



CITY COUNCIL AGENDA REPORT

MEETING DATE: JULY 15, 2014

ITEM NUMBER:

SUBJECT: AWARD CONTRACT FOR ANNUAL TRANSIENT OCCUPANCY TAX AUDIT SERVICES

DATE: JUNE 27, 2014

FROM: FINANCE DEPARTMENT

PRESENTATION BY: COLLEEN O'DONOGHUE, ASSISTANT FINANCE DIRECTOR

FOR FURTHER INFORMATION CONTACT: COLLEEN O'DONOGHUE