



## Staff Report

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### Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of May 28, 2019

#### **AWARD OF CONTRACT FOR INDEPENDENT AUDIT SERVICES**

(Finance Director Viki Copeland)

#### **Recommended Action:**

Staff recommends that the City Council:

1. Approve a contract with the firm, Gruber and Associates, for the audit of financial statements for 2018-19, 2019-20, and 2020-21 and preparation of the corresponding State Controller's Annual Report of Transactions and Annual Street Report at a cost of \$88,138.96, with an option to extend for an additional two years; and
2. Transfer \$5,933 from Prospective Expenditures in 2019-20 for year one services.

#### **Executive Summary:**

The City of Hermosa Beach requested proposals from qualified firms of certified public accountants to audit its financial statements, which includes auditing all funds, preparing the Comprehensive Annual Financial Report (CAFR), and performing a Single Audit of federal funds if required for a three-year period commencing with the fiscal year ending June 30, 2019, with the option to extend the agreement for an additional two fiscal years. The City requested that firms include the costs of preparing the State Controller's Annual Report of Transactions and Annual Street Report, which are currently prepared by a subcontractor of the City's current audit firm, The Pun Group. The City has been receiving audit services from The Pun Group (formerly Pun & McGeady) since 2013 and the current contract has expired.

#### **Background:**

A Request for proposals (RFP) was issued in March 2019. The RFP was emailed to 15 audit firms, posted on the City's website, and posted on the California Society of Municipal Finance Officers (CSMFO) website.

#### **Analysis:**

Seven proposals were received on April 8, 2019, ranging in price from \$56,310 to \$137,718.

Proposals submitted:

Harshwal & Company LLP	\$56,310.00
Moss, Levy & Hartzheim, LLP	\$86,574.00
<b>Gruber and Associates</b>	<b>\$88,138.96</b>
<b>Van Lant &amp; Fankhanel, LLP</b>	<b>\$94,160.00</b>
<b>Rogers, Anderson, Malody &amp; Scott, LLP</b>	<b>\$105,400.00</b>
<b>DavisFarr</b>	<b>\$131,420.00</b>
The Pun Group	\$137,718.00

References were contacted for four firms bolded above: Gruber and Associates; Van Lant & Fankhanel, LLP; Rogers, Anderson, Malody & Scott, LLP; and DavisFarr. All four had positive references from similarly sized agencies and responsive proposals so they were invited to interview.

Interviews were conducted on May 14, 2019 by the Finance Director and Accounting Manager. Based on the proposals submitted, past experience, quality of staff, knowledge of the firm, approach to the audit, and the cost proposal, staff recommends the firm of Gruber and Associates as offering the most responsive and cost-effective professional services proposal. The firm also offers the lowest cost proposal of the four firms interviewed.

Three firms were not invited to interview for the following reasons:

Harshwall & Company LLP submitted a proposal with significantly lower hours than the other firms, did not appear to have many comparable audit clients, and proposed an audit timeline significantly outside of the window that the City requested. Because of these factors and since the majority of the firm's clients are considerably larger than the City of Hermosa Beach, staff concluded that the hours and timeline demonstrated that the firm may not have sufficient time and available resources for the City's audit and may not be a good fit for a small city.

Moss, Levy, & Hartzheim, LLP provided its 2015 peer review with the result of "pass with deficiencies." The most recent report from 2017 is in the review stage with the California Society of CPA. The deficiencies and the delay in the most recent peer review report were not addressed by the firm in the proposal. Staff determined that since all the other firms had 2017 peer review reports with a status of "pass", Moss, Levy, & Hartzheim, LLP would be removed from consideration.

The Pun Group, the City's current audit firm, submitted the highest cost proposal. Its audit fee for 2017-18 was \$22,067 and the proposed fee for 2018-19 is \$45,000. Staff has been satisfied with the service from The Pun Group, however, with four other qualified firms proposing a much lower rate, staff declined to interview the current firm.

#### **General Plan Consistency:**

PLAN Hermosa, the City's long-range planning document, was adopted by the City Council in August 2017, and envisions a future where "Hermosa Beach is the small town others aspire to be; a place

where our beach culture, strong sense of community, and commitment to sustainability intersect.” One of the guiding principles to achieve the vision is to make decisions and take actions that help contribute to the City’s economic and fiscal stability.

A focus of the Governance chapter in the General Plan is to ensure that decision-making and leadership is conducted in an ethical, transparent, and innovative manner that reflects community values. Goal 1 of the Governance chapter speaks to maintaining a high degree of transparency and integrity in the decision-making process.

**Fiscal Impact:**

The cost of the three-year audit services is as follows:

<b>Financial Statement Year</b>	<b>Cost</b>
2018-19	\$28,000.00
2019-20	\$29,376.00
2020-21	<u>\$29,962.96</u>
<b>Total</b>	<b>\$88,138.96</b>

The sum of \$22,067 is included in the 2019-20 Preliminary Budget for audit services. \$5,933 would be transferred from Prospective Expenditures to cover the additional cost for year one. The cost of years two and three would be included in the corresponding annual budgets.

**Attachments:**

Professional Services Agreement with Proposal

**Respectfully Submitted by:** Viki Copeland, Finance Director

**Approved:** Suja Lowenthal, City Manager