

CITY OF LOS ANGELES

# Annual and Single Audit of the City of Los Angeles

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Fiscal Years 2013-14, 2014-15 and 2015-16

Agreement between City of Los Angeles and Macias, Gini & O'Connell, LLP

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**Agreement between the City of Los Angeles  
and Macias, Gini & O'Connell, LLP for  
the Annual and Single Audit of the City of Los Angeles**

This Agreement is entered into between the City of Los Angeles, a municipal corporation ("City") and Macias, Gini & O'Connell, LLP ("Auditor" or "Contractor"), for the performance of the 2013-14, 2014-15 and 2015-16 Annual and Single Audits of various City offices, bureaus and departments (the "Audit" or "Audits"), with reference to the following facts:

**WHEREAS**, the City desires the services of an independent auditor to perform an audit pursuant to the Los Angeles City Charter Section 362; and

**WHEREAS**, the City desires the services of an independent auditor to perform a single audit pursuant to the Single Audit Act of 1984 (Public Law 98-502), as amended in 1996 (Public Law 104-156), U.S. Office of Management and Budget ("OMB") Circular A-133 and Generally Accepted Government Auditing Standards; and

**WHEREAS**, the City solicited and evaluated proposals for the Audit from various firms and selected the Auditor as having presented the best proposal overall; and

**WHEREAS**, the Auditor's services are of a professional nature, and temporary and occasional in character;

**NOW THEREFORE**, in consideration of the premises and of the covenants, representations and agreements set forth herein, the parties hereby covenant, represent and agree as follows:

**I. Representatives of the Parties and Service of Notices**

The representatives of the respective parties who are authorized to administer this Agreement and to whom formal notices, demands and communications shall be given are as follows:

- A. The City hereby appoints the City Controller ("Controller"), or designee, to represent the City with respect to amendments or other matters related to the scope of this Agreement, provided that any matter, including amendments, which will increase the City's financial obligation hereunder shall be presented to the City Council for its consideration and approval.
- B. The Controller shall represent the City of matters related to the conduct of the Audit and shall review and approve all payment invoices submitted by the Auditor.

C. The representative of the Controller shall be:

Todd Bouey  
Director of Financial Analysis and Reporting  
200 N. Main St., Room 300  
Los Angeles, CA 90012  
[Todd.bouey@lacity.org](mailto:Todd.bouey@lacity.org)

D. The Auditor's representative shall be:

Jim Godsey  
Partner  
Macias, Gini & O'Connell, LLP  
777 South Figueroa, Ste 2500  
Los Angeles, CA 90017  
[jgodsey@mgocpa.com](mailto:jgodsey@mgocpa.com)

E. Formal notices, demands and communications to be given hereunder by either party shall be made in writing and may be effected by email, personal delivery or by registered or certified mail, postage prepaid, return receipt requested and shall be deemed communicated as of the date of mailing.

F. If the name of the person designated to receive the notices, demands or communications or the address of such person is changed, written notice shall be given, in accord with this section, within five (5) working days of said change.

## II. Auditor's Services

A. The Auditor shall perform an audit of the various City offices, bureaus, and departments in accordance with the requirements set forth in this article.

i) Examination of the City's Basic Financial Statements (BFS). Auditor will conduct a financial audit of the City's BFS in accordance with Generally Accepted Auditing Standards (GAAS) as set by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America and express an opinion on the fair representation of the City's BFS, in conformity with Generally Accepted Accounting Principles (GAAP). The Auditor will apply limited procedures, consisting of inquiries of management regarding methods of measurement and presentation, on required supplementary information (RSI) provided for by GAAP. The RSI include the following:

a) Management's Discussion and Analysis

- b) Schedules of Funding Progress for Pension Benefits
- c) Budgetary Comparison Schedules for Major Funds
- ii) Auditor will provide an 'in-relation' to the BFS opinion on supplementary fund financial statement and supporting schedules included.
- iii) Auditor will also provide assistance to the City to meet the requirements of the Government Financial Officers Association (GFOA) Certificate program by reviewing the City's Comprehensive Annual Financial Report (CAFR) for consistency with the audited financial statements and completion of the GFOA Certificate program checklist before submission of the CAFR to GFOA by December 31<sup>st</sup> of each year.

