



Agenda Report

October 26, 2015

TO: Honorable Mayor and City Council/Successor to Pasadena Community Development Commission

FROM: Assistant City Manager

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH MACIAS GINI & O'CONNELL LLP TO PERFORM A FRAUD RISK ASSESSMENT

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Grant an exemption for this contract pursuant to Pasadena Municipal Code (PMC) Section 4.08.030 (1002)(F), Contracts for professional services where the City is best served by a direct award of a contract without the a further competitive selection process. This contract is exempt from competitive bidding pursuant to City Charter section 1002(F), contracts for professional or unique services.
3. Authorize the City Manager to execute a contract with Macias Gini & O'Connell, LLP to perform a fraud risk assessment for six major City departments in an amount not to exceed \$171,400 with a one year term.

BACKGROUND:

On January 5, 2015, the City Council held a special meeting on the Underground Utilities Program Audit Discussion. As part of the presentation staff reviewed the details of an employee embezzlement scheme involving the loss of

approximately \$5.9 million from the Underground Utilities fund. As part of the discussion, staff from the Public Works and Finance departments presented work plans that addressed improvements in internal controls and employee accountability. The City Council requested in addition to the department's plans that a separate, comprehensive assessment of the City's fraud risk and internal controls be completed citywide. In order to make this more manageable for staff to oversee, six departments were chosen to be the first ones to undergo the assessment. This assessment is the first of a two or three-phase assessment of all City departments and is intended to be completed this fiscal year.

On February 18, 2015, Request for Proposal (RFP) packets were made available on the City's website and notice was sent to all vendors who previously registered for notification. Additionally, Finance notified a number of qualified auditing firms. Final proposals were due April 13, 2015. Twelve firms submitted proposals.

The firms were asked to use the following scope of work as a guide for submission:

1. Evaluation of the City departments listed through interviews with City employees;
 - a. Interviews with the City Manager, two Assistant City Managers, and six department Directors;
 - b. Interviews with managers and staff involved in departmental operations and financial transactions in six major departments;
 - i. Finance Department
 - ii. Public Works Department
 - iii. Housing and Career Services Department
 - iv. Human Services and Recreation Department
 - v. Public Health Department
 - vi. Transportation
2. Evaluation of current processes and procedures including evaluation of the "approval workflow" setup in the new Tyler Munis system, use of Purchasing Cards (City credit cards), all electronic payment methods, and special handling same-day payment requests;
3. Identification of potential fraud risk factors and schemes specific to the vulnerabilities of City government;
4. Identification of the need for staff training on internal control policies and procedures;
5. Identification of areas lacking supervision of the implementation of policies and procedures;
6. Prioritization of the fraud risks based on the assessment;

7. Reporting of the fraud risks identified and recommendations for preventive actions;
8. Evaluation of monitoring activities currently in place and recommendations for improvements and ongoing monitoring;
9. Development of a Fraud Prevention, Practices and Procedure Manual.

Each firm was evaluated based on the competitive selection process where the evaluation of proposals was not limited to price. Technical merit and firm expertise and capacity were also given significant consideration. The initial evaluation was performed by the Interim Director of Finance/Assistant City Manager, the Fiscal Services Administrator, and the Controller.

The competitive selection evaluation criteria were as follows:

Firm Qualifications: Technical experience of the firm will be documented by experience in auditing/fraud risk assessment of similar municipal entities and performing the type of work outlined; size and structure of the firm; ability to provide ongoing technical support, when necessary. (30 points)

Personnel Qualifications: Qualifications of staff to be assigned to the contract. The City expects the field senior in-charge to be a CPA with at least three years of experience in auditing/fraud assessment for municipalities or other governmental entities. (30 points)

Methodology: Responsiveness of the proposal in clearly stating an understanding of the audit/fraud risk assessment services to be performed, including appropriateness and adequacy of proposed procedures, reasonableness of time estimates and timeliness of expected completion. (10 points)

Dollar Cost Bid: Cost of contracted services. (20 points)

Local Preference: Local Pasadena businesses receive a 5 percent preference. (5 points)

Small and Micro-Business: Small and micro-businesses receive a 5 percent preference. (5 points)

Based on an initial screening, the top five firms were interviewed separately in September 2015. The interviewing team included the Interim Director of Finance, the Controller, and the Fiscal Services Administrator. On September 29, 2015, the Chair of the Task Force on Financial Administration and the Interim Director of Finance interviewed the top candidate.

