



CITY of CALABASAS

CITY COUNCIL AGENDA REPORT

DATE: APRIL 17, 2017

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: DR. GARY J. LYSIK, CHIEF FINANCIAL OFFICER *gary j lysik*

SUBJECT: RECOMMENDATION TO AWARD A PROFESSIONAL SERVICES AGREEMENT TO MOSS, LEVY, & HARTZHEIM, LLP FOR CITY AUDITOR SERVICES FOR FISCAL YEARS 2016-17, 2017-18, AND 2018-19.

MEETING DATE: APRIL 26, 2017

SUMMARY RECOMMENDATION:

Approve the recommendation to award a three-year contract for City auditor services to Moss, Levy, & Hartzheim, LLP.

BACKGROUND:

The City is currently utilizing the audit firm of Moss, Levy, & Hartzheim, LLP (MLH) to perform external auditing functions, and the City has been pleased with the responsiveness and the professionalism this firm offers. In prior years, MLH has performed the Annual Audit; compiled the financial statements used in the preparation of the Comprehensive Annual Financial Report (CAFR); completed the Single Audit, also known as the OMB A-133 audit which is a rigorous, organization-wide audit or examination of an entity that expends \$750,000 or more of Federal funds, grants, or awards; and prepared the State Controller's Report. These activities were performed annually throughout the term of their previous contract

held with the City, and are still items the City requires from an external auditing firm.

Previously, it was assumed that frequently changing audit firms would allow for increased oversight of financial activities engaged in by governmental entities such as cities, counties, special agencies, and states. Since this opinion which was rendered roughly three years ago, multiple organizations including the American Institute of CPAs (AICPA), the Government Finance Officers Association (GFOA), and the United States Government Accountability Office (GAO) have all presented their opinion regarding the mandatory changing of external audit firms. In general, each of the above listed and highly respected organizations within the accounting and finance industry have concluded that such a mandate would result in the following undesirable consequences:

1. *Increase in audit failures* – studies by the Public Oversight Board, Commission of Auditor’s Responsibilities, and the National Commission on Fraudulent Financial Reporting found that audit failures are three times more likely in the first two years of an audit;
2. *Increased start-up costs* – more frequent start-up costs for both the auditor and the reporting governmental entity;
3. *Increased difficulties in meeting timely reporting requirements* – mandatory rotation makes timely reporting more difficult because of a very short “learning curve” to perform a rigorous and stringent audit;
4. *Loss of institutional knowledge* – over successive audits, audit firms increase their institutional knowledge regarding reporting, computation practices, and internal control mechanisms; and
5. *Reduced incentives to improve efficiency and audit quality* – mandatory rotations fail to fully reward firms that achieve greater efficiency and audit quality, and as such, auditors would not take appropriate measures to increase such efficiencies if they know that in a short amount of time, they would be rotated out of providing continued audit services.

As such, and since there is no mandate for cities, special agencies, counties, or states to periodically change their audit firm used to perform audit and audit related functions, and since the City is pleased with the level of performance of its current auditing firm, and since it is the desire of the Chief Financial Officer (CFO) to strengthen auditor independence, improve audit quality, and reduce overall costs associated with performing audit functions, in accordance with the AICPA, the GFOA, and the GAO, it is the desire of the CFO to issue a new three-year contract to Moss, Levy, & Hartzheim, LLP for audit services. Of course, if the CFO deems it necessary to change audit firms due to either cost or performance related issues, an immediate change would be forthcoming.

Pricing

The City performed an informal bid process for auditing services, and Moss, Levy, & Hartzheim, LLP returned a cost proposal lower than all other firms whose average costs were also reviewed. The amount charged by Moss, Levy, & Hartzheim LLP to perform the City’s annual audit functions, including the preparation of the Single Audit Report and the State Controller’s Report totaled \$22,735 for FY 2015-16 (see table 1). The breakdown of these charges and a three-year proposed fee schedule are provided below:

Table 1. Moss, Levy, & Hartzheim, LLP Fee schedule.

----- PROPOSED FEE SCHEDULE -----					
Description of Tasks	2015-16	2016-17	2017-18	2018-19	3-yr Total
Annual audit & financial reports		\$20,235	\$20,749	\$21,263	
	\$21,900	\$63,912			
Single audit *	Included	3,000	3,000	3,000	
9,000					
State Controller’s Report	2,500	2,500	2,500	2,500	
7,500					
Total	\$22,735	\$26,249	\$26,763	\$27,400	
	\$80,412				

* Single audit fee includes one major program. Each additional major program will be \$2,500 each.

DISCUSSION / ANALYSIS:

The following is listing of the reasons why the decision was made to extend a three-year contract to MLH:

1. lowest fees of numerous firms informally reviewed;
2. currently pleased with the firm’s responsiveness and performance;
3. 36 years of experience performing local government audits;
4. a field office located in nearby Culver City; and
5. a sound reputation for auditing excellence.

FISCAL IMPACT / SOURCE OF FUNDING:

In accordance with the Scope of Work and the Fee Schedule provided by Moss, Levy, & Hartzheim LLP, the City of Calabasas will be charged a total of \$80,412

over the next three years to perform the City's auditing functions and certain report generation. This expense will be booked against the Finance Department's contractual services account number 10-151-5252-00 and the annual budgets will reflect the total amounts indicated in Table 1.

REQUESTED ACTION:

Given that the quality of work provided by Moss, Levy, & Hartzheim LLP was considered to be superior; and given that the proposed fee amounts for the next three years are favorable for the City, the CFO is requesting approval of a Professional Services Agreement with Moss, Levy, & Hartzheim LLP for fiscal years 2016-17, 2017-18, and 2018-19 for a total amount not-to-exceed \$90,000. This amount specifically includes \$80,412 identified in Table 1 above, plus the option for any additional auditing related work identified and approved on a case-by-case basis by the Chief Financial Officer which might be required within the contract's stated period of performance.

ATTACHMENTS:

Professional Services Agreement – Moss, Levy, & Hartzheim LLP