B. Audit of the Sewer Construction and Maintenance Fund (SCM) financial statements prepared in accordance with GAAP.

- i) Prepare the final financial statements and notes for the SCM from the final adjusted trial balance prepared by Public Works.
- ii) Auditor shall express an opinion on the fair representation of the SCM financial statements in accordance with GAAP. Auditor shall annually prepare and deliver with the financial statements, a certificate showing a computation of net revenue to debt service and indicating that, during the fiscal year for which financial statements were audited, the City was in compliance with its rate covenant as set forth in Section 6.03(b) of the Wastewater System Revenue Bonds General Resolution and the Wastewater System Subordinate Revenue Bonds General Resolution, or if the City was not in compliance, showing the ratio of net revenues to debt service for the year.
- iii) Prepare a report addressed to management presenting findings and recommendations to improve or correct if necessary, any accounting controls and/or management practices. Provide technical assistance to the City in areas of accounting and financial reporting by providing consultation services and advise on appropriate accounting treatment of various SCM fund expenditures and transactions in the books and financial statements in accordance with GAAP.

C. Examination of the Municipal Improvement Corporation Los Angeles (MICLA) financial statements prepared in accordance with GAAP.

- i) Auditor shall prepare draft financial statements and notes of MICLA based on information provided by the City and the Controller to ensure that the financial statements are presented fairly in accordance with GAAP. Auditor will express an opinion on the fair representation of the financial statements according to GAAP.

- ii) Auditor will present management with any findings and recommendations to improve or correct, as necessary, any accounting controls and/or management practices at the conclusion of the audit.
- iii) Auditor will also prepare and assist the City to submit the following tax forms for MICLA:
  - a) Federal Form 990 – Return of Organization Exempt from Income Tax
  - b) State Form 199 – Exempt Organization Annual Information Statement or Return
  - c) State Form RRF 1-1 – Periodic Report to Attorney General of California

D. Compilation and examination of the Mobile Source Air Pollution Reduction Trust Fund in accordance with guidelines issued by the South Coast Air Quality Management District.

- i) Auditor shall prepare draft financial statements and notes of the Air Quality Improvement District based on information provided by the Los Angeles Department of Transportation to ensure that the financial statements are presented fairly in accordance with GAAP. Auditor will express an opinion on the fair representation of the financial statements according to GAAP.
- ii) Auditor will present management with any findings and recommendations to improve or correct, as necessary, any accounting controls and/or management practices at the conclusion of the audit.

E. Review of the GANN Appropriations Limit

- i) Auditor will perform the agreed upon procedures agreed to by the City and League of California Cities (as required by Section 1.5 of Article XIII B of the California Constitution) to the calculation of the annual appropriations limit.
- ii) Auditor will present management with any findings and recommendations at the conclusion of the audit.

F. Cost Allocation Plan (CAP)

- i) Auditor will audit rates developed for each CAP and the application of CAP rates. Auditor will render an opinion on each of the following components of CAP:
  - a) Central Services
  - b) Fringe Benefit Rates
  - c) Departmental Administration and Support Rates
  - d) Departmental Compensated Time Off (paid leave) Rates

G. Data Processing

- i) Auditor will review the City's financial systems in accordance with current audit standards. For the 2014-15 fiscal year audit, Auditor will provide a Report on Controls placed in Operation and Tests of Operating Effectiveness in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization for the Data Processing component of the Information Technology Agency.

