



RON GALPERIN  
CONTROLLER

April 16, 2018

Honorable Eric Garcetti, Mayor  
Honorable Members of the Los Angeles City Council

**SUBJECT: ANNUAL AUDIT AND SINGLE AUDIT CONTRACT FOR FISCAL YEARS  
2017-18, 2018-19 AND 2019-20**

Charter Section 362 requires the City to contract with a certified public accountant for an independent audit of each City Department's income and expenditures. The federal Single Audit Act of 1984, as amended, also requires an independent audit of all funds granted to the City by federal agencies annually. The Audit Committee, comprised of the City Controller as Chair, the City Administrative Officer and the Executive Officer, Board of Public Works is tasked with the oversight of the selection of the independent auditor and providing the City Council with audit recommendations.

The Audit Committee was authorized by the City Council to prepare and release a request for proposal (RFP) for the audit of fiscal years 2017-18, 2018-19 and 2019-20 (Council File 13-0662) and report back to City Council with recommendations and a proposed contract reviewed by City Attorney as to form.

The Audit Committee requests that the City Council approve the selection of Macias, Gini and O'Connell, LLP as the City's auditor and award the contract for the annual and single audit of fiscal years 2017-18, 2018-19 and 2019-20, with options to extend the contract for two additional years.

**RECOMMENDATIONS**

That the City Council:

1. Authorize the Controller, with the assistance of the City Administrative Officer and the Board of Public Works to award the annual audit contract for the fiscal years 2017-18, 2018-19 and 2019-20, with options to extend the contract for up to two additional years covering 2020-21 and 2021-22, to Macias, Gini and O'Connell, LLP;
2. Authorize the Mayor and City Council President to execute the attached contract as reviewed by City Attorney as to form, on behalf of the City;

3. Instruct the Public Works, Office of Accounting to arrange for the Sewer Construction and Maintenance Fund to reimburse the General Fund in the amount of \$63,520 for the fiscal year 2017-18 audit. For audits of the following years, the fiscal year 2017-18 amount will be adjusted based on the increase in the consumer price index for all urban consumers for Los Angeles, Riverside and Orange Counties published by the U.S. Department of Labor ("Los Angeles CPI") for the agreement year;
4. Instruct the Department of Transportation to arrange for the Mobile Source Air Pollution Reduction Trust Fund to reimburse the General Fund in the amount of \$12,456 for the fiscal year 2017-18 audit. For audits of the following years, the fiscal year 2017-18 amount will be adjusted based on the increase in the Los Angeles CPI;
5. Instruct the Department of Housing and Community Investment to arrange for the Low and Moderate Housing Fund to reimburse the General Fund in the amount of \$32,642 for the fiscal year 2017-18 audit. For audits of the following years, the fiscal year 2017-18 amount will be adjusted based on the increase in the Los Angeles CPI;
6. Instruct the Department of Housing and Community Investment to arrange for the McKinney Act Savings Fund to reimburse the General Fund in the amount of \$15,246 for the fiscal year 2017-18 audit;
7. Request the Controller to work with the pertinent departments to reimburse the General Fund from various grant funds for their portion of the single audit where funds are available and where provisions of the grants provide for payment of audit costs directly or through the City's Cost Allocation Plan;
8. Include in the Adopted Budget funding in the General City Purposes budget for the audit of each fiscal year to cover the cost of the audit.

#### **FINANCIAL IMPACT STATEMENT**

The costs for the audits of fiscal years 2017-18, 2018-19 and 2019-20 are \$926,876, \$1,072,217 and \$949,394 respectively, which include base audit costs<sup>1</sup> of \$826,876<sup>2</sup>, \$972,217<sup>3</sup> and \$849,394 respectively and an additional \$100,000 per year reserved for contingencies. The funds are subject to budgetary appropriations by Mayor and City Council each year.

#### **DISCUSSION**

The RFP for the Annual and Single Audit of the City of Los Angeles was released on November 22, 2017. The RFP was prepared using Government Finance Officers Association (GFOA) best practices. The RFP was advertised in the Los Angeles Daily Journal and posted on the Los Angeles Business Assistance Virtual Network (LABAVN). A proposer's conference

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<sup>1</sup> Basic audit costs for the 2018-19 and 2019-20 are calculated assuming a 2.3% increase in the Los Angeles CPI over the 2017-18 audit costs.

<sup>2</sup> Basic audit costs for the 2017-18 audit includes cost for the McKinney Act Savings Fund Audit which is not part of the basic cost for subsequent audit years.

