

Lompoc City Council Agenda Item
Lompoc Redevelopment Agency Agenda Item



City Council Meeting Date: February 1, 2011

TO: Laurel M. Barcelona, City Administrator

FROM: Brad Wilkie, Management Services Director
b_wilkie@ci.lompoc.ca.us

SUBJECT: Award of a professional services contract for annual financial auditing services for the City of Lompoc and the Lompoc Redevelopment Agency.

Recommendation: That the City Council and Agency Board:

- 1) Direct staff to either:
 - a) Enter into a contract with the lowest responsible proposer, Moss, Levy, Hartzheim, LLP, for a total contract amount not to exceed \$185,850 for up to five years.
 - b) Enter into a contract with the highest ranked proposer, Glenn, Burdette, Philips & Bryson CPAs, for a total contract amount not to exceed \$228,975 for up to five years.
- 2) In lieu of direction above, provide alternate direction to enter into a contract with any of the other four responsible proposers, or to reject all proposals and provide direction for the 2010-2011 audit requirements only.
- 3) Authorize the Management Services Director to execute the contract and to execute other such documents necessary to complete the audits on an annual basis.

Background/Discussion:

Necessity

The City of Lompoc and the Lompoc Redevelopment Agency are subject to annual financial audits. In the case of the Lompoc Redevelopment Agency, the requirement is statutory. In the case of the City, our obligation is driven primarily by outstanding debt instruments and the continuing disclosure language in those instruments regarding issuance of financial information. In a practical sense, all

local governmental entities have financial audits performed due to the regulatory oversight of the State Controllers Office, debt obligations, federal financial assistance and to allow for the publication of financial information for transparency and accountability.

There has been criticism the time consuming process and resources needed to produce the audited financial statements doesn't allow for the use of the information by the City in a timely manner. That is one reason why the City has begun to provide six-month reviews of financial information with a focus on how the actual activity compares with budget expectations. However, the format of the presentation of the audited financial statements is in accordance with GASB (Governmental Accounting Standards Board) pronouncements and the audits are performed according to Governmental Auditing Standards. That allows comparison of our financial information to other governmental agencies throughout the Country. The presentation also allows outside interests such as bond holders the information necessary to evaluate their current or future investments in a format consistent with all other governmental reporting entities. In other words, the standard presentation allows for meaningful comparisons between and among governmental entities by anyone inside or outside of the government workplace. In addition, the Office of Management & Budget Circular A-133 (OMB-133), commonly known as a "single audit," outlines the requirements for audits of State and Local Governments and Non-Profit Organizations. The City of Lompoc typically is required to have a "single audit" performed due to the level of funding received from federal grants. A "single audit" is one that provides a financial analysis of all the governmental entities controlled by the same body or individuals, such as the City and Redevelopment Agency.

Past actions

The Finance Department issued at least two requests for proposal during the 2000-2010 period for audit services. Contracts were issued in 2004 and 2007 for initial three-year periods. An extension to the 2007 contract was issued for the audit of the 2009-2010 period due to the transitions experienced in the staffing in the Finance Department. Many governmental entities issue multi-year contracts for services (typical length is three years) which allows that auditor to gain efficiencies in the process – the first year of an engagement requires the audit firm to perform several preliminary steps regarding assessments of internal controls that increase their time (and cost). By providing a multiyear contract, the audit firm can typically quote a lower overall cost to the City. The previous audit contract awards appear to have not been brought to the Council for award. That may have been due to the fact the amount of the annual awards did not rise to the minimum level to meet our purchasing guidelines requirements for bringing a matter to the Council or Agency Board for award. However, due to circumstances at this point in time, staff believes it is worthwhile to bring the audit

award process to the governing boards of the City and Agency Board, even if the City's purchasing regulations may otherwise not require it.

Audit Request for Proposal process

In preparing for the possible award of contract, the Finance Department prepared several documents and included a number of target dates. The primary goal in the process is to allow for the successful proposer to have adequate time to prepare for the initial years' audit (2010-2011) which would likely start in the April 2010 timeframe. Delaying the process could have limited the potential proposers due to scheduling of existing contracts by audit firms.

The following documents are included for your reference as attachments:

Audit Request for Proposal (RFP) – 2011 with exhibits
Exhibit A – Fund listing
Exhibit B – Sample Contract
Exhibit C – Listing of Federal Program participation
Exhibit D – Audit Proposal Form
Cover Letter to potential audit firms

The RFP was issued on November 9, 2010. It was sent to 29 audit firms throughout California. The RFP was also posted on the City's website and on the website of the California Society of Municipal Finance Officers, affiliated with the California League of Cities. The RFP required proposals be received by the City Clerk by 2:00 p.m. on December 10, 2010. Six proposals were received by the City Clerk by the deadline. The RFP stated it was expected a firm would be selected by December 22, 2010 and a contract executed by January 18, 2011; however, the RFP also required the proposals be firm and irrevocable for 60 days. Because of that, each of the six respondents' proposals are effective until February 8, 2011; and the City can, but is not obligated to, award the contracts within that time frame. However, if that time frame is not met, the proposals will no longer be effective, unless the proposers agree to extend that deadline.

Proposal results

The six firms that responded to the RFP are as follows:

1. Moss, Levy, Hartzheim, LLP
2. JJACPA, Inc.
3. Teaman, Ramirez & Smith
4. Glenn, Burdette, Phillips & Bryson
5. Diehl, Evans and Company, LLP
6. Brown Armstrong Accountancy Corporation

Identified in the RFP for Audit Services, key Finance Department staff made up the Selection Committee. The Committee was comprised of the Management Services Director, Financial Services Manager and the Utility Accountant. All three staff members have had experience in the governmental/non-profit audit selection process in previous employment experiences.