#### H. Single Audit

- i) Perform the financial audit of the City, the SCM, and their various funds in conformance with the requirements of the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996, OMB Circulars, GAAS, and GAGAS. In addition to the report on the Basic Financial Statements discussed in Section II, A of this Agreement, the single audit reports must include the following:
  - ii) A report on internal accounting controls made as a part of the audit of the Basic Financial Statements;
  - iii) A report on compliance with laws and regulations that may have a material effect on the Basic Financial Statements;
  - iv) A report on the supplementary Schedule of Federal Financial Assistance;
  - v) A report on compliance with laws and regulations related to major federal financial assistance programs;
  - vi) A report on internal controls (Accounting and Administrative) used in administering federal financial assistance programs; and,
  - vii) Reports on fraud, abuse, or illegal acts or indication of such acts, including all questioned costs found as the result of these acts, information of which should be covered in a separate written report and transmitted immediately to the appropriate federal department or agency, the Controller, and any other agency or individual which should receive a report under current professional standards.

#### I. Reports to Management

- i) Following the completion of the audit of the fiscal year's financial statements, the Auditor shall issue:
  - a) A report on the fair representation of the financial statements in conformity with generally accepted accounting principles, including an opinion on the fair representation of the supplementary schedule of expenditures of federal awards in relation to audited financial statements.
  - b) A report on compliance and internal control over financial reporting based on an audit of financial statements.
  - c) A report on compliance and internal control over compliance applicable to each major federal program.

- d) In the required report on compliance and internal controls, the Auditor shall communicate any significant deficiency or material weakness found during the audit. A significant deficiency shall be defined as a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected. A material weakness shall be defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of financial statements will not be prevented or detected. Significant deficiencies that are also material weaknesses shall be identified as such in the report.
- e) Control deficiencies discovered by the Auditor that are neither significant deficiencies nor material weaknesses shall be reported in a separate letter to management, which shall be referred to in the report on compliance and internal controls. A control deficiency shall be deemed to have occurred whenever the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- f) The reports on compliance and internal controls shall include all instances of noncompliance.
- g) The Auditor shall be required to make an immediate written report of all irregularities and illegal acts or indications of illegal acts of which they become aware of to the following parties:
  - Mayor
  - City Council
  - City Controller

#### J. Optional Audit Services

- i) Optional Audit Services listed below must be authorized by a separate agreement(s) or by amendment to this Agreement.
- ii) SCM. In addition to the services in Section V above, Auditor may be requested to perform the following additional services:
  - a) Recommend modifications to SCM Fund accounting methods and procedures, including, but not limited to, developing recommended guidelines to distinguish capital costs from operating and maintenance costs;
  - b) Review, as required, audited and unaudited financial information to be included in official statements of prospective series of Wastewater System Revenue Bonds, including review and comment on the official statement; and,

- c) Review, as required, various City departments' charges to the SCM Fund to verify the accuracy and appropriateness of such charges.
- iii) Additional Audit Activity. Auditor may be asked to perform additional audits related to the annual audit.
- iv) Sale of Debt Securities. The City may prepare one or more official statements in connection with the sale of debt securities, which will contain the audited financial statements. The Auditor must, if requested by the City or the fiscal advisor and/or underwriter to issue a "consent and citation of expertise" as the Auditor and any necessary "consent letters."

**III. Term of the Agreement**

- A. The term of this agreement shall commence on its effective date and terminate on December 31, 2017.
- B. The City may extend the term of this agreement to include the audits of fiscal years 2016-17 and 2017-18. The exercise of such option shall be by written amendment. Hourly rates defined in section V will be adjusted by the consumer price index for all urban consumers for Los Angeles, Riverside and Orange Counties (published by the U.S. Department of Labor) for the agreement year.

