

RON GALPERIN
CONTROLLER

March 21, 2014

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

**SUBJECT: ANNUAL AND SINGLE AUDIT CONTRACT FOR FISCAL YEARS
2013-14, 2014-15 AND 2015-16**

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 and the federal Single Audit Act of 1984, as amended, 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 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.

The Audit Committee was authorized by the City Council to prepare and release a request for proposal (RFP) for the audit of fiscal years 2013-14, 2014-15 and 2015-16 (Council File 13-0662) and report back to City Council with an auditor recommendation 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 2013-14, 2014-15 and 2015-16.

RECOMMENDATIONS

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

1. Award the annual audit contract for the fiscal years 2013-14, 2014-15 and 2015-16 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 \$58,706 for each year's audit;
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 \$13,842;
5. 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;
6. Instruct the City Administrative Officer to budget for the audit of each fiscal year in the General City Purpose budget to cover the cost of the audit.

FINANCIAL IMPACT STATEMENT

The costs for fiscal years 2013-14, 2014-15 and 2015-16 are \$910,890, \$994,967 and \$910,890 respectively, which include base audit costs of \$810,890, \$894,967 and \$810,890 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

On November 6, 2013 the RFP for the Annual and Single Audit of the City of Los Angeles was released. 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 was held on November 21, 2013. 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) and v) treatment of optional audit work (5 points). MGO scored 248 out of a possible 255, S&S scored 238 and Vasquez came in third with 230.

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 282.92 points. Vasquez was scored second with 270.56 points and S&S third with 268.12 points.

Macias, Gini & O'Connell LLP

MGO has contributed to government accounting policy formulation through participation by partners and directors on national committees, technical publication and articles. Kevin O'Connell, the firm's managing partner, served on the GASB task force that developed guidelines to implement GASB Statements 43 and 45 related to Other Post Employment Benefits. James V. Godsey, the proposed Client Service Partner, participated in the GASB Pension Disclosure Task Force in 2008 and 2009. Caroline Walsh, the proposed professional standards partner participated in the Local Government Expert Panel task force. MGO partners and directors have participated over the last 15 years with the AICPA Government Accounting and Auditing Committee which is responsible for developing the AICPA's Audit and Accounting Guide for State and Local Governments. This policy expertise will be beneficial to the City. MGO is also the auditor for several of the largest Cities and Counties of California including the City and County of San Francisco and the Counties of Los Angeles and Orange. Key members of MGO were also part of the City's audit team prior to and during GASB 34 implementation working closely with City management to convert the City's accounting records from cash basis to accrual basis providing MGO with an intimate knowledge of the City's operations. The Audit committee feels confident that awarding the annual 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 2013-14, 2014-15 and 2015-16 are \$810,890, \$894,967 and \$810,890 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

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financial reporting standards and the City's participation in additional major grant programs, and ii) unexpected delays or workload stemming from the City's inability to provide the required audit information or unavoidable delays in providing information. The City has previously encountered delays caused by ERIP, staff reductions and managed hiring.

The Audit Committee has prepared a proposed contract (attached), which provides for the fiscal year 2013-14, 2014-15 and 2015-16 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 (\$58,706) and Mobile Source Air Pollution Reduction Trust Fund (\$13,842) should be paid from those funds by reimbursing the General Fund.

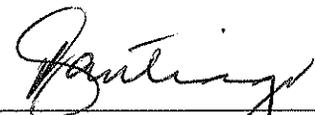
Sincerely,



Ron Galperin
City Controller



Miguel A. Santana
City Administrative Officer



Victoria Santiago
Director, Office of Accounting
Board of Public Works

Attachment(s)