



## Legislation Text

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**File #:** RES 17-0029, **Version:** 1

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**TO:**

Honorable Mayor and Members of the City Council

**THROUGH:**

Mark Danaj, City Manager

**FROM:**

Bruce Moe, Finance Director

**SUBJECT:**

Resolution Awarding Professional Services Agreement to Lance, Soll & Lunghard, LLP to Perform Financial Auditing for the City for Fiscal Years 2016-2017 and 2017-2018 (Finance Director Moe).

**APPROVE; ADOPT RESOLUTION**

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**RECOMMENDATION:**

Finance Subcommittee and staff recommend that the City Council adopt Resolution No. 17-0029 approving a contract extension with Lance, Soll & Lunghard, LLP, Certified Public Accountants, to provide financial audit services for two additional fiscal years for an amount not to exceed \$120,000. If approved, services will be extended to include audits for the fiscal year (FY) ending June 30, 2017 and June 30, 2018. The original three year contract approved by the City Council provides for two additional one-year extensions subject to Finance Subcommittee and City Council approval.

**FISCAL IMPLICATIONS:**

The proposed contract extension covers a two-year audit period (FY 2017 and FY 2018). Services are provided on a fixed fee basis of \$59,642 (not to exceed) for both years. These fees include the base City Audit (\$51,837) as well as optional services for: the Federal "Single Audit" (\$5,305) which is needed only if the City receives Federal funds in excess of \$750,000; and preparing the annual State Controllers Report (\$2,500) which is currently done in-house but which may be done more efficiently by the auditor as an option. The City Audit fees under the extension represent no increase from those provided for in the existing contract approved by City Council.

**BACKGROUND:**

The State of California requires an annual audit of the City's finances. Such audits are to be conducted in conformance with generally accepted auditing standards by a licensed independent public accounting firm. The City's financial policies also require the performance of an annual audit and establish a three-year contract term as a standard (two optional years may be awarded).

In 2014, and in accordance with policy, the City solicited proposals from qualified firms known to specialize in governmental auditing and also posted the Request for Proposal (RFP) on the City's website. A total of nine firms responded:

- Badawi & Associates, CPA's

- Brown Armstrong, CPA's
- Christy White Associates
- Lance, Soll & Lunghard, LLP
- Mayer Hoffman McCann P.C.
- Pun & McGeady, LLP
- Simpson & Simpson, LLP
- Vavrinek, Trine, Day & Company, LLP
- White Nelson Diehl Evans, LLP

### **DISCUSSION:**

In 2014, members of the Finance Subcommittee, as well as staff, served as the selection team. The evaluation process involved a review of the proposals, consideration of the qualifications of each firm's audit team, and interviews with a final selection of the following four firms: Badawi & Associates, CPA's, Lance, Soll & Lunghard, LLP, Vavrinek, Trine, Day & Company, LLP, and White Nelson Diehl Evans LLP. Based on those factors, the Finance Subcommittee recommended to the City Council that a three-year contract for audit services (with an option to renew for two years) be awarded to the firm of Lance, Soll & Lunghard, LLP. The Subcommittee's recommendation was based upon the firm's:

- Excellent technical qualifications
- Strong experience in local government auditing
- Personalized service
- Practical approach to the work
- Seasoned audit team
- Excellent in-house training program for audit staff

Lance, Soll & Lunghard has served the City since 2004 (two consecutive five-year terms, plus the most recent three-year agreement). During these engagement terms, they have provided excellent, objective and professional service, and the Finance Subcommittee has been very pleased with their performance. Further, they proved invaluable in the recent implementation of GASB68 pension accounting rules. Additional pension accounting standards are on the horizon as well, namely GASB74 which applies GASB68 type standards to Other Post-Employment Benefits (OPEB) for retiree medical benefits. This takes effect with reporting for FY 2016-2017, and will require a high degree of assistance from the auditor for appropriate implementation. Having continuity of auditors will facilitate that action.

Interim audit work for FY 2016-2017 is expected to commence in May and fieldwork will conclude in October, with the audit results being presented to the City Council in January 2018.

### **POLICY ALTERNATIVES:**

#### **ALTERNATIVE #1:**

Do not extend the existing contract and seek new proposals

#### **PROS:**

1. May result in lower cost for audit services.

**CONS:**

1. If a different audit firm is selected, loss of continuity in auditor knowledge base for Manhattan Beach for upcoming audits at a time when new governmental accounting standards are required to be implemented (GASB74). More staff time required to orient new audit firm.
2. May result in higher cost of services.
3. Regardless of firm selected, will delay audit for fiscal year 2016-2017 due to the time needed to solicit proposals, review, seek Finance Subcommittee approval and return to the full City Council with a new recommendation.

**PUBLIC OUTREACH/INTEREST:**

After analysis, staff determined that public outreach was not required for this issue.

**ENVIRONMENTAL REVIEW**

Not required.

**LEGAL REVIEW**

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary. The contract has been approved as-to-form.

**Attachment/Attachments:**

1. Resolution No. 17-0029
2. Contract with Lance Soll & Lunghard LLC