

Agenda Report

TO: CITY COUNCIL **DATE:** January 14, 2007

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH MAYER
HOFFMAN McCANN P.C. FOR AUDIT SERVICES FOR FISCAL YEAR
2008

RECOMMENDATION

It is recommended that the City Council:

1. Authorize the City Manager to enter into a one year contract extension for Fiscal Year 2008, without competitive bidding pursuant to City Charter Section 1002(F) contracts for professional or unique services, with the public accounting firm of Mayer Hoffman McCann P.C., An Independent CPA Firm, Conrad Government Services Division to perform the annual audits of the financial statements of the City of Pasadena, the Pasadena Community Development Commission, the Rose Bowl Operating Company, and the Pasadena Center Operating Company. The maximum cost of services will be \$158,000.
2. Grant exemption for the proposed contract from the Competitive Selection process pursuant to Pasadena Municipal Code Section 4.08.049(B) contracts for which the City's best interests are served.

BACKGROUND

Section 912 of the City Charter requires the City Council to employ a certified public accountant to audit the City's books and records and report findings to the City Council.

Mayer Hoffman McCann P.C., an independent CPA firm, Conrad Government Services Division is the City's current auditor and has performed the annual audits since fiscal year 2001, when the firm was selected through a competitive selection process. The City's contract with Mayer Hoffman McCann P.C. was extended once before.

Fiscal Year 2008 will be the first year of implementation for eight new audit standards, commonly referred to as the suite of Risk Assessment Standards, which will add to the

complexity of the City's audit. Each of the Statements on Auditing Standards provides technical guidance for the performance of audits and increases the performance level required of the outside auditor. It will also increase the support expected from internal staff for both quantity and quality of documentation. Industry estimates have stated that the time required to comply with these standards may increase audit time 10% to 40%.

The title and a brief description of each of the new Statement on Auditing Standards follow:

SAS No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures (“Due Professional Care in the Performance of Work”) SAS 104 expands the definition of the term “reasonable assurance” to now require the auditor to obtain a higher level of assurance, which means they will collect greater and more specific amounts of audit evidence.

SAS No. 105, Amendment of Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards SAS 105 expands the quality and depth of the understanding that the auditor must have of the “entity and its environment” as well as internal controls.

SAS No. 106, Audit Evidence SAS 106 provides many definitions, clarifications, guidance, and descriptions on what constitutes “sufficient, appropriate audit evidence”, appropriate audit procedures, and “relevant assertions”.

SAS No. 107, Audit Risk and Materiality in Conducting an Audit SAS 107 increases a prior audit standard from auditors “should” to “must” consider audit risk and materiality for certain specified purposes. It also requires a number of items that the auditor will need to consider and document as the audit progresses.

SAS No. 108, Planning and Supervision SAS 108 provides new guidance on preliminary engagement activities, including the development of an overall audit strategy and an audit plan, which will be more detailed than previously required.

SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement SAS 109 describes the audit procedures that the auditor should perform to obtain the understanding of the entity and its environment, including its internal controls. It also provides extensive guidance on the matters that should be documented.

SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained SAS 110 provides guidance on determining overall responses to address the risks of material misstatements at the financial statement level and the nature of those responses. It also provides guidance in determining the nature, timing, and extent of audit procedures.

SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling SAS 111 provides guidance related to the auditors judgment about

establishing tolerable misstatement for a specific audit procedure and on the application of sampling to tests of controls.

With the implementation of these new audit standards, the continuity provided by the existing auditing firm will be of significant benefit to the City. The proposed fees reflect a nominal 2.5 percent increase with an additional increase of 3.9 percent for the mandated eight audit standards. This results in a combined increase of 6.4 percent over the prior year contract. The Government Finance Officers Association (GFOA) has estimated that the new audit standards alone are likely to cause audit fees to increase 10 to 15 percent. Mayer Hoffman McCann P.C. will rotate in a new audit partner to provide a new level of independence.

Given the firm's expertise in servicing local governmental entities and extensive knowledge of Pasadena's complex financial structure, staff recommends extending the Mayer Hoffman McCann P.C. contract. This ensures that the City's auditing needs are best served. The proposed contract would provide for audit services for fiscal year 2008.

FISCAL IMPACT

The maximum cost of the fiscal year 2008 audit under the terms of the proposed contract is \$158,000. Funds for the 2008 audit will be included in the FY2009 Recommended Operating Budget. The Pasadena Community Development Commission, Rose Bowl Operating Company, and the Pasadena Center Operating Company will each pay for their respective audits.

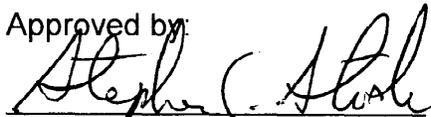
Fiscal Year Ending June 30, 2008	
City General Fund	\$ 99,142
PCDC	27,100
PCOC	14,322
RBOC	<u>17,437</u>
	\$ <u>158,000</u>

Respectfully submitted,



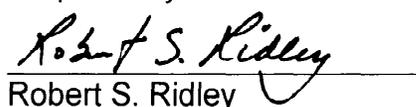
Bernard K. Melekian
City Manager

Approved by:



Stephen C. Stark
Director of Finance

Prepared by:



Robert S. Ridley
Controller

**Disclosure Pursuant to the
City of Pasadena Taxpayer Protection Amendment
Pasadena City Charter, Article XVII**

Contractor/Organization hereby discloses its trustees, directors, partners, officers, and those with more than 10% equity, participation, or revenue interest in Contractor/Organization, as follows:

(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor/Organization Name:
Mayer Hoffman McCann P.C.

2. Type of Entity:
 non-government nonprofit 501(c)(3), (4), or (6)

3. Name(s) of trustees, directors, partners, officers of Contractor/Organization:

<i>See attached</i>

4. Names of those with more than a 10% equity, participation or revenue interest in Contractor/Organization:

<i>None</i>

Prepared by: *[Signature]*
Title: *Ken Al-Imam, Shareholder*
Phone: *949-474-2020 x273*
Date: *1/10/08*

Mayer Hoffman McCann P.C.

<u>Name</u>	<u>Role</u>	<u>City Location</u>	<u>Phone</u>	<u>E-mail</u>
Bill Hancock	President & Chairman	Kansas City	913-234-1043	bhancock@cbiz.com
Rich Howard	Vice President	Orange County, CA	949-450-4402	rhoward@cbiz.com
Barry Berkowitz	Treasurer	Philadelphia	610-862-2222	bberkowitz@cbiz.com
Ernie Baugh	Secretary	Chattanooga	423-870-0511	ebaugh@mhm-pc.com
Frank Maughan	Board	Salt Lake City	801-364-9300	fmaughan@cbiz.com
Paul Nation	Board	San Diego	858-795-2000	pnation@cbiz.com

Board of Directors

Ex-Officio, non-voting Board Member

Steve Henley

Board

Atlanta

770-858-4443

shenley@cbiz.com

Officer, not on Board of Directors

Ann Perkins

Assistant Secretary

Cleveland

216-525-1853

aperkins@cbiz.com