

Agenda Report

TO: City Council

DATE: June 22, 2009

THROUGH: Finance Committee

FROM: City Manager

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH MAYER HOFFMAN McCANN P.C. FOR AUDIT SERVICES FOR FISCAL YEARS 2009 - 2013

RECOMMENDATION

It is recommended that the City Council authorize the City Manager to execute a contract with the public accounting firm of Mayer Hoffman McCann P.C. 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 proposed contract is exempt from competitive bidding pursuant to City Charter Section 1002(F), Contracts for Professional or Unique Services.

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.

It is the policy and practice of the City of Pasadena to open the audit contract to competitive bids every three to five years.

Mayer Hoffman McCann P.C. (formerly Conrad and Associates, LLP) 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 initial contract term was for three years with a one year extension option. In 2005, the City entered into a contract for an additional three years. In 2008, a one year extension to this contract was approved with the condition that the audit firm rotate audit partners. In compliance with this, both a new Senior Partner and a new audit Manager were rotated in.

Request for Proposal

On March 23, 2009, Request for Proposal (RFP) packets were made available on the City's website and notice was sent to all vendors who had previously registered for notification. Additionally, Finance notified ten auditing firms. Final proposals were due April 22, 2009 and seven firms submitted proposals. The top three firms were interviewed by a five member panel.

Evaluation Criteria

Each firm was evaluated based on the competitive selection process, in which the evaluation of proposals was not limited to price alone. Technical merit and firm capability were also given significant consideration in the selection process.

The competitive selection evaluation criteria were as follows:

- A) *Firm Qualifications*: Technical experience of the firm as documented by experience in auditing similar entities and performing the type of work outlined; size and structure of the firm; ability to provide ongoing technical support when necessary. (30 points)
- B) *Personnel Qualifications*: Qualifications of Partners and staff at various levels. The City expects the field senior in-charge to be a CPA candidate with at least three years experience in auditing municipalities or other governmental entities. (30 points)
- C) *Methodology*: Responsiveness of the proposal in clearly stating an understanding of the audit service to be performed, including appropriateness and adequacy of proposed procedures, reasonableness of time estimates and timeliness of expected completion. (10 points)
- D) *Dollar Cost Bid*: Cost of contracted services. (20 points)
- E) *Local Preference*: Local Pasadena Businesses receive a 5% preference. (5 points)
- F) *Small and Micro-Business*: Small and Micro-businesses receive a 5% preference. (5 points)

Evaluation

Based on an initial screening, the top three firms were interviewed separately on May 13, 15, and 27, 2009. The interviewing team was composed of the Director of Finance, Controller, Senior Internal Auditor, and Chief Financial Officers of RBOC and PCOC.

The three firms were ranked as follows (100 points possible):

Mayer Hoffman McCann, PC	87
Caporicci & Larson	81
Brown Armstrong	75

(None of these three firms qualified for the Local Preference or Small/Micro Business Preference of 5 points each)

Discussion of Criteria Evaluated

The recommendation for selection of Mayer Hoffman McCann is based on evaluation of the selection criteria and includes:

Firm Qualifications:

- 8th largest national CPA firm
- 5 shareholders in Irvine office specialize in governmental auditing
- Currently auditing over 100 local governments, some of which match or exceed the City of Pasadena in size or complexity (Cities of Beverly Hills, Burbank, Riverside, Santa Monica)
- Expertise in area of complex Utility transactions and number of Utility clients
- Over 400 professional level employees involved with government auditing, guaranteeing adequate staffing of audit engagement

Mayer Hoffman McCann received the highest scores in this area and has demonstrated the ability to provide a high quality audit and high level of technical support.

Personnel Qualifications:

- Engagement Manager with twenty years municipal audit experience
- Separate staff assigned to RBOC and PCOC audits with very high levels of experience
- Seasoned engagement staff, where Pasadena is not the training ground
- Leadership role in governmental accounting

Mayer Hoffman McCann received the highest scores in this area and is able to provide the most experienced audit team.

