



Agenda Report

May 14, 2018

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

THROUGH: Finance/Audit Committee

FROM: Director of Finance

**SUBJECT: AUTHORIZATION TO EXTEND CONTRACT WITH LANCE, SOLL
& LUNGHARD LLP, CERTIFIED PUBLIC ACCOUNTANTS FOR
AUDIT SERVICES FOR FISCAL YEARS 2018 AND 2019**

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 execute a two-year extension to contract 22,282 with Lance, Soll & Lunghard LLP, Certified Public Accountants (LSL), to perform the annual audits of the financial statements of the City of Pasadena, the Successor to the Pasadena Community Development Commission, the Rose Bowl Operating Company, the Pasadena Center Operating Company, and the Pasadena Community Access Corporation, in a total amount not to exceed \$501,801 for audits of fiscal years 2018 and 2019; and
3. Grant the proposed extension an exemption 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 examine the City's records, books, and inventories and report findings to the City Council.

On February 5, 2015, 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, the Department of Finance notified thirteen auditing firms. Final proposals were due March 12, 2015. Eight firms submitted proposals.

City staff evaluated each firm 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 also given significant consideration in the selection process. Staff requested that each firm provide optional levels of service that would provide enhanced audit results and pricing for two one-year optional extensions.

LSL proposed to:

1. Increase audit sample size beyond those required by professional audit standards by lowering the materiality threshold of all major funds by 25 percent and calculate materiality for non-major funds;
2. Include samples of all individual transactions over each fund's materiality level;
3. Pull samples from all funds;
4. Add 600 hours of audit time annually to perform this additional test work.

On May 18, 2015, the City Council awarded a three-year contract to LSL for audits of fiscal years 2015 to 2017. LSL has performed well as the City's auditor, and their pricing was competitive in comparison to other proposers in 2015. Therefore, staff recommends that the City Council extend the contract for an additional two years. The City Council did not previously authorize this extension. When the initial contract was awarded, the City Council approved the three-year base term, but did not authorize any optional extensions. Nevertheless LSL did offer to perform audit services for five years in its 2015 proposal to the City and is willing to honor its proposed pricing at the time. This recommendation is consistent with the Government Finance Officers Association Best Practices for Audit Procurement, which states; "Government entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors." Such agreements may take various forms, such as a three-year contract with a two-year extension.

Staff believes extending the contract with LSL for two additional years is in the City's best interests because the expanded scope audit that was put in place at the beginning of this contract term has proven to be a valuable provision, and has provided insight to

many funds and transaction that would not have traditionally been reviewed. Additionally, the development of this expanded audit and the annual audit process has been one that has evolved over the past three years, and will continue to do so over the remaining two years of the extension as the City is better able to close the financial books more timely, and the auditors become more familiar with the City's financial system. Lastly, as mentioned in the above paragraph, the extension of this contract will be in compliance with the Government Finance Officers Association's best practices of entering into audit engagements with at least a five year duration.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the retention of our present auditors for two more years.

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:

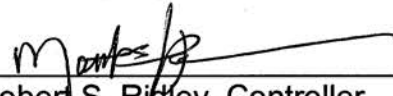
The maximum costs of fiscal years 2018 and 2019 audits are \$247,052 and \$254,749, respectively. Funds for the fiscal year 2018 audit are included in the Fiscal Year 2019 Recommended Operating Budget. The Rose Bowl Operating Company, the Pasadena Center Operating Company, and the Pasadena Community Access Corporation will pay for their respective audits.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



for Robert S. Ridley, Controller
Department of Finance

Approved by:



STEVE MERMELL
City Manager

Attachment: (1)

1) Taxpayer Protection Amendment Disclosure