

Agenda Report

June 1, 2020

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

THROUGH: Finance Committee (May 28, 2020)

FROM: Director of Finance

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH WHITE NELSON DIEHL EVANS LLP FOR AUDIT SERVICES FOR FISCAL YEARS 2020 – 2022, WITH TWO ONE-YEAR OPTIONS

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Sections 15060 (c)(2), 15060 (c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Authorize the City Manager to enter into a contract, as a result of a competitive selection process pursuant to Pasadena Municipal Code Section 4.08.047, with White Nelson Diehl Evans LLP (WNDE) to perform the annual audits of the financial statements for the City of Pasadena, the Successor to the Pasadena Community Development Commission (PCDC), the Rose Bowl Operating Company (RBOC), the Pasadena Center Operating Company (PCOC), the Pasadena Community Access Corporation (PCAC), the City's Air Quality Improvement fund, the City's Housing Successor fund, the Foothill Workforce Development Board fund, and other agreed to procedures using an "enhanced" audit methodology in an amount of \$678,260 for three years and;
3. Authorize the City Manager to award two one-year extensions, FY 2023 for an amount of \$237,470 and FY 2024 for an amount of \$244,600.

BACKGROUND:

Section 912 of the City Charter requires the City Council to employ a certified public accountant to examine the City's records, books, inventories, 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.

Lance, Soll & Lunghard LLP, Certified Public Accountants (LSL) has been the City's auditor and has performed the annual audits from fiscal year 2015 through fiscal year 2019. LSL was selected through a competitive selection process.

On February 21, 2020, 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 eighteen auditing firms. Final proposals were due March 12, 2020. Seven firms submitted proposals. Two of the firms have offices in Pasadena.

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 expertise and capacity were given significant consideration. Additionally, firms were asked to supply price proposals for both a "standard" audit and an "enhanced" audit that requires that the size of audit samples be increased beyond those required by professional standards to include samples from all funds. Their proposals must include an explanation of how they will increase samples sizes and sampling from all funds.

The proposals were reviewed and evaluated by staff from the Department of Finance. The staff used the following criteria for evaluation, as was provided as part of the RFP:

Criteria	Weight
Firm Qualifications	25%
Personnel Qualifications	25%
Methodology	10%
Methodology of Expanded Scope	15%
Dollar Cost Bid	15%
Local Pasadena Business Preference	5%
Small and Micro-Business Preference	5%
Total	100%

Based on the scoring, the four most qualified firms were interviewed on April 22 and 23, 2020. The interviewing team included the Director of Finance, Controller, Assistant General Manager of Pasadena Water and Power, two Principal Accountants, and the Director of Finance from PCOC.

The four firms ranked as follows (100 points possible):

<u>Firm</u>	<u>Office</u>	<u>Score</u>
White Nelson Diehl Evans LLP	Irvine	81.2
Macias Gini & O'Connell LLP	Los Angeles	79.3
Lance, Soll & Lunghard, LLP	Brea	79.3
Eide Bailey LLP	Pasadena	77.5

The recommendation for the selection of WNDE as the highest ranking proposal is based on the evaluation of the selection criteria and includes:

Firm Qualifications:

- Regional accounting firm, which specializes in municipal audits.
- Member of the American Institute of Certified Public Accountants (AICPA) Governmental Audit Quality Center.
- National Top 200 Firms –Inside Public Accounting ranked 136th.
- Six partners who specialize in governmental auditing.
- On an annual basis issues over 150 reports on audits of governmental agencies.
- One hundred fifty employees, 50 who specialize in municipal auditing.
- Eight current audit engagements with cities utilizing Tyler Munis (our ERP software).
- Two office locations; Irvine and Carlsbad.

Personnel Qualifications:

- Partners who sit on the Governmental Accounting Auditing (GAA) Committee, a subcommittee of the California Society of CPAs.
- Partner responsible for enhanced audit procedures is a Certified Fraud Examiner.
- Audit managers and audit supervisors are all Certified Public Accountants with a minimum of six-years of audit experience.
- Seasoned engagement staff, where Pasadena is not the training ground.
- Twelve to thirteen staff members are assigned to our engagement.

Methodology:

- All firms interviewed demonstrated their understanding of the audit services to be performed.
- WNDE will determine materiality for each fund and increase sample sizes until they have reduced the assessed risk to a low level of control risk.
- This will increase the number of samples from each fund to a minimum of 25 to 40 samples.
- WNDE uses IDEA data analysis software to select and test samples.

Options Offered:

- The City requested cost proposals for both a “standard” audit and an “enhanced” audit primarily so that the City could understand the cost of increased sampling.
 - The enhancement requested is for samples to be pulled from all funds, not just across all funds.
 - In the first year of the audit, the additional cost is \$30,950.
 - For the first three years, the additional cost is \$95,960.
 - For all five years, if utilized, the enhanced sampling cost is \$172,350.

The City has not contracted with White Nelson Diehl Evans LLP in the past.

The recommended action is the selection of the “enhanced” audit for the first three years. The use of the “enhanced” or “standard” for the two optional year audits will be discussed with the Finance/Audit Committee prior to optional years four and five of the audit contract.

COUNCIL POLICY CONSIDERATION:

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

ENVIRONMENTAL ANALYSIS:

The action proposed herein is not a project subject to the California Environmental Quality Act (CEQA) in accordance with Section 21065 of CEQA and State CEQA Guidelines Sections 15060 (c)(2), 15060 (c)(3), and 15378. The authorization of a contract for auditing services is an organizational and administrative action 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 subject to CEQA, no environmental document is required.

FISCAL IMPACT:

The maximum cost of fiscal years 2020 through 2023 audits and two optional one-year extensions under the terms of the proposed contract are listed below. Funds for the FY 2020 audit are included in the FY 2021 Recommended Operating Budget. The Rose Bowl Operating Company, the Pasadena Center Operating Company, Pasadena Community Access Corporation, Successor to PCDC, Housing Successor Agency, and the Workforce Development Board will pay for their respective audits.

	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023*</u>	<u>FY2024*</u>
City	\$152,500	\$152,500	\$157,070	\$161,780	\$166,640
PCOC	21,075	21,075	21,710	22,360	23,030
RBOC	25,335	25,335	26,100	26,880	27,690
PCAC	6,410	6,410	6,600	6,800	7,000
Successor to PCDC	3,370	3,370	3,470	3,570	3,680
Housing Successor Workforce Dev. Board	7,000	7,000	7,210	7,430	7,650
	8,160	8,160	8,400	8,650	8,910
Total	<u>\$223,850</u>	<u>\$223,850</u>	<u>\$230,560</u>	<u>\$237,470</u>	<u>\$244,600</u>


* Two optional one-year extensions of contract at City Manager's discretion.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



Robert S. Ridley
Controller

Approved by:



STEVE MERMELL
City Manager

Attachments: (2)

- 1) Taxpayer Protection Amendment
- 2) Scoring Matrix