



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 19, 2012

ITEM NUMBER:

SUBJECT: CONSIDERATION TO TERMINATE CONTRACT FOR ANNUAL INDEPENDENT FINANCIAL AUDIT SERVICES WITH MAYER, HOFFMAN, MCCANN, P.C.

DATE: JUNE 14, 2012

FROM: FINANCE DEPARTMENT

PRESENTATION BY: BOBBY YOUNG, FINANCE & I.T. DIRECTOR

FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, FINANCE & I.T. DIRECTOR (714) 754-5243

RECOMMENDATION

Receive and file.

BACKGROUND

On February 28, 2012, a RFP was released for financial audit services and a four-person evaluation committee independently evaluated the five proposals and interviewed the top three firms on May 3, 2012.

At the May 15, 2012 City Council meeting, staff presented the results of the RFP and the recommendation of Mayer, Hoffman, McCann from the evaluation committee. City Council voted 4-0 (Monahan abstained) to sign a three year contract with Mayer, Hoffman, McCann.

The fieldwork for the FY 2011-12 financial audit was scheduled to begin June 18th, however staff has postponed this due to City Council request to consider termination of the current contract with Mayer, Hoffman, McCann.

ANALYSIS

On May 14, 2012, the Attorney General of California brought accusations against Mayer, Hoffman, McCann P.C. to the California Board of Accountancy. These accusations were specifically related to the audit of the City of Bell. The Attorney General of California requested that the Board issue a decision:

1. Revoking or suspending or otherwise imposing discipline upon Mayer, Hoffman, McCann,
2. Ordering Mayer, Hoffman, McCann to pay the California Board of Accountancy the reasonable costs of the investigation and enforcement of this case,
3. Ordering Mayer, Hoffman, McCann to pay the California Board of Accountancy an administrative penalty,
4. Taking such other and further action as deemed necessary and proper.

On May 29, 2012, the California Board of Accountancy subsequently penalized Mayer, Hoffman, McCann with a \$300,000 fine and as much as \$50,000 for the cost of the investigation. The Board did not revoke or suspend Mayer, Hoffman, McCann's license to practice, however they are under probation for 2 years.

As was determined by the RFP evaluation committee, Mayer Hoffman McCann, P.C. was superior to other proposers - most notably in the areas of actual field audit hours budgeted for this engagement, lowest annual audit fees, and the quality of the staff auditors that would be assigned to the Costa Mesa audit.

Among other attributes, the following list summarizes the advantages to the City for continuing the contract with Mayer Hoffman McCann P.C.

- The firm specializes in local government auditing. Currently, the firm serves as auditors to approximately eighty (80) municipalities.
- The firm takes a proactive leadership role in local government accounting and auditing issues, and are experts in issues of redevelopment agency compliance and OMB Circular A-133 single audit compliance.
- The firm has established a high level of responsiveness to staff's inquiries and does not bill for non-audit consultation and advisory services.
- The firm provides an annual Governmental Accounting Standards Board (GASB) Technical Update each spring for clients.
- Mayer Hoffman McCann, P.C. uses an electronic trial balance software and IDEA software which allows them to upload the trial balance and map it to the financial statements and create audit lead schedules, perform analytical reviews, perform ratio analysis and evaluate the data in other ways. The system provides a new tool for focusing audit efforts on transactions that could be more susceptible to fraud.
- While the firm was also the audit firm for the City of Bell, their management has implemented many additional internal control measures to further tighten the audit process.
- Altering the audit scheduling process at this point in time will place additional pressures on staff as a new audit firm will need more staff resources to compile their documentation and assessment of internal controls.

ALTERNATIVES CONSIDERED

Should City Council wish to terminate the current contract with Mayer, Hoffman, McCann (see Attachment 1) and direct staff to provide written notice of termination, the City Council could direct the City CEO enter into a contract with the audit firm also recommended by the review committee, White Nelson Diehl Evans, LLP in a form approved by the City Attorney.

With an original proposed annual audit fee for a 3 year contract of \$193,824.00, the proposed cost by White Nelson Diehl Evans, LLP for FY 12-13 is \$68,525. It should be noted, that while the total cost of this proposal for 3 years is \$58,696 (\$19,565 per year on average) higher than that of Mayer Hoffman McCann. As such, City Council could choose to enter a one year contract for audit services with White Nelson Diehl Evans LLP.

As part of the FY 12-13 Proposed Budget, staff included an audit budget of \$75,000. Therefore, the proposed cost by White Nelson Diehl Evans, LLP would be \$6,475 less than the amount currently proposed as part of the City's budget. Staff has contacted representatives from White Nelson Diehl Evans, LLP and they are available to complete the FY 2011-12 financial audit.

FISCAL REVIEW

An amount of \$75,000 is currently included as part of the FY 12-13 Proposed Budget for financial audit services. The current contract with Mayer Hoffman McCann, P.C. is \$47,500.

Should City Council choose White Nelson Diehl Evans, LLP as the alternative, first year pricing would be \$68,525, which is still less than the amount currently included in the proposed budget.

LEGAL REVIEW

The attached professional service agreement has been reviewed and approved as to form.

RECOMMENDATION

Staff recommends receiving and filing the report regarding the consideration of terminating the current contract with Mayer Hoffman McCann. As stated, the Board of Accountancy has imposed a fine totaling \$350,000 and a probationary period of 2 years on Mayer Hoffman McCann, however they did not revoke or suspend their license to practice. As noted by the RFP evaluation committee, Mayer Hoffman McCann, P.C. were rated higher for their qualifications, experience, and changes relating to assessment of internal controls and documentation throughout the audit process.

BOBBY YOUNG
Finance & I.T. Director

THOMAS DUARTE
City Attorney

Attachments:

1. [Copy of unsigned Professional Services Agreement with Mayer Hoffman McCann, P.C.](#)