going through this process is sometimes challenging too, and they're just not that many organizations and a lot of markets that specialize in the nonprofit audit world.

So, um, Yeah, certainly appreciate your expertise and it's great to see you. We have one thing that we always close with when we do these conversations and that is mission impact, since we are Mission and Markets. Mission impact. What does that mean to you?

Robyn Campbell: Oh, wow. Mission impact. I see a lot of numbers, but I know that if.

Accountants didn't do their part on the numbers that organizations wouldn't be able to make a mission impact, wouldn't be able to serve the public and help those that need it. So I think that for me, a mission impacted, I joke, but it's like a journal entry at a time, you know what I mean? We do just making sure the accounting is right and we're good stewards and helping our organizations serve the community.

Heather Shanahan: Excellent. Thank you. Thank you so much for your time today. Well, thank you. Thank you for

Robyn Campbell: joining us today

Heather Shanahan: for Mission

Speaker: Market, and please

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