

Agenda Report

January 31, 2011

TO: Honorable Mayor and City Council

THROUGH: Finance and Audit Committees

FROM: Finance Department

SUBJECT: TERMINATION OF CURRENT CONTRACT WITH MAYER HOFFMAN McCANN P.C. AND EXPEDITE ISSUANCE OF A REQUEST FOR PROPOSAL FOR A NEW AUDIT FIRM

RECOMMENDATION:

It is recommended that the City Council authorize the City Manager to terminate the contract with Mayer Hoffman McCann P.C. consistent with Section 9.17 of the current contract, and direct staff to expedite issuance of a Request For Proposal (RFP) for a new audit firm.

BACKGROUND:

Mayer Hoffman McCann P.C. (MHM) performs the annual audit for the City of Pasadena. Staff believes the previous audit work performed by MHM was of high quality; however, staff has concerns that the quality of future MHM audits could be diminished due to their audit resources being reduced and/or diverted as a result of the issues raised by the Controller's Office report.

The State Controller's Office recently released their quality control review of the audit work performed by MHM for the City of Bell. The 140-page report contains the findings by the State Controller's Office and applicable responses by MHM. The report is attached for your information.

It should be noted that only the FY 2008/09 audit performed by MHM for the City of Bell was reviewed by the State Controller's Office. In reading through the Controller's report, the issues seem to revolve around what the Controller's office perceives as a lack of process and documentation of assumptions in MHM's work papers and a differing opinion of the appropriate level of materiality and additional testing that should have occurred. In staff's opinion, the Controller's report does point out a number of items that should have been red flags and at least included in MHM's work papers. The actual work papers for the 2008/09 Bell audit, however, are not available for our review.

MHM's response to a number of the issues raised by the Controller's report was that the work papers did in fact document the rationale and assumptions that the Controller's report says were not in the work papers. Absent a review of the work papers for the 2008/09 Bell audit, it is difficult for staff to form an independent opinion. MHM has also initiated a peer review of its firm by the CPA firm Carr Riggs & Ingram, LLC. The results of this review should be available in early 2011.

The annual audit for the City of Pasadena is very complex, and our expectations of the firm that conducts it are high. These audits instill confidence that the financial operations of the City are of the highest level of quality and transparency. The risk of diminished audit quality due to factors such as a reduction of resources, a significant detrimental structural change in the firm, or a decrease in confidence in the financial operations of the City, is too great to continue with our current auditing firm.

The current contract with MHM expires in 2013; however, Section 9.17 of the contract allows Pasadena to ***"...terminate this contract in whole or in part at anytime, for any cause or without cause, upon fifteen (15) calendar days' written notice..."***.

A Request for Proposal (RFP) and selection process for an auditing firm can take sixty days. The City's preliminary audit work typically begins in June, but it could begin even earlier for a new auditing firm. As a result, the sooner an RFP is issued, the smoother the process of transitioning auditing firms will be.

Consequently, it is staff's recommendation that the current contract with MHM be terminated consistent with Section 9.17 of the contract and that a RFP for audit services be circulated as soon as possible.

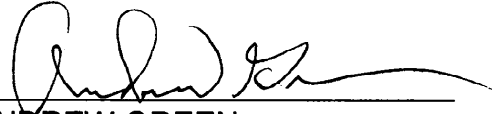
COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced by procuring a new audit firm.

FISCAL IMPACT:

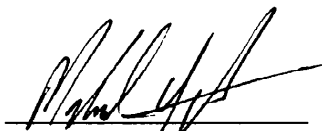
The existing contract with MHM sets the fee for the upcoming audit for the fiscal year ending June 30, 2011 at \$138,479. It is uncertain whether the solicitation of new bids will increase or decrease this amount; however, if there is an increase, it is not anticipated to be significant.

Respectfully submitted,



ANDREW GREEN
Director of Finance
Department of Finance

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

December 21, 2010 - State Controller's Office Quality Control Review of Mayer Hoffman McCann P.C.