<sup>3</sup> Basic audit costs for the 2018-19 audit includes cost for the SSAE 16 review of the City's financial systems.

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was held on December 20, 2017. Proposals were received from three firms – Macias, Gini & O'Connell, LLP (MGO), Vasquez & Company, LLP (Vasquez), and Simpson and Simpson, CPAs (S&S).

#### Selection Process

The proposals were evaluated in three phases. In the first phase, the proposals were evaluated to ensure compliance with the City Business Inclusion Program requirements. All three firms were found to be in compliance.

The RFP required separate submission of Technical and Cost Proposals. The evaluation criteria for the technical and cost proposals were modeled on GFOA best practices for auditor selection. For phase two, the technical proposals were evaluated by the Audit Committee. The evaluation criteria used were i) the firm's experience (15 points); ii) the quality of the firm's personnel (20 points); iii) adequacy of the staffing (15 points); iv) adequacy of sampling techniques (15 points) v) adequacy of analytical procedures (15 points) and vi) treatment of optional audit work (5 points). MGO scored 236 out of a possible 255, S&S scored 220 and Vasquez came in third with 196.

Finally in phase three, the Cost proposals were evaluated by the Audit Committee for financial viability of the proposals. After the scores for the financial viability of the proposals were added, MGO placed first with 277.98 points. S&S was scored second with 257.96 points and Vasquez third with 236 points.

#### Macias, Gini & O'Connell LLP

MGO is the City's current auditors having been awarded the contract to conduct the audits of fiscal years 2013-14, 2014-15 and 2015-16. The option to add the audit of fiscal year 2016-17 was exercised and MGO is currently completing the audit.

MGO's State and Local Government is one of the largest in the U.S. and serves over 100 cities, 16 counties and more than 200 special purpose units of government. During the last 5 years, MGO has been the principal auditor for 9 of the 12 largest cities in California – Los Angeles, San Francisco, San Diego, San Jose, Fresno, Sacramento, Oakland, Riverside and Santa Ana.

MGO also has a long history as the City's auditor having assisted with the City's conversion from cash basis reporting to GAAP reporting and from there helped the City win their first ever GFOA CAFR award in 1995. MGO advised the City through the implementation of GASB 34 in 2002 and GASB 68 in 2015.

The proposed Client Service Partner, James (Jim) V. Godsey has over 30 years of experience in governmental auditing, training, accounting and management services. Jim has a long history of working with the City as part of the MGO team and as senior partner in Quezada, Godsey & Co. Caroline Walsh the proposed Assurance Partner has served on several AICPA, CalCPA and GASB technical, executive and advisory committees.

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This combination of expertise, experience and long history with working with the City provides the Audit Committee with confidence that awarding the annual audit and single audit contract to MGO is justified and in the best interest of the City.

Audit Contract

While the audit contract is written to cover a three year period, funds will be appropriated annually. The costs of the fiscal years 2017-18, 2018-19 and 2019-20 are \$820,867, \$972,217 and \$849,394 respectively. The Audit Committee further recommends appropriating an additional \$100,000 in addition to the annual base amount to pay for contingencies. This contingency amount would cover i) unforeseen work that may be necessary due to changing federal audit requirements, changing financial reporting standards and the City's participation in additional major grant programs, ii) unexpected delays or workload stemming from the City's inability to provide the required audit information or unavoidable delays in providing information and iii) to accommodate an increase in basic audit costs if the actual increase in the Los Angeles CPI exceeds the assumed rate of 2.3% used to estimate the basic audit costs.

The Audit Committee has prepared a proposed contract (attached), which provides for the fiscal year 2017-18, 2018-19 and 2019-20 audits plus two one-year renewal options. The contract has been reviewed by the City Attorney for form. The audits for each year are contingent on budget appropriations by Mayor and Council to fund the work.

General Fund Reimbursement

Affected City departments should pay for their portion of the audit from grant funds when such funds are available and grant provisions allow payment directly or through the City's Cost Allocation Plan. The cost of auditing the Sewer Construction and Maintenance Fund (\$63,520), Mobile Source Air Pollution Reduction Trust Fund (\$12,456), Low and Moderate Income Housing Fund (\$32,642) and McKinney Act Savings Fund (15,246) for the 2017-18 audit should be paid from those funds by reimbursing the General Fund. Fund reimbursements for subsequent audit years will be adjusted according to the increase in the Los Angeles CPI.

Sincerely,



Georgia Mattera  
Chief Deputy Controller



Richard Llewellyn  
City Administrative Officer



Fernando Campos  
Executive Officer  
Board of Public Works

Attachment(s)