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

Macias Gini & O'Connell, LLP	88.0
White Nelson Diehl Evans, LLP	76.3
KPMG	75.3
Vasquez & Company	74.0
Moss Adams, LLP	72.7

The recommendation for selection of Macias Gini & O'Connell (MGO) is based on evaluation of the selection criteria and includes:

Firm Qualifications:

- Statewide accounting firm with over 230 professionals.
- Core team members with strong and diverse specialized backgrounds, most being Certified Fraud Examiners as well as Certified Public Accountants.
- Experience performing enterprise risk assessments.
- Utilization of cutting edge tools and methods.
- MGO is a member of the BDO Alliance USA.
- Seven office locations; Sacramento, Walnut Creek, Oakland, Los Angeles, Newport Beach, and San Diego.
- MGO has been a leader in the Governmental audit field for a number of years.

Personnel Qualifications:

- Eight member engagement team of senior level partners and staff.
- Credentials include Certified Public Accountant, Certified Fraud Examiner, and Certified Internal Auditor.
- Diverse and related backgrounds such as Finance Director and FBI agent.
- Seasoned engagement staff who understand the City's expectations.

Methodology:

- Determine the City's tolerance for fraud risk.
- Evaluate the effectiveness of existing controls including Tyler Munis (approval workflow), Purchasing Cards, electronic payments and special handling and same-day payment requests.
- Report on the compliance and effectiveness of existing controls, monitoring and prioritizing of fraud risks and recommendations on best practices.
- Provide training on fraud prevention and practices.
- Development of fraud prevention, practices and procedures manual.

- MGO's customized approach will incorporate all nine elements identified by the Association of Certified Fraud Examiners as the most common internal control weaknesses that contribute to fraud schemes.
- The Fraud Risk Assessment will also incorporate factors defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), specifically COSO's internal control framework.

Dollar Cost Bid:

Firm, office location, and fraud risk assessment cost for the twelve firms are listed below:

Baker Tilly	New York	\$ 494,979
Eadie and Paine, LLP	Redlands	475,601
KPMG	Los Angeles	323,850
Lance, Soll & Lunghard	Brea	120,100
Macias Gini & O'Connell	Los Angeles	171,400
McGladrey	Los Angeles	414,000
Moss Adams, LLP	Los Angeles	160,778
Plante & Moran, LLP	Chicago	240,000
Sotomayer & Associates	Pasadena	1,587,500
Vasquez & Company	Los Angeles	195,646
Vicenti, Lloyd & Stutzman, LLP	Glendora	394,875
White Nelson Diehl Evans, LLP	Irvine	\$ 300,000

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:

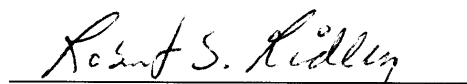
The cost of this action will be \$171,400. Funding for this action will be addressed by the utilization of existing budgeted appropriations in account 10111000-811400, City Manager Department – Contracted Services. It is anticipated that most, if not all, of the cost will be spent during the current fiscal year. The remainder of the costs, if any, will be spent in the next fiscal year.

Respectfully submitted,



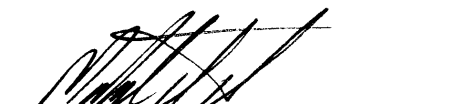
JULIE A. GUTIERREZ
Assistant City Manager

Prepared by:



Robert S. Ridley
Controller

Approved by:



MICHAEL J. BECK
City Manager

Attachment: 1 - Taxpayer Protection Amendment