**IV. Payment and City's Obligation**

**A. Hourly Rates**

The City will pay the Auditor for services rendered in conducting the 2013-14, 2014-15 and 2015-16 Audits and the services requested under Section V of this Agreement at the following hourly rates:

<b>Position</b>	<b>Rate</b>
Client Services Partner	\$290
Technical Review Partner	\$290
Engagement Director	\$245
Consulting Director	\$245
Engagement Manager	\$150
Senior	\$110
Associates	\$100

**B. Total Basic Audit Cost**

The City's total annual obligation under this agreement for services enumerated in Section V above shall not exceed

<b>Year</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Amount</b>	\$810,890	\$894,967	\$810,890

**C. Changing Standards and Additional Grant Programs**

Funds are included for additional audit work related to changing auditing standards, additional federal grant programs, changing financial reporting standards, and assistance requested by the City. Auditor must submit a plan and cost estimate with hours to complete the work which must be approved by the Controller. The Controller will issue a written approval to authorize the work. The City's total obligation for this work, if such work is requested by the City, shall not exceed:

<b>Year</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Amount</b>	\$100,000	\$100,000	\$100,000

**D. Total Obligation**

The City's total obligation for each of the annual audit periods shall not exceed:

<b>Year</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Amount</b>	\$910,890	\$994,967	\$910,890

**E. Funding for the 2013-14, 2014-15 and 2015-16 audits**

The Audits for the 2013-14, 2014-15 and 2015-16 are subject to appropriations by the Mayor and City Council.

**V. Invoices**

A. Invoices may be billed once a month to the Controller ATTN: Director of Financial Reporting. Invoices must include:

- i) Summary of work performed during the period for which payment is requested
- ii) Show employees, their title, hourly rate and hours worked
- iii) Statement showing hours and amount billed broken down by the component of the audit worked on.

**VI. Auditor Personnel**

A. The Auditor agrees that the following employees are designated as key personnel assigned to work of the audit:

<b>Name</b>	<b>Title</b>
James V. Godsey	Client Services Partner
Caroline Walsh	Technical Review Partner
Bhakti Patel	Director
Jean Horimoto	Director
Jack Ponvanit	Manager
Lita Hendranata	Manager
Erica Gonzalez	Senior
Imram Karim	Senior
Terry Robertson	Senior
Lana Dich	Senior

- B. Auditor must submit names and qualifications of all additional audit personnel assigned to the audit to the Controller for approval prior to their beginning work on the audit. Auditor must also notify Controller of the removal of any of the key personnel listed above from the audit team and any replacement must be approved by the Controller.

**VII. Audit Work Papers**

- A. The Auditor will retain the audit working papers and reports for each audit period for three (3) years after the date of issuance of the Auditor's report(s) to the City. This may be extended if so directed by the federal cognizant audit agency of the City or in accordance with City requirements. The audit working papers and reports for each audit period will be made available to the authorized representatives of the cognizant audit agency, the U.S. General Accounting Office, federal inspectors general, the State Controller and the Controller of the City of Los Angeles throughout the working papers and reports retention period.
- B. The Auditor will provide the Controller with copies of Auditor's internal control documentation, risk assessment and evaluation.

**VIII. Deliverables and Reports**

- A. Four copies of each of the following reports will be submitted to the City Clerk for consideration by the City Council and its committee(s). The remaining copies in the numbers indicated will be submitted to the department indicated. An electronic copy of each report must also be provided.

<b>Report</b>	<b>Number of Copies</b>	<b>Department</b>
Single Audit Reports	200	Controller
Sewer Construction and Maintenance Fund Financial Statements	100	Public Works
Other Reports	25	Public Works
Report to Management	50	Controller
Cost Allocation Plan (each of three parts)	25	Controller
Data Processing	25	ITA 5
AB 2766	15	Transportation
GANN Appropriations Limit	15	City Administrative Officer
Municipal Improvement Corporation	25	Controller

B. Draft copies of the report(s) will be released to the CAO, Controller and Chief Legislative Analyst not less than 15 days prior to release of each final report(s), unless other timeframes are called for in Section V, to allow time to review tentative findings and provide appropriate input. Copies of the draft SCM fund report will also be given to the Department of Public Works.

