



CITY COUNCIL AGENDA REPORT

MEETING DATE: 6/06/2023

DEPARTMENT: Finance

SUBJECT:

AWARD OF CONTRACT FOR FINANCIAL AND SPECIAL AUDIT SERVICES

RECOMMENDED ACTION(S):

1. Award Professional Consultant Services Agreement to CliftonLarsonAllen LLP ("CLA") in the amount of \$233,060.00 for Financial and Special Audit Services.
 2. Authorize the Mayor to sign, and the City Clerk to attest, the agreement with CLA, substantially in the form attached.
-

EXECUTIVE SUMMARY:

The City utilizes the services of an audit firm to perform the audits of financial statements, conduct special auditing services, and assist staff with auditing issues that may arise during the year. The City's most recent agreement with the firm CliftonLarsonAllen LLP ("CLA") for these services expired May 31, 2023. Following a Request for Proposals ("RFP") process, staff recommends awarding a new agreement to CLA to perform financial and special audit services under an initial three year-term with three optional one-year extensions ("Agreement"). Per the Financial Management and Budgetary Policy, the City shall select the independent auditing firm via a competitive selection process, such as an RFP, at least once every six years. Therefore, the proposed agreement may be extended annually up to three additional times following the initial three-year terms.

The proposed Agreement also includes sufficient compensation for the base scope of services and additional special audit services that may be required during the term of the agreement. While these services may not be required each and every year, the proposed Agreement contains sufficient compensation for any optional or additional services required in a given year. The Agreement has been reviewed by the City Attorney and approved as to form. The proposed 2023-2025 Operating Budget includes sufficient funds for the completion of the financial audit and any required optional or special services to be rendered under the proposed Agreement.

BACKGROUND:

A financial audit is mandatory for the City to remain in compliance with state and federal regulations. Auditors provide assurance that the financial statements comply with Generally Accepted Accounting Principles ("GAAP") and meet regulatory standards. The financial audit provides transparency to the public regarding how the City is spending taxpayer dollars. The audit report highlights any discrepancies or financial irregularities that help ensure accountability.

A financial audit reviews and evaluates the effectiveness of the internal controls of the local government. The auditor examines the City's financial policies and procedures for accuracy, completeness, and regulatory compliance. Any internal control weaknesses identified by the auditor can be remedied to prevent fraud, error, or waste of government resources. A financial audit enhances public trust in the City by providing unbiased, reliable, and transparent financial information. It helps to demonstrate the government's commitment to sound financial management, which builds trust and confidence in the public.

The City contracts with a Certified Public Accounting ("CPA") firm to perform financial and special audits at the end of each fiscal year. The financial audit is comprised of the City's basic financial statements, the Lake Forest Housing Authority, and the Air Quality Management District Special Revenue Fund. In addition to auditing the previously stated components, the financial audit includes preparation of the financial statements, testing of the GANN limit, preparation of the Comprehensive Annual Financial Report, and availability during the year as a resource for technical accounting issues that may arise.

Special audits include single audits of federal funds if required, auditing franchise agreements (Golf Center lease and waste hauler) and auditing hotels for transient tax occupancy compliance. Three optional audit services were included for the first time in the current contract: Annual Street Report, Financial Transactions Report, and Rancho Cañada Financing Authority Special District Financial Transactions Report. These reports are submitted to the State Controller's Office each year and had previously been prepared by staff.

The independent auditing firm that has provided auditing services to the City since 2017 is CliftonLarsonAllen, LLP ("CLA"), formally known as White Nelson Diehl Evans LLP ("WNDE"). WNDE was awarded the agreement for the services following the City's completion of a Request for Proposal ("RFP") process for Financial and Special Audit Service in June 2016. The term of the previous Agreement with CLA began June 1, 2017, and expired May 31, 2023, as no additional contract term extensions were available. Table 1 contains a summary of the previous agreement and amendments.

