



RON GALPERIN
CONTROLLER

April 26, 2017

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

The City Charter Section 362, provides that the City Council shall have the income and expenditures of each department, and office audited by an independent certified public accountant at the end of each fiscal year. The Audit Committee, composed of the Controller as Chair, the City Administrative Officer (CAO) and the Director of the Office of Accounting, Board of Public Works, is tasked with the oversight of the selection of the independent auditor and providing the City Council with audit recommendations. In June 2014, the City Council approved the Audit Committee's recommendations and authorized an agreement (C-124148) with Macias, Gini and O'Connell, LLP (MGO) to conduct the annual and single audits for fiscal years 2013-14, 2014-15, and 2015-16.

The Audit Committee is now requesting an extension of the agreement to allow MGO to conduct the audits for Fiscal Year 2016-17. Furthermore, the Audit Committee is requesting authorization to release a Request for Proposals (RFP) and to select and recommend an independent auditor to perform the annual and single audits for fiscal years 2017-18, 2018-19 and 2019-20, with potential extensions to include 2020-21 and 2021-22.

While it is not specifically identified in the contract amendment, there is sufficient funding in the contract contingency funding to allow for MGO to perform an independent financial audit of the Proposition HHH program should the City determine that such an audit is necessary.

RECOMMENDATIONS

The City Council authorize the Controller, with assistance from the City Administrative Officer and the Public Works, Office of Accounting to:

1. Approve the second amendment of Agreement C-124148 with Macias, Gini and O'Connell, LLP for an additional year to include the annual and single audits for Fiscal Year 2016-17;
2. Instruct the Board of Public Works, Office of Accounting to reimburse the General Fund \$67,914 for the Fiscal Year 2016-17 audit of the Sewer Construction and Maintenance Fund;
3. Instruct the Department of Transportation to arrange for the Mobile Source Air Pollution Reduction Fund to reimburse the General Fund in the amount of \$14,202 for the audit of the Mobile Source Air Pollution Reduction Trust Fund;
4. Release the attached Request for Proposals for the Annual and Single Audits for Fiscal Years 2017-18, 2018-19 and 2019-20 with two one-year renewal options;
5. Evaluate the proposals received; and
6. Report to the Council with an auditor recommendation and proposed contract reviewed by the City Attorney as to form

FINANCIAL IMPACT STATEMENT

The Fiscal Year 2016-17 audit is estimated to cost \$1,087,149. The proposed budget for fiscal year 2017-18 includes \$994,967 in General City Purposes (GCP) for the FY 2016-17 annual and single audit. An additional allocation of \$92,182 will be needed to cover the increase in cost.

DISCUSSION

Amendment to add Fiscal Year 2016-17 to scope of agreement C-124148

The current agreement to perform the City's Annual Financial and Single Audits will expire in December 2017 and includes the audits of Fiscal Years 2013-14, 2014-15 and 2015-16. This amendment will extend the agreement to December 2018, and allow MGO to perform the Fiscal Year 2016-17 audits. The audits are estimated to cost \$1,087,149 (includes \$100,000 contingency for changing standards and additional grant programs).

The detailed audit cost summary submitted by MGO is attached. This amount represents an increase of \$176,259 over the cost of the Fiscal Year 2015-16 audits. The increase is due to a contractually obligated consumer price index (CPI) adjustment, the scheduled Statement of Standards on Attestation Engagements (SSAE) 16 audit of the Information Technology Agency (ITA) and scope expansions for the Cost Allocation Plan (CAP) audit and the SSAE 16 audit. Details are as follows:

1. **CPI Increase:** The current agreement (City Contract C-124248) allows for adjustment of hourly rates by the CPI for all urban consumers for Los Angeles, Riverside and Orange Counties as published by the U.S. Department of Labor. The CPI increase for 2015 and 2016 applied to the hourly rates for this amendment is a cumulative 2.6%. This results in an increase of basic audit fees by \$7,138.
2. **SSAE 16 Audit:** ITA provides support for the City's financial systems on which the City depends to provide financial reports and information that is incorporated into the City Financial Statements. The information provided by these systems must be verified by the auditor in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16. The SSAE 16 audit provides an independent opinion on whether ITA's description of the City's financial systems is fairly represented and that its controls (to prevent, detect and correct errors and omissions in the financial information provided) over the financial systems are suitably designed. This audit is performed every two years. The last SSAE 16 audit was performed during the audit of the Fiscal Year 2014-15 for a cost of \$68,335. The base cost for the FY 2017-18 SSAE 16 audit is 70,132 (the increase is due to the 2.6% CPI adjustment).
3. **CAP Audit Scope Expansion:** The Controller's Office may implement a new software solution for CAP. This will require changes and refinement of existing process and methodology for compiling the CAP. If this occurs in fiscal year 2017-18, MGO will provide assistance to ensure appropriate adequate controls are in place for the new application and/or that the current process is adequately documented and controls are enhanced to reduce the risk of reporting errors.
4. **SSAE 16 Audit Scope Expansion:** There are significant changes being made to the City's financial systems and an expanded evaluation of the efficiency and effectiveness of internal controls on the City's Information Technology environment is needed. The changes are as follows:
 - **FMS 2.0, Procurement Module Implementation and transition to vendor hosted environment:** Review and testing of planned complementary user entity (City) controls that are necessary to meet the control objectives expressed by the

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service organization's description of its system of controls. Reporting will be in the format of an agreed-upon-procedures (AUP).

- PaySR: Design, review and test controls necessary to reduce the risk of misstatements caused by errors linked to the inadequacies in the current PaySR software. The transition period to a replacement system is currently projected to be as long as seven years. Reporting will be in the format of an AUP.
- LATAX: Conduct a Service Organization Controls report (SOC 1) examination in accordance with SSAE 16 following the implementation of the planned upgrades.

The Fiscal Year 2016-17 General City Purposes budget has an appropriation of \$994,967 for the fiscal year 2016-17 audit. An additional allocation of \$92,182 will be needed to cover the increase in cost.

Request for Proposal (RFP)

The Audit Committee is requesting authorization to release the attached RFP to perform the annual City and single audits. Proposals will include audits for fiscal years 2017-18, 2017-18 and 2018-19 with options for FY 2019-20 and 2020-21. This Committee will report back to the City Council with recommendations for an independent auditor and a proposed agreement.

Sincerely,



Georgia Mattera
Chief Deputy
Controller



Ben Ceja
Assistant City
Administrative Officer



Dr. Fernando Campos
Executive Officer
Board of Public Works

Attachment(s)