Methodology:

- All firms interviewed clearly demonstrated their understanding of the audit services to be performed, including the appropriateness and adequacy of proposed procedures, reasonableness of time estimates, and timeliness of expected completion.

Dollar Cost Bid:

- The total five year price for six of the seven firms is listed below:

Caporicci & Larson	\$663,750
Mayer Hoffman McCann	692,663
Brown Armstrong	695,500
Lance Soll & Lunghard	765,260
Vavrinek, Trine, Day & Co.	781,361
Macias Gini & O'Connell	1,191,486
Vasquez & Company	*

* Vasquez and Company provided pricing for the first year of service only at \$158,900.

There are some pros and cons in the selection of Mayer Hoffman McCann (MHM) due to the fact that they have been our auditing firm.

Pros:

- MHM is ranked as the top choice
- MHM has already proven that they can do the job
- MHM staff has demonstrated the highest level of professionalism in their work
- The City will benefit from efficiencies in not having to break in new auditors
- MHM has a proven record of expert and timely service
- MHM has a demonstrated commitment to effective communication to management, Audit Committee, and City Council
- MHM is already known to RBOC and PCOC management and Boards
- MHM expertise in audit of Electric Utility and Public Housing Authorities
- MHM has rotated in new Audit Partner and Engagement manager while maintaining staff continuity
- Continuity of staff allows efficiency in audit time to perform more tests or look at more areas
- Selection of another firm may delay reporting during the first year of audit
- The first and often second year of audit by a new firm are largely spent in covering the basics required of every audit. The City of Pasadena is a complex entity and there is a learning curve for auditors
- The first year of audit by a new firm adds a significant time burden to staff
- MHM has excellent references
- Due to the Conrad and Associates merger with Mayer Hoffman McCann on January 1, 2006, this is not entirely the same firm with whom the City contracted in 2001. Only three years have been audited since the merger

Cons:

- This is not the selection of a new firm
- MHM was the second lowest price bid. The lowest price bid was \$28,913 lower over five years or approximately \$5,800 less per year

Given the firm's qualification as the top selection due to their expertise in servicing local governmental entities, staff recommends selection of Mayer Hoffman McCann P.C. This ensures that the City's auditing needs are best served. The proposed contract would provide audit services for fiscal years 2009 through 2013 with the option to extend for three one year terms.

FISCAL IMPACT

The maximum costs of the fiscal year 2009 through 2013 audits under the terms of the proposed contract are listed below. Funds for the FY2009 audit have been included in the FY2010 Recommended Operating Budget. The Rose Bowl Operating Company and the Pasadena Center Operating Company will each pay for their respective audits.

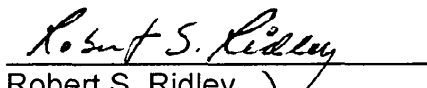
	FY2009	FY2010	FY2011	FY2012	FY2013
City	\$ 74,360	75,847	77,365	78,912	80,491
PCDC	24,640	25,133	25,636	26,149	26,672
PCOC	16,500	16,830	17,167	17,510	17,860
RBOC	<u>17,600</u>	<u>17,952</u>	<u>18,311</u>	<u>18,677</u>	<u>19,051</u>
	\$ <u>133,100</u>	<u>135,762</u>	<u>138,479</u>	<u>141,248</u>	<u>144,074</u>

Respectfully submitted,

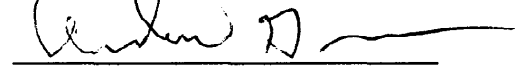


607 Michael J. Beck
City Manager

Prepared by:


Robert S. Ridley
Controller

Approved by:


Andrew Green
Director of Finance

**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:

William L. Hancock, Shareholder
Michael A. Harrison, Shareholder
Ken Al-Imam, Shareholder
Jennifer Farr, Shareholder
**See our website (www.mhm-pc.com) for a list of all Mayer Hoffman McCann, P.C. Shareholders

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

None

Prepared by: Michael A. Harrison

Title: Shareholder

Phone: (949) 474-2020

Date: April 23, 2009