Table 1: Previous Agreement and Related Amendments for Financial and Special Audit Services

Agreement	Description/ Additional Compensation	Term Expiration Date	Total Change to Not-to-Exceed Compensation
Original Agreement – November 1, 2016	Initial 3-Year Term	May 31, 2020	\$191,000
First Amendment – May 5, 2020	First Optional One-Year Extension	May 31, 2021	\$65,500
Addendum – December 2020	Acknowledgement of name change from WNDE to CLA	May 31, 2021	No Change
Second Amendment – May 18, 2021	Second Optional One-Year extension	May 31, 2022	\$69,491
Third Amendment – May 19, 2022	Third Optional One-Year Extension	May 31, 2023	No Change
Total Final Compensation			\$325,991

The previous agreement expired prior to entering into a new agreement based on the timing of the RFP. To provide potential proposers with the best available information applicable to the proposed services, the release of the RFP was coordinated with the completion of the prior year audit process. The Fiscal Year 2021-22 audit was completed on March 31, 2023.

DISCUSSION:

The City’s Financial Management and Budgetary Policy requires a formal procurement for financial audit services at least every six years. The proposed scope of services covers three fiscal years commencing with the Fiscal Year 2022-23 audit and includes three optional one-year term extensions to cover through the Fiscal Year 2027-2028 audit.

The proposed scope of work includes optional services as outlined in the RFP. These optional audit services may not be used each and every year of the contract term but are included as part of the scope of work to provide greater flexibility.

The City Manager reviewed and approved an RFP for Financial and Special Audit Services to be released on April 14, 2023. Three proposals we received in response to the RFP from Badawi & Associates (“Badawi”), CliftonLarsonAllen LLP (“CLA”), and SingerLewak LLP (“SingerLewak”).

Consistent with the City’s Purchasing and Contracting Guidelines (“Purchasing Guidelines”), staff assembled a selection committee approved by the City Manager to review proposals and participate in the interview phase do the selection process. The selection committee was comprised of the following staff:

- Director of Finance
- Assistant Director of Finance
- Accounting Supervisor
- Senior Management Analyst, City Manager's Office

The review process is comprised of three phases: the Technical Review of written proposals, the Qualifications Interview, and the Revised Cost Proposal evaluation. A firm must receive an average of 60 points (60%) or higher, in the Technical Review phase to move on to the Qualifications Interview phase. Both firms scored at least a 60-point average score from the Technical Proposal Review.

Pursuant to the City's Purchasing Guidelines, the City invited the firms that scored a minimum of 60 points for an interview to discuss their respective approaches to the requested services. Interviews were conducted May 15, 2023. The results of the technical review and interview phases are summarized in Table 2.

Table 2: Financial and Special Audit Services RFP Firms and Scores

2023-08 RFP Financial Audit Services												
	Technical Review					Qualifications Interview						
	Rater:					Rater:					Pricing Points x 4	Total
Firm	1	2	3	4	Sub - Total	1	2	3	4	Sub - Total		
Badawi	70	90	84	64	308	103	134	54	55	346	160	506
CLA	74	92	90	84	340	103	153	135	146	537	128	665
Signer Lewak	60	69	81	52	262	94	112	48	42	296	136	432

Following the Qualifications Interviews and subsequent scoring by the selection committee, the Purchasing Coordinator reviewed the cost proposals, which are summarized in Table 3. The impact of cost on the total scoring is reflected in the previous Table 2.

Table 3: Costing Analysis for Base Scope of Services for Initial 3-year Term

Pricing Scoring Calculation		Points
	Proposal Price	40
<i>Lowest Price</i>	\$141,475.00	40
Badawi	\$141,475.00	40
CLA	\$176,530.00	32
SingerLewak	\$167,050.00	34

The total proposal price for each firm is based on each firm's final cost proposal and includes the fees for the base scope of services during an initial three-year term of services, as described in the RFP. These services include:

- Financial Statements Audit
- Single Audit
- GANN Limit
- Lake Forest Housing Authority Audit
- SCAQMD Revenue Fund Audit
- Additional Fees to complete Base Scope Only

The RFP includes optional services that may not be used each and every year of the contract term. These services were included to request the cost of providing these services should they be required in a given year.

