



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JUNE 4, 2019

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**SUBMITTED BY:** KENNETH A. DOMER, CITY MANAGER

**PREPARED BY:** CLAIRE MOYNIHAN, ACTING ADMINISTRATIVE SERVICES DIRECTOR

**SUBJECT:** CONTRACT FOR FINANCIAL AUDIT SERVICES

---

### **SUMMARY**

*The Government Finance Officers Association's (GFOA) Best Practice for Audit Procurement* ("Best Practice") recommends governmental entities undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract. Staff is recommending that the City enter into a new contract for audit services.

### **RECOMMENDATION**

1. Authorize the Administrative Services Director to execute a five-year agreement with Lance, Soll & Lunghard, LLP (LSL) for audit services in a form approved by the City Attorney.
2. Authorize the Administrative Services Director, based on direction from the City Manager or City Council, to enter into agreements with Lance, Soll & Lunghard, LLP, White Nelson Diehl Evans, LLP or Davis Farr, LLP for optional services on an as-needed basis based on the submitted hourly cost proposals.

### **PRIORITY POLICY STATEMENT**

This item matches the following Priority Policy Statement/s:

- Fiscal and Organizational Stability.

### **FISCAL IMPACT**

The annual costs for the first three years is \$61,680, with a 3% inflation factor in years four and five, for a total five-year cost not to exceed \$314,000. Of this five-year total,

approximately \$248,000 will be charged to the General Fund, with the remaining amount charged to various special revenue funds.

## DISCUSSION

As mentioned, *GFOA Best Practice* recommends governmental entities undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract. GFOA also recommends entering into multiyear agreements of at least five years. "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." GFOA recommends that governments "actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory."

On April 4, 2019, the Fiscal Services Manager circulated a Request for Proposal (RFP) to the ten firms performing financial statement audits in all local cities within Orange County. The City Purchasing Manager posted the RFP to the *Public Purchasing* website and to the City website. The scope of work for the RFP included the audit and reports for the City's financial statements, the Single Audit, the Air Quality Improvement Trust Fund and GANN Appropriations Limit Agreed-Upon Procedures. Additionally, the following optional services were requested to be bid on: Preparation of the annual State Controller's Report, review of the annual fiscal analysis of costs and liabilities related to Memorandum of Understanding between recognized employee associations and the City, review of fiscal analysis of proposals, Agreed-Upon-Procedures, as requested and defined by the City, Tax consulting and Cost Accounting. Bids for the optional services were requested to be hourly rates with the expectation that the City would utilize the services of qualified firms on an as-needed basis.

There were seven qualified proposals submitted. The review panel consisted of the Administrative Services Director and the Accounting Supervisor, who reviewed the technical proposals. The technical proposals were reviewed separately from the cost proposals. The technical review was completed May 22, 2019. The review panel narrowed down the selection to the following two audit firm proposals:

Lance, Soll & Lunghard, LLP (LSL)	\$314,000
White Nelson Diehl Evans LLP (WNDE)	\$288,450

The Administrative Services Director then reviewed the cost proposals. In evaluating the two proposals, LSL audit coverage includes 579 hours of audit work, while the WNDE proposal includes 417 hours. This time difference is noteworthy, and in developing an average hourly rate for the entire audit, LSL's average hourly rate of \$108 compares more favorably to WNDE's average hourly rate of \$135 and provides an additional 162 hours (28%) more audit coverage. While the City has worked with both of these firms and view them both favorably, the LSL proposal demonstrates a more in depth understanding of the current audit requirements of the City.

The City has contracted with the independent audit firm of LSL for the past eight years and has been pleased and satisfied with the quality of the services LSL has provided. *GFOA Best Practice* contemplates the selection of the current audit firm and indicates that “where audit firm rotation does not result from this process, governments may consider requesting that senior engagement staff, such as engagement partners and senior managers, be rotated to provide a fresh perspective.” This is also consistent with California Government Code Section 12410.6.(b), which limits the lead audit partner on an audit engagement to six consecutive fiscal years. In its proposal, LSL has incorporated rotation of the lead audit partner. Considering the City’s positive experience with LSL’s knowledge and experience, the overall competitive fees and the number of audit hours provided, Administrative Services recommends contracting with LSL for its financial audit services.

Attachments:

- Attachment 1 – Technical Proposal from Lance, Soll & Lunghard, LLP
- Attachment 2 – Cost Proposal from Lance, Soll & Lunghard, LLP
- Attachment 3 – Cost Proposal from White Nelson Diehl Evans LLP
- Attachment 4 – Cost Proposal from Davis Farr LLP