C. Final Reports are due no later than the date indicated below unless the time is extended by the Controller.

<b>Report</b>	<b>Annual Due Date of Final Draft</b>	<b>Annual Due Date of Final Report</b>
GANN Limitation		August 30 <sup>th</sup>
AB2766	October 14 <sup>th</sup>	October 31 <sup>st</sup>
SCM Audited Financial Statements	October 31 <sup>st</sup>	November 15 <sup>th</sup>
City Audited Financial Statements		December 15 <sup>th</sup>
Comprehensive Annual Financial Report		December 31 <sup>st</sup>
SCM Management Report		February 1 <sup>st</sup>
Single Audit Report	March 3 <sup>rd</sup>	March 31 <sup>st</sup>
Cost Allocation Plan	April 30 <sup>th</sup>	June 1 <sup>st</sup>
Management Report		March 31 <sup>st</sup>

D. In addition to the required reports, the Auditor will also be required to provide the following deliverables:

- i) While conducting the audit, the firm will meet monthly, or more frequently, if necessary, with the Director of Financial Analysis and Reporting or designee regarding the status of the audit. The firm will also be required to meet periodically with the Director, Office of Accounting, Board of Public Works to discuss the SCM audit.
- ii) The firm must file a written monthly status report with the Director of Financial Analysis and Reporting. The report must address the status of the audit, any problems encountered, any problems unresolved from prior periods and any other items the Auditor wishes to bring to the attention of the Director of Financial Analysis and Reporting.
- iii) The firm must also file as needed status reports with the Director, Office of Accounting, Board of Public Works for the SCM audit. The format of the information will be the same as that used to report to the Director of Financial Analysis and Reporting. Further, all information in the reports to the Director, Office of Accounting, Board of Public Works must also be included in the report to the Director of Financial Analysis and Reporting.

E. The Auditor shall assure themselves that the City Council is informed of the following:

- The Auditor's responsibility under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments
- Auditor's judgment about the quality of the City's accounting principles
- Other information in documents containing audited financial statements
- Disagreements with management
- Management consultation with other accountants
- Major issues discussed with management prior to audit
- Difficulties encountered in performing the audit

F. Presentations to Council

- i) The Auditor must be available to present all reports and correspondence with Management to City Council and Council Committees.
- ii) The Auditor must be available to provide testimony at Council meetings and Council Committees upon request by the Director of Financial Analysis and Reporting on audit and financial issues.

## **IX. First Source Hiring Ordinance (FSHO)**

- A. Unless otherwise exempt, in accordance with the provisions of this Ordinance, this agreement is subject to the applicable provisions of the First Source Hiring Ordinance, Section 10.44 et seq. of the Los Angeles Administrative Code, as amended from time to time.
- B. CONTRACTOR/CONSULTANT shall, prior to the execution of the contract, provide to the DAA a list of anticipated employment opportunities that CONTRACTOR/CONSULTANT estimate they will need to fill in order to perform the services under the Contract. The Department of Public Works Office of Contract Compliance is the Designated Administrative Agency (DAA)
- C. CONTRACTOR/CONSULTANT further pledges that it will, during the term of the Contract, shall a) At least seven business days prior to making an announcement of a specific employment opportunity, provide notifications of that employment opportunity to the Community Development Department (CDD), which will refer individuals for interview; b) Interview qualified individuals referred by CDD; and c) Prior to filling any employment opportunity, the CONTRACTOR/CONSULTANT shall inform the DAA of the names of the Referral Resources used, the names of the individuals they referred, the names of the referred individuals who the CONTRACTOR/CONSULTANT interviewed and the reasons why referred individuals were not hired.
- D. Any Subcontract entered into by the CONTRACTOR/CONSULTANT relating to this Agreement, to the extent allowed hereunder, shall be subject to the provisions of FSHO, and shall incorporate the FSHO.
- E. CONTRACTOR/CONSULTANT shall comply with all rules, regulations and policies promulgated by the designated administrative agency, which may be amended from time to time.
- F. Where under the provisions of Section 10.44.13 of the Los Angeles Administrative Code the designated administrative agency has determined that the CONTRACTOR/CONSULTANT intentionally violated or used hiring practices for the purpose of avoiding the article, the determination must be documented in the Awarding Authority's Contractor Evaluation, required under Los Angeles Administrative Code Section 10.39 et seq., and must be documented in each of the Contractor's subsequent Contractor Responsibility Questionnaires submitted under Los Angeles Administrative Code Section 10.40 et seq. This measure does not limit the City's authority to act under this article.

