



City Council Agenda Item

City Council Meeting Date: April 6, 2021

TO: Jim Throop, City Manager

FROM: Christie Donnelly, Accounting and Revenue Manager
c_donnelly@ci.lompoc.ca.us

SUBJECT: Award of a Professional Services Agreement for Annual Financial Auditing Services to Lance, Soll & Lunghard, LLP, for the City of Lompoc and the Successor Agency Private-Purpose Trust Fund

Recommendation:

Staff recommends the City Council:

- 1) Direct staff to either:
 - a. Award a Professional Services Agreement with the highest ranked proposer, Lance, Soll & Lunghard, LLP, for a total agreement amount not to exceed \$148,384 for three years with two optional years not to exceed \$103,935; or
 - b. Enter into an agreement with the next highest ranked proposer, and
- 2) Authorize the City Manager to execute the agreement in a form approved by the City Attorney, and authorize the Management Services Director to execute other such documents necessary to complete the audits on an annual basis; or
- 3) Provide alternate direction to enter into an agreement with any of the other responsible proposers, or to reject all proposals and provide direction for the Fiscal Year (FY) 2020-21 audit requirements only.

Background:

Necessity

The City is subject to annual financial audits. That 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 Controller's Office, debt obligations, federal financial assistance, and to allow for the publication of financial information for transparency and accountability.

The format of the presentation of the audited financial statements is in accordance with the Governmental Accounting Standards Board (GASB) pronouncements. The audits are performed in accordance with auditing standards generally accepted in the United States and the standards set forth for financial audits contained in the General Accounting Office's Government Auditing Standards (2018) issued by the Comptroller General of the United States. Consistent presentation allows comparison of the City's financial information to other governmental agencies throughout the country. It also allows outside interests, such as bondholders, the information necessary to evaluate their current or future investments. Since the City's information is presented in the same format as other governmental reporting entities, reasonable and meaningful comparisons can be made between and among governmental entities by anyone inside or outside the government workplace.

In addition, the provisions of the Federal Single Audit Act of 1984 as amended in 1996, and Title 2 of the Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), commonly known as a "single audit", outlines the requirements for audits of State and local governments and non-profit organizations. The City 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.

Comprehensive Annual Financial Report

One of the primary goals related to the fiscal audit process is to issue a Comprehensive Annual Financial Report (Report). The Report is the standard reporting level for California municipal agencies, and is eligible to be considered for a Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Award (Award). During the previous contract term, the Finance Division worked diligently with its prior auditors to return to the annual reporting level of preparing a Report that would be eligible for the Award. In addition to being eligible for an Award for excellence, the Report provides a higher level of reporting, which helps the City make better decisions based on statistical data and past trends. The City, in conjunction with support by its previous auditors, has been given the Award every year since FY 2016-17. It is important to select an audit firm that will support the continued goal of achieving the Award in future years.

Multi-Year Contract

Most California based governmental entities issue multi-year contracts for audit services (typical length is three to six years) as significant resources are typically necessary from both the agency and the firm in the first year of an engagement. An initial year of an audit requires the audit firm to perform several preliminary steps regarding assessments of internal controls that increase their time (and cost). Those additional steps also increase the level of City resources necessary to support the assessments during the initial year of the audit. The use of a multi-year contract reduces the overall cost of the audit and the firm can typically quote a lower overall cost as a result.

Legislative Actions and Prior Audit Firm

In the 2012 legislative year, Assembly Bill 1345 was chaptered to amend Section 12410.5 of, and to add Section 12410.6 to, the Government Code, related to audits. Noteworthy changes to the audit process include:

- Beginning with FY 2013-14, a local agency shall not employ a public accounting firm to provide audit services if the lead audit partner has performed audit services for that local agency for six consecutive fiscal years.
- For purposes of calculating the six consecutive fiscal years, the local agency shall not take into account any time a public accounting firm was employed by the local agency prior to FY 2013-14.
- The audit report shall be submitted to the State Controller within nine months after the period audited (this is not a change from earlier requirements).
- If a local agency does not submit the audit within nine months, the State Controller may appoint a certified accountant to complete the report at the agency's cost.

For the City, the prior audit firm (Glenn Burdette) had been under contract since FY 2010-11. For the purposes of the provisions of Section 12410.6, the lead audit partner responsible for reviewing the audit was changed in 2015. With another rotation in audit partner responsibility for review of the audit for FYs 2021-23 and optional FYs 2023-25, the prior audit firm is eligible to provide audit services through the term of the proposed contract, and they were therefore invited to submit a proposal.

