

Agenda Report

June 12, 2023

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

THROUGH: Finance/Audit Committee

FROM: Director of Finance

**SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH LANCE,
SOLL & LUNGHARD LLP FOR AUDIT SERVICES FOR FISCAL
YEARS 2023 – 2025, 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;
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 Lance Soll & Lunghard LLP (LSL) 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 Pasadena Rental Housing Board, 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 \$730,670 for three years; and
3. Authorize the City Manager to award two one-year extensions, FY 2026 for an amount of \$258,290 and FY 2027 for an amount of \$246,250.

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.

Shortly after the council approval of the 2020 – 2022 contract with White Nelson Diehl Evans LLP (WNDE), for audit services, WNDE merged with CliftonLarsonAllen LLP (CLA). CLA has been the City's auditor and has performed the annual audits from fiscal year 2020 through fiscal year 2022. WNDE was selected through a competitive selection process.

On March 27, 2023, a Request for Proposal (RFP) was posted on the City of Pasanda's electronic procurement portal through OpenGov. Based on the audit services required in the RFP, 2,475 registered users were notified through the electronic procurement portal. Twenty vendors downloaded the professional audit services RFP. Final proposals were due April 21, 2023. Four audit firms started the application process and three of those firms submitted a proposal. One of the firms has an office in Pasadena. Each firm was evaluated based on the criteria outlined in the RFP, in which the evaluation of proposals was not limited to price alone. Technical merit, 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. Proposals had to include an explanation of how they would increase samples sizes and sampling from all funds.

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

Criteria	Weight
Firm Qualifications	30%
Personnel Qualifications	30%
Company Staffing Assigned to the Project	20%
Project Management, Implementation Plan and Project Schedule	5%
References	5%
Local Pasadena Business Preference	5%
Small and Micro-Business Preference	5%
Total	100%

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

<u>Firm</u>	<u>Office</u>	<u>Score</u>
Lance, Soll & Lunghard, LLP	Brea	83.67
Eide Bailey LLP	Pasadena	73.33
The Pun Group LLP	Santa Ana	66.33

The recommendation for the selection of LSL as the highest-ranking proposal is based on the evaluation of the selection criteria that includes:

Firm Qualifications:

- Full-service accounting firm, team of fourteen partners and one hundred thirty-five employees.
- LSL provides auditing, accounting, and consulting services to over one hundred municipal clients.
- Member of the American Institute of Certified Public Accountants (AICPA).
- Member of the California Society of Certified Public Accountants (CalCPA).
- Governmental team is comprised of four partners, nine managers, eight seniors and twelve staff who specialize in governmental auditing.
- LSL CPAs has been recognized as an Accounting Today Regional Leader in 2023, for exceptional growth and for embracing technology.
- LSL has five office locations: Brea, Santa Ana, Laguna Hills, and Sacramento in California and one office in The Woodlands, Texas.

Personnel Qualifications:

- Partners who sit on the Governmental Accounting Auditing (GAA) Committee, a subcommittee of the California Society of CPAs.
- Engagement partner appointed to serve on the AICPA State and Local Government Expert Panel.
- Technical reviewer for the Government Finance Officers Association (GFOA) for over ten-years.
- Audit managers are all Certified Public Accountants with a minimum of seven-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 who submitted proposals demonstrated understanding of the audit services to be performed.
- LSL will determine materiality for each fund and increase sample sizes until they have reduced the assessed risk to a low level of control risk.
- LSL uses data analysis software to select and test samples. Utilization of the software will eliminate any chance of sampling bias, which will provide each transaction an equal opportunity of being selected.

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 \$27,670.
 - For the first three-years, the additional cost is \$85,530.
 - For all five-years, if utilized, the enhanced sampling cost is \$146,920.

Lance Soll & Lunghard LLP (LSL) served as the City’s external auditors for fiscal years ending 2015 through 2019, as such has familiarity with the City of Pasadena and the related services of its component unit operating companies.

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 2023 through 2025 audits and two optional one-year extensions under the terms of the proposed contract are listed below. Funds for the FY 2023 audit are included in the FY 2024 Recommended Operating Budget. The Rose Bowl Operating Company, the Pasadena Center Operating Company, the Pasadena Community Access Corporation, Successor to PCDC, Housing Successor Agency, and the Workforce Development Board will pay for their respective audits.

	FY 2023	FY 2024	FY 2025	FY 2026***	FY 2027***
City	\$147,850*	\$152,280*	\$156,840*	\$161,540*	\$166,390*
PCOC	20,600	21,220	21,860	22,520	23,200
RBOC	26,230	27,020	27,830	28,660	29,520
PCAC	8,860	9,130	9,400	9,680	9,970
Successor to PCDC	3,060	3,150	3,240	3,340	3,440
Housing Successor	5,950	6,130	6,310	6,500	6,700
Pasadena Rental Housing Board	11,140	11,470	11,810	12,160	12,520
Workforce Dev. Board	7,280	7,500	7,730	7,960	8,200
Optional Single Audit for Component Units	5,430**	5,590**	5,760**	5,930**	6,110**
Total	\$236,400	\$243,490	\$250,780	\$258,290	\$266,050

* The Single Audit Price includes up to three major programs. Each additional program is \$5,000.

** Price includes one major program. Each additional program is \$5,000

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

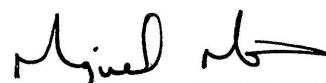
Respectfully submitted,


 MATTHEW E. HAWKESWORTH
 Director of Finance

Prepared by:


 Armine Trashian
 Controller

Approved by:


 MIGUEL MÁRQUEZ
 City Manager

Attachments: (2)

- 1) Evaluation Summary
- 2) Taxpayer Protection Amendments