G. Under the provisions of Section 10.44.8 of the Los Angeles Administrative Code, the Awarding Authority shall, under appropriate circumstances, terminate this contract and otherwise pursue legal remedies that may be available if the designated administrative agency determines that the subject CONTRACTOR/ CONSULTANT has violated provisions of the FSHO.

**X. Compliance With Los Angeles City Charter Section 470(c)(12)**

A. Contractors, Subcontractors, and their Principals are obligated to fully comply with City of Los Angeles Charter Section 470(c)(12) and related ordinance, regarding limitations on campaign contributions and fundraising for certain elected City officials or candidates for elected City office if the contract is valued at \$100,000 or more and requires approval of a City elected official. Additionally, Outside Counsel is required to provide and update certain information to the City as specified by law. Any Contractor subject to Charter Section 470(c)(12), shall include the following notice in any contract with a subcontractor expected to receive at least \$100,000 for performance under this contract:

Notice Regarding City of Los Angeles Campaign Contribution and Fundraising Restrictions

As provided in Charter Section 470(c)(12) and related ordinances, you are subcontractor on City of Los Angeles Contract #\_\_\_\_\_. Pursuant to City Charter Section 470(c)(12), subcontractor and its principals are prohibited from making campaign contributions and fundraising for certain elected City officials or candidates for elected City office for 12 months after the City contract is signed. Subcontractor is required to provide to contractor names and addresses of the subcontractor's principals and contact information and shall update that information if it changes during the 12 month time period. Subcontractor's information included must be provided to contractor within 10 business days. Failure to comply may result in termination of contract or any other available legal remedies including fines. Information about the restrictions may be found at the City Ethics Commission's website at <http://ethics.lacity.org/> or by calling (213) 978-1960.

**XI. Incorporation of Documents**

- A. The Contractor agrees to comply with the Standard Provisions for City Personal Services Contracts, revised 03/2009, which are attached hereto as Attachment A and made a part hereof.
- B. The Contractor agrees that all employees assigned to the Audit must sign the Confidentiality Agreement attached hereto as Attachment B and made a part hereof.

## **XII. Order of Document Precedence**

A. In the event of an inconsistency between any of the provisions of this Agreement and/or the Appendices, the inconsistency shall be resolved by giving precedence in the following order:

- i) Provisions of this Agreement
- ii) Attachment A: Standard Provisions for City Personal Services Contracts

IN WITNESS WHEREOF, the City of Los Angeles and the Auditor have caused this Agreement to be executed by their duly authorized representatives.

THE CITY OF LOS ANGELES

Macias, Gini & O'Connell, LLP  
777 South Figueroa, Ste. 2500  
Los Angeles, CA 90017

By \_\_\_\_\_  
Eric Garcetti, Mayor

By \_\_\_\_\_  
James V. Godsey, Partner

Date: \_\_\_\_\_

Date: \_\_\_\_\_

By \_\_\_\_\_  
Herb J. Wesson, Council President

Date: \_\_\_\_\_

APPROVED AS TO FORM  
Michael N. Feuer, City Attorney

ATTESTED  
Holly L. Wolcott, City Clerk

By \_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

City Business License Number: \_\_\_\_\_

Internal Revenue Service ID Number: \_\_\_\_\_

Said Agreement is Number \_\_\_\_\_ of City Contract