In the view of the Selection Committee, all proposals meet the technical proposal requirements. Some of the technical requirements included the affirmation that the firm is independent as defined by generally accepted auditing standards, and are licensed to practice in the State of California. Other requirements are for each firm to have experience in performing governmental audits and experience auditing governmental entities similar to Lompoc.

It appeared to the Selection Committee that a primary difference between the proposals, that is significant to the Finance Department operations, is the amount of staff time each proposer anticipates to support their audit process. One proposer suggests significant support by Finance Department staff to assist with providing information so that they can perform the audit efficiently. Other proposers suggest minimal reliance on Finance Department staff for support. Obviously, there has to be coordination between City staff and any audit firm to successfully complete a financial audit. However, due to significantly fewer resources available to the Finance Department today as compared with previous years, staff recommends minimizing the use of staff time to support the audit firm's work.

Another difference is the stated number of hours each firm anticipated to complete the City and Agency audits. Following is a summary of the hours proposed by each firm:

<u>Firm</u>	<u>Hours</u>
Glenn, Burdette, Phillips & Bryson	325
JJACPA, Inc.	366
Teaman, Ramirez & Smith	400
Diehl, Evans & Company	500
Brown Armstrong Accountancy Corp	600
Moss, Levy, Hartzheim	N/A

The firms of Moss, Levy, Hartzheim and Glenn, Burdette, Phillips & Bryson have offices in the region (San Luis Obispo and Santa Barbara Counties) and both conduct audits of governmental entities in the region. The other firms are located in the State of California. Location of the firms was not a consideration in the technical review of the capabilities of the firm. Firms could base their proposed prices, in part, on their relative proximity to the City of Lompoc. The RFP did not specify for firms to identify their out-of-pocket costs associated with the proposals.

The sealed dollar proposals received by the City Clerk on December 10, 2010, were provided to the Selection Committee on January 7, 2011. The Selection Committee had previously evaluated the technical proposals of the proposers and had determined the relative ranking of each proposal as follows (highest ranking first):

Brown Armstrong Accountancy Corp
Glenn, Burdette, Phillips & Bryson
JJACPA, Inc.
Diehl, Evans & Company
Moss, Levy, Hartzheim
Teaman, Ramirez & Smith

Financial Impact:

Section C (3) of the RFP reflects that the process specifically does not include requirements to award a proposal to the lowest responsible proposer. Professional services contracts, in contrast to public works projects that are required by State law to award contracts to the lowest responsible proposer, are not governed by the State's public works laws. As this is a professional services contract, weight is given to the technical qualifications of the proposers. Price of the contract is a factor in the recommendation, but is not the only factor. In addition, in some cases, the current audit firm is prohibited from proposing in the current RFP process. The City's RFP did not include this prohibition, specifically because price is not the only factor used in considering the proposals received.

Price of the proposed contract is a consideration, though, and following are the cost proposals in order of cost for the entire contract term (including (2) one-year optional extensions):

<u>Firm</u>	<u>5-Year Total</u>	<u>Annual Average</u>
Moss, Levy, Hartzheim	\$185,850	\$37,170
JJACPA, Inc.	200,915	40,183
Teaman, Ramirez & Smith	213,400	42,680
Glenn, Burdette, Phillips & Bryson	228,975	45,795
Diehl, Evans & Company	230,499	46,100
Brown Armstrong Accountancy Corp	315,050	63,010

As a comparison, the charges for audit services over the last three years have averaged \$33,300, which includes the RDA, Single Audit, and preparation of financial statements (City staff prepared the financial statements in conjunction with the audit firm in one out of the last three years).

A portion of the cost of each proposal is attributable to the work necessary to prepare the Lompoc Redevelopment Agency's audit and basic financial statements. Those costs have historically been paid by the Agency and will be

paid for by the Agency as part of the proposed contract. The proposals identify the first year cost to the Agency of between \$2,125 and \$17,400 with the other four proposals between \$4,000 and \$8,095 for the same period. The remainder of the costs have typically been budgeted in the City's General Fund.

Conclusion:

Responses to criteria within the various contract proposals identify differences between the firms. One primary difference is that Moss, Levy, Hartzheim, the City's current auditor, has proposed the lowest cost, while Brown Armstrong has proposed the highest cost (a difference of over \$25,000 per year). Brown Armstrong is proposing approximately 600 hours for their annual audit work, almost twice as much as Glenn, Burdette, Phillips & Bryson's 325 hours.

The Council and Agency can provide direction to staff as to a primary decision regarding the choices. Is there interest to change the external auditor after two successive contracts with the same firm? Does this interest outweigh the annual cost savings from continuing with the external auditor for another three to five years? If it does, then should staff be directed to contract with the next lowest proposer, or would the Council and Agency members rely on the recommendation of the Selection Committee to contract with Glenn, Burdette, Phillips & Bryson (their highest rated selection after taking into consideration the relative costs of the proposals).

APPROVED FOR SUBMITTAL TO THE CITY ADMINISTRATOR:

Brad Wilkie
Management Services Director/Agency Treasurer

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Laurel M. Barcelona
City Administrator/Executive Director

Attachments:

[Audit Request for Proposal \(RFP\) – 2011 with exhibits](#)

Exhibit A – Fund listing

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