Including the cost proposal component, CLA received the highest number of points and the highest ranking in the proposal review process. CLA received a total of 665 points, placing them in the Qualified, Advantageous category. Badawi followed in the ranking with 506 points in the Qualified, Not Advantageous category with SingerLewak ranked last at 432 points in the Qualified, Not Suitable category.

As a firm, CLA has more than 60 years in the business and extensive experience serving similar governmental entities. With a focus on providing industry specialized insight and resources and consistent, dependable services, CLA demonstrates the necessary knowledge and experience for providing financial and special audit services to the City.

Staff recommends the City Council award the proposed Agreement to CLA with a not-to-exceed compensation amount of \$233,060 (Attachment 1). The proposed Agreement includes the base scope of services for the initial three-year term as well as enough compensation for optional and additional services that may be rendered during the initial three-year term and at the direction of the City. These services are included to provide the ability to perform these services should they be required in a given year under the proposed Agreement. While all optional and additional services may not be used every year, multiple combinations of optional and additional services may be required. Oftentimes, staff learns of the need for these services throughout multiple different times of the year rendering service needs as irregular and difficult to anticipate in advance.

The proposed Agreement includes sufficient compensation should an optional service be required during a specific year. Table 4 includes a breakdown of the additional optional and additional services that may be required each year.

Table 4: Compensation for Base Scope of Services, Optional Services, and Additional Services, Initial Term

	Year 1 FY 2022-23 Audit	Year 2 FY 2023- 24 Audit	Year 3 FY 2024- 25 Audit	Total Compensation (Initial 3 Years)
Base Scope of Services				
Fixed Audit Fee For Core Services Sub Total	\$57,495	\$59,685	\$59,350	\$176,530
Optional Services				
<i>Fixed Fee for Additional Required Major Program Single Audit</i>	\$4,500	\$4,680	\$4,870	\$14,050
City's Annual Street Report	\$1,740	\$1,810	\$1,880	\$5,430
City's Annual Financial Transaction Report	\$4,920	\$5,120	\$5,320	\$15,360
One-Time Account Conversion for City SCO	\$2,000	\$ -	\$ -	\$2,000
Rancho Cañada Financing Authority Annual Financial Transactions Report	\$1,080	\$1,120	\$1,160	\$3,360
Tech Fee - One-Time Services	\$100	\$ -	\$ -	\$100
Tech Fee	\$390	\$410	\$430	\$1,230
Sub Total	\$14,730	\$13,140	\$13,660	\$41,530
Additional Services				
Annual Amount for Additional Services	\$5,000	\$5,000	\$5,000	\$15,000
Total Annual Compensation - All Fixed Fee, Optional, and Additional Services	\$77,225	\$77,825	\$78,010	\$233,060
Total Compensation Original Agreement (Years 1-3)				\$233,060

The proposed Agreement also contains fees and rates for the future optional three one-year extensions that should go into effect should the City authorize each optional one-year extension in years 2026, 2027, and 2028.

The proposed Agreement was drafted by Finance staff and has been reviewed by the City Attorney and approved as to form. The term of the Agreement is for three years with three optional one-year extensions, as permitted by the Financial Management and Budgetary Policy.

Staff conducted a reference check (Attachment 2) with other government agencies that have contracted with CLA for Financial and Special Audit Services. Staff found the reference check to be positives and overall indicative of an effective and useful service offering.

FISCAL IMPACT:

The proposed 2023-2025 Operating Budget includes sufficient funds for the completion of the financial audit and any required optional or special services to be rendered under the proposed Agreement.

ATTACHMENTS:

1. Professional Consultant Services Agreement with CLA
2. Reference Check for CLA

Initiated By: Kevin Shirah, Director of Finance/City Treasurer
Submitted By: Debra Rose, City Manager
Approved By: Debra Rose, City Manager