

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Financial Auditing Services
DATE: May 20, 2003

Needs:

For the City Council to consider approval of a contract for financial auditing services.

Facts:

1. The City's current contract with Moss, Levy & Hartzheim, for auditing services expired with the completion of the audit for fiscal year 2001-02.
2. Staff prepared audit proposals that were distributed to fifty-four accounting firms.
3. In addition to the direct mailing above, the Request for Proposals for auditing services was noticed in the Paso Robles Press on March 19 and 26, 2003.
4. Most of the companies either did not respond or declined to bid. The following six firms submitted proposals:

Brown Armstrong
Macias, Gini & Co.
Mayer Hoffman McCann
Moss, Levy & Hartzheim
Nicholson & Olson
Odenberg, Ullakko, Muranishi & Co.

5. Staff, consisting of the Director of Administrative Services, Accounting Manager and Accounting Assistant III, undertook an objective review of each proposal using a predetermined reviewer checklist (copy attached as Exhibit "A").
6. The staff review was undertaken independently of each other. Only after compilation of the results did one staff person know how the other rated each firm.
7. Two of the three reviewers did not know the firms' quoted prices during their reviews. The cost rating was factored in after their review. This was done to insure that the initial ratings were based solely upon quality, experience and skills.

8. The results of the evaluation are attached as Exhibit "B." Moss, Levy & Hartzheim was rated the highest overall.
9. Moss, Levy & Hartzheim proposal was also the lowest cost to the City for all of the work to be performed. The audit proposal included a component for preparation of the State Controller's Report of Annual Financial Transactions. This is not new factor. The auditor has prepared this report for many years. See attached cost summary Exhibit "C."
10. The results of the evaluation and staff's recommendation were presented to the City Council's Ad Hoc Fiscal Policy/Budget Committee. They affirmed staff's recommendation and directed staff to present a contract with Moss, Levy & Hartzheim to the City Council for their approval.

Analysis and Conclusion:

While the audit proposals were rated on many factors, greater consideration was given to firms which highlighted the following points:

- a. Experience and track record with clients receiving either the financial reporting award issued by the California Society of Municipal Finance Officers or the Government Finance Officers Association of the United States and Canada.
- b. Specific auditing experience with municipal clients including assistance with conversion to the new GASB 34 reporting format.
- c. Manpower resources available to perform the required financial auditing services and the longevity of staff to be assigned to the City's audit, as well as total number of hours proposed to be needed to perform the required audit.
- d. Audit approach and the firm's indication whether or not it may meet required deadlines.

Normally, staff would undertake interviews with the two or three top finishers. However, given staff's familiarity with Moss, Levy and Harztheim and their prior work with the City, it would seem an unnecessary use of time and effort on both staff's part and the proposer's behalf to schedule and undertake interviews. The City Council's Ad Hoc Fiscal Policy/Budget Committee concurred.

It should be noted that even if the audit cost component is removed from the evaluation scoring, the Moss, Levy & Hartzheim proposal is still ranked higher than the other proposals.

Fiscal Impact:

Moss, Levy & Hartzheim's proposal to undertake the audit, which includes City's annual financial audit, Redevelopment Agency audit including a separately issued report, a Transportation Development Act audit including a

separately issued report and a Single Audit Act report relative to federal compliance requirements at a cost of \$16,425 for Fiscal Year 2003, with 3.5% increases in Fiscal Years 2004 through 2007, represents the second lowest cost with the lowest proposal being \$16,000. While cost should not be a determining factor, it is always a plus when the highest-ranking proposal is nearly the lowest cost proposal as well. However, when you factor in the cost to prepare the State Controller's Report of Annual Financial Transactions, Moss, Levy & Hartzheim's proposal was also the least costly.

Options:

- a. Adopt Resolution No. 03-XX approving a three year contract and authorize the Director of Administrative Services to execute said contract with Moss, Levy & Hartzheim, Certified Public Accountants, to undertake the scope of annual financial auditing and reporting work as identified in their proposal for Fiscal Years 2003, 2004 and 2005; or
- b. Amend, modify or reject the above option.

PRELIMINARY EVALUATION OF PROPOSALS FOR AUDIT SERVICES

Three sets of criteria are to be used:

- Mandatory elements
- Technical Qualifications
- Price

Firms meeting the mandatory elements will be evaluated and scored for both technical qualifications and price. A total of 100 points will be possible, with a maximum of 75 points possible for technical qualifications, and 25 points for price.