Although the prior audit firm, with required partner rotation, is eligible under the terms of the legislation to provide professional audit services for FYs 2021-23, and optional FYs 2023-25 terms, considerations of audit independence and new perspective were weighed against potential challenges resulting from a change in auditors who have significant knowledge of the City's financial systems.

Discussion:

Request for Proposal (RFP) Process

The primary goal in the process to award a contract for professional audit services is to allow the successful proposer to have adequate time to prepare for the initial fiscal year's audit (2021-22) which would likely start in the May 2021 timeframe with planning and interim fieldwork activities. Delaying the process could limit the potential proposers due to scheduling conflicts of existing contracts of audit firms.

The RFP was issued on January 15, 2021, and closed at 4:00 p.m. on February 24, 2021. The RFP was posted on the City's website and on the website of the California Society of Municipal Finance Officers (CSMFO), affiliated with the California League of Cities and the statewide association of City Finance Directors as well as finance officials for several other types of agencies in California. The distribution of the RFP through CSMFO ensured the widest distribution to eligible providers. In addition to being published on those websites, the solicitation to bid was published in the Lompoc Record and was announced to more than ten potential bidders. Seven proposals were received by the City Clerk by the deadline. The RFP stated it was expected a firm would be selected by March 17, 2021, and a contract executed March 31, 2021; however, the RFP also required the proposals be firm and irrevocable for 60 days. Because of that, each of the seven respondents' proposals are effective until April 25, 2021, and the City can, but is not obligated to, award the contracts within that period. However, if that time frame is not met, the proposals will no longer be effective, unless the proposers agree to extend that deadline.

RFP Results

The seven firms that responded to the RFP, in alphabetical order, were:

- 1) Atlas Firms,
- 2) Brown Armstrong Accountancy,
- 3) Glenn Burdette,
- 4) Lance, Soll & Lunghard, LLP,
- 5) Moss, Levy & Hartzheim,
- 6) Van Lant & Fankhanel, LLP, and
- 7) Vasquez & Company, LLP.

The Selection Committee was comprised of the Interim Financial Services Manager and the Accounting and Revenue Manager. The Management Services Director provided oversight to the committee. All three staff members have had experience in the governmental/non-profit audit selection process.

Mandatory Requirements

Some of the mandatory requirements included the affirmation that the firm is independent as defined by generally accepted auditing standards, and is licensed to practice in the State of California. Other mandatory requirements were for the firm to have no conflict of interest with regard to any of the work performed by the firm for the City, demonstrate a record of quality audit work, and adhere to the instructions in the RFP.

In the view of the Selection Committee, five of the seven proposals met the mandatory requirements, while two firms did not meet the minimum mandatory elements.

Technical Requirements

The five firms that met the mandatory elements as noted above were evaluated for their technical quality. Technical quality scores were divided into two categories: A) Expertise & Experience, and B) Audit Approach. Combined, the technical elements accounted for 75% of the firm's overall score.

A) Expertise and Experience – 45%

The firm's past experience and performance on comparable government engagements carried the most weight in the evaluation. As a full-service city, the City's financial systems are complex and require specific knowledge and experience commensurate with such a municipality. Specific items considered with expertise and experience included: quantity and length of experience with full-service city audits, SEFA¹ experience, and Successor Agency experience. In addition, experience with, and ability to assist the City with implementation of new GASB pronouncements was considered as part of expertise. Finally, the quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation were evaluated.

B) Audit Approach – 30%

The firm's audit approach was also evaluated as part of the firm's overall technical quality. Adequacy of the proposed staffing plan for the various segments of the engagement, as well as the adequacy of the sampling techniques and analytical procedures were evaluated.

¹ Schedule of Expenditures of Federal Awards

Evaluation Results – Technical

In reviewing the proposals, a primary difference between the proposals was in regards to the firms' experience with similar governmental agencies. Some firms reported experience with as few as five other less complex cities, and no specific SEFA experience, while others reported extensive experience with both small full service cities similar to Lompoc, as well as larger complex cities. This experience is valuable as the City continues to improve in its services and considers a variety of financial tools to support its fiscal goals.

Another significant distinction among the proposers was the firm's expertise and ability to assist the City with implementation of new GASB pronouncements. In the 26 years before to the City's prior audit team started its engagement with the City (1984-2010), GASB had issued a total of 58 pronouncements, an average of about 2 pronouncements per year. In the past 10 years (2010-2020), GASB has issued 38 pronouncements, almost doubling the rate of new pronouncements. Current expectation is that GASB will continue to issue pronouncements at this increased rate, issuing complex guidelines that will require significant staff training and research to properly implement. The top two ranked firms reported partner-level involvement with the GFOA as reviewers for the Award, which provides a distinct advantage in understanding what is required for the Award. They also noted specific training workshops for clients. The top proposer offered client-specific training and webinars.

