STAFF REPORT

Meeting Date: May 15, 2012

To: Honorable Mayor & Council members

From: Scott Miller, Chief Financial Officer,
Noel Marquis, Assistant Director of Administrative Services - Finance
Sharon Rahban, CPA, Accounting Manager

Subject: **RESULTS AND RECOMMENDATION RESULTING FROM REQUEST FOR PROPOSAL (RFP) FOR AUDIT SERVICES**

Attachments: 1. None

INTRODUCTION

The most recent contract for annual financial audit services expired at the end of fiscal year 2010-2011. Also, fiscal year 2011-2012 is the first year the City of Beverly Hills Parking Authority began accounting for its own transaction as a separate entity. These prompted a request for proposal (RFP) to be sent out to various audit firms. The contract for audit services spans (3) years with two one-year-extension options. The audit firm of Mayer Hoffman McCann P.C. is Staff's suggestion for both the City of Beverly Hills and the City of Beverly Hills Parking Authority.

DISCUSSION

The RFP process began on February 2nd, 2012, with a distribution of RFPs to 17 audit firms listed on the California Society of Municipal Finance Officers' website, which included the "Big Four" audit firms as follows:

- Brown Armstrong CPAs
- Caporicci & Larson
- Deloit and Touche
- Ernst and Young
- Grant Thornton
- KPMG

- Lance, Soll & Lunghard, CPA's LLP
- Macias, Gini & O'Connell LLP
- Mayer Hoffman McCann P.C.
- Maze & Associates
- Moss Adams LLP
- Moss Levy
- Price Waterhouse Coopers
- Simpson & Simpson, CPAs
- SotoMayor CPAs
- Teaman, Ramirez & Smith, Inc.
- White Nelson Diehl Evans LLP

A mandatory proposer's conference was held at City Hall on March 1st, at 10:00am, with a proposal due date of March 16th, 2012. A total of seven (7) audit firms attended the conference and submitted proposals. The seven firms were:

- Brown Armstrong CPAs
- Macias, Gini & O'Connell LLP
- Mayer Hoffman McCann P.C.
- Moss Adams LLP
- Simpson & Simpson, CPAs
- SotoMayor CPAs
- White Nelson Diehl Evans LLP

The audit proposals were reviewed and analyzed and a short list of three proposers were selected for final interviews by a panel made up of the City Treasurer, Chief Financial Officer/Director of Administrative Services, Assistant Director of Administrative Services – Finance, and the Accounting Manager. The firms selected for interview were the most experienced, best qualified, and exhibited the audit skills and experience needed to do the City's audit.

Following are the results of the panel's findings:

	Firm Name	Pro	Con
1	White Nelson Diehl Evans	• Lowest price • Adequate experience • Maybe better suited for potentially needed consulting work, which needs to be kept separate from audit services for independence reasons	• Limited audit experience with municipalities • Staff seemed dependent on audit partner for guidance • May have difficulty in understanding the City's complex accounting structure with enough time to assist in implementing the new accounting software • Office is located in Irvine

2	Macias Gini and O'Connell	• Adequate Experience • Maybe better suited for potentially needed consulting work, which needs to be kept separate from audit services for independence reasons • Office is located in Downtown Los Angeles and Century City • Experienced Technical Reviewer	• Highest price • Appeared to be stronger in management consulting than audit • Too many new employees
3	Mayer Hoffman McCann	• Adequate Experience • Highly Experienced Technical Reviewer • Proven understanding of City's complex accounting transactions • Provides helpful recommendations for improvement. • Change of Audit Partner for new perspective • Same price as the prior year for City's audit • Offered 40 hours per year of free audit service for other internal-audit needs • Successfully concluded two peer review last year	• Office is located in Irvine • Significant retirement of partners during the last fiscal year

After weighing the pros and cons of each firm, the interview panel selected the audit firm of Mayer Hoffman McCann as the preferred provider.

The Government Finance Officers Association (GFOA) Best Practices for Audit Procurement states,

- "Governmental entities should enter into multi-year agreements of at least five years in duration when obtaining the services of independent auditors. Such multi-year agreements can take a variety of different forms, consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multi-year agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.

- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with the applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counter-productive. In such cases, it is recommended that a

governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming the past performance of the current auditors has proven satisfactory."

The audit committee met on May 10 and has recommended the audit firm of Mayer Hoffman McCann P.C. as well.

FISCAL IMPACT

Overall the fiscal impact to the City is lower than the cost in Fiscal Year 2010-2011 which was $73,000. The contract price for Fiscal Year 2011-2012 is $66,600. The price increases to $72,360 for each subsequent year until contract expiration for Fiscal Year 2015-2016. In addition, audit costs ranging from $2,400 – $8,200 depending on the complexity of the transaction in each year will be billed for the City of Beverly Hills Charitable Community Foundation, as FY2011-2012 was the first year of its operations. The cost of the audit has already been budgeted and is adequate.

Fiscal Year 2011-2012 is the first year that the City of Beverly Hills Parking Authority began accounting for its own transactions as a separate entity. The contract price for Fiscal Year 2011-2012 is $2,400. The price increases to $2,460 for each subsequent year until contract expiration for Fiscal Year 2015-2016. The cost of the audit has already been budgeted and is adequate.

RECOMMENDATION

Staff recommends that the City Council move to approve an agreement between the City of Beverly Hills and Mayer Hoffman McCann P.C. for audit services; and also approve a purchase order in the amount of $69,000.

Noel Marquis
Director of Administrative Services

Scott G. Miller
Chief Financial Officer/Director of Administrative Services