1. Mandatory Elements:

This section of the evaluation will be on a pass/fail basis

- a. The audit firm is licensed to practice in California.
- b. The firm's professional personnel have received the required continuing professional education with the preceding two years, in accordance with the GAO's "Government Auditing Standards.
- c. The firm is independent and has no conflict of interest with regard to any other work performed by the firm for the City of Paso Robles. The GAO independence standards will apply, in addition to any other professional standards applicable.
- d. The firm has undergone a recent external quality control review.

Firms which do not meet all of the above basic requirements will be eliminated from further consideration. These are considered essential qualifications which cannot be overcome by other considerations or credentials.

2. Technical Qualifications:

Points for technical qualifications will be awarded as follows:

	<u>Point Range</u>
a. Expertise and experience. (maximum 45 points)	
1. Past experience and performance on comparable governmental engagements.	0 – 15
2. The quality and experience of the professional staff to be assigned to this engagement and the quality of personnel to be available for technical support.	0 - 15
3. Experience with additional state and federal audits, such as Single Audit, Redevelopment Agencies, and Transportation Development Act.	0 - 10
4. Experience with GASB 34 statement implementation, CAFR award program	0 - 5
TOTAL – expertise and experience:	<u>0 - 45</u>
b. Audit approach	
1. Adequacy of proposed staffing plan (hours and level) for the various segments of the engagement.	0 - 15
2. Adequacy of sampling techniques and analytical procedures.	0 - 15
TOTAL – audit approach	<u>0 - 30</u>
TOTAL TECHNICAL QUALIFICATIONS SCORE:	<u>0 - 75</u>

3. Price

Firms will be awarded points for all-inclusive price, based on the following formula:

$$\frac{\text{Lowest Bid Price}}{\text{Individual Firm's Bid Price}} \times 25 = \text{Price Score}$$

This formula gives the highest score for price to the lowest bidder, but allows all firms to receive a percentage of the possible points.

CITY OF PASO ROBLES
EXTERNAL AUDITING SERVICES, 2003 RFP
PROPOSAL REVIEW WORKSHEET

FIRM: _____

1. Does the firm meet the following minimum qualifications:

a. License to Practice in California?	YES	NO
b. Does staff meet CPE Requirements for Government Audits?	YES	NO
c. Does firm meet independence standards/requirements?	YES	NO
d. External Quality Review (Does review show acceptable quality work?)	YES	NO

2. Technical qualifications for financial statement audits using the following criteria:

a. Expertise and Experience

1) Relevant experience on comparable city audits	0-15 pts	_____
2) Quality and experience of personnel	0-15 pts	_____
3) Experience with additional audit reports	0-10 pts	_____
4) Experience with GASB34, CAFR awards, etc.	0- 5 pts	_____

Total points Expertise and Experience: 0-45 pts _____

b. Audit Approach

1) Adequacy of proposed staffing plan	0-15 pts	_____
2) Adequacy of sampling techniques and analytical procedures	0-15 pts	_____

Total points Audit Approach 0-30 pts _____

TECHNICAL QUALIFICATIONS SCORE: 0-75 pts _____

3. Pricing Score: (\$LOW PRICE/\$FIRM PRICE x 25): _____

TOTAL SCORE _____

PREPARED BY: _____

RESOLUTION NO. 03-

A RESOLUTION OF THE CITY OF EL PASO DE ROBLES
APPROVING A CONTRACT FOR AUDITING AND REPORTING
SERVICES TO MOSS, LEVY & HARTZHEIM, CERTIFIED PUBLIC
ACCOUNTING FIRM

WHEREAS, the current contract for auditing and reporting services expired with the preparation of the Fiscal Year 2002 audit; and

WHEREAS, Requests for Proposals were widely distributed; and

WHEREAS, the City received six responses that were fairly evaluated; and

WHEREAS, the proposal response received from Moss, Levy and Hartzheim was rated as the highest and best proposal; and

WHEREAS, the Moss, Levy and Hartzheim's cost to undertake both the audit and the preparation of the State Controller's Annual Report of Financial Transactions was the lowest.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles that the audit and related reporting work be awarded to Moss, Levy & Hartzheim, a certified public accounting firm.

BE IT FURTHER RESOLVED that the Director of Administrative Services is hereby authorized to execute a contract with Moss, Levy & Hartzheim for the engagement (attached herewith).

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 20th day of May 2003 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

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