Another difference among proposers was the experience and skill levels for the Engagement Partner, Senior Management, and the Senior Staff of the proposers. That depth of knowledge for the top-ranked proposals equated to a team with over 63 years of experience versus two proposals with approximately 53 years, and two others that did not specify years of experience for the engagement team. Also considered were the total number of hours proposed for the audit engagement, including interim fieldwork and SEFA. While technology, sampling, and analytical procedures are expected to be implemented to streamline the audit process and minimize the time-burden on City staff, it is important for an audit firm to dedicate sufficient time and expert staffing to an engagement. Hours expected to be spent on the audit were reported by proposers ranging from 349 hours total for the shortest engagement (Glenn Burdette) to 533 hours total for the longest (Brown Armstrong), with an average of 422 hours among all proposers.

Based on all Expertise & Experience and Audit Approach measurements, following is a summary of the ranking assigned according to technical requirements only:

- 1) Lance, Soll & Lunghard, LLP
- 2) Brown Armstrong Accountancy
- 3) Glenn Burdette

- 4) Van Lant & Fankhanel, LLP
- 5) Vasquez & Company, LLP

Fiscal Impact:

Section C(3) of the RFP specifies the award of the contract is not determined solely by 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 a professional services contract, weight is given to the technical qualifications and experience of the proposers. Therefore, price of the contract is a factor in the recommendation, but is not the only consideration. Each proposer was requested to provide the cost of providing the following services:

- City audit services, to include Successor Agency audit services;
- Single Audit services; and
- Gann Limit agreed upon procedures service.

As price of the proposed contract constitutes 25% of the overall consideration, following are the cost proposals in order of the entire cost for the contract term (including (2) one–year optional extensions):

<u>Firm</u>	<u>5-Year Total</u>	<u>Annual Average</u>
Vasquez & Company, LLP	\$ 238,912	\$ 47,782
Lance, Soll & Lunghard, LLP	252,319	50,464
Van Lant & Fankhanel, LLP	255,225	51,045
Brown Armstrong Accountancy	259,000	51,800
Glenn Burdette	270,605	54,121

The City’s FY 2020-21 budget includes appropriations for audit services. Since audits are performed after the fact, the FY 2020-21 budget appropriations provided for services performed for the FY 2019-20 reporting year. The 2020-21 appropriations for audit services included:

- \$55,500 in 110NON-533310 – Professional Services – Audit Services – City
- \$ 3,000 in 648SA-533310 – Professional Services – Audit Services – Successor Agency

It is expected that appropriations for audit services will continue to be included in the upcoming Biennial Budget FYs 2021-23 at the same rate as the FY 2020-21 budget. The appropriations for audit services are expected to include (per year):

- \$ 55,500 in 110NON-533310 – Professional Services – Audit Services – City
- \$ 3,000 in 648SA-533310 – Professional Services – Audit Services – Successor Agency

Conclusion:

Combined Total Results:

The audit selection committee recommends the selection of the highest ranked overall proposer, Lance, Soll & Lunghard, LLP. The rankings are based upon weighted scores equal to 75% of the Technical requirements rankings and 25% of the Pricing rankings. While the individuals on the audit committee did not rank all proposers in the same order, the first and second ranks were clearly distinguished from the remaining three considerations and were unanimous. In addition, the audit selection committee supports the position that a “fresh perspective” of the City’s financial reports and processes is in order and that the time is right to switch audit firms. The overall rankings, taking both technical requirements and pricing into consideration are:

- 1) Lance, Soll & Lunghard, LLP
- 2) Brown Armstrong Accountancy
- 3) Glenn Burdette
- 4) Van Lant & Fankhanel, LLP
- 5) Vasquez & Company, LLP
- 6) Moss, Levy & Hartzheim
- 7) Atlas Firms

Selection of an external audit firm for the audit of the FY 2020-21 financial statements and statements through FYs 2025-26 will insure the City is compliant with State law regarding annual audits and continuing disclosure requirements for issued debt. If required, the audit firm will also provide Single Audit services for federal awards received by the City or the Successor Agency during the term of the agreement.

Respectfully submitted,

Christie Donnelly, Accounting and Revenue Manager

APPROVED FOR SUBMITTAL TO THE CITY MANAGER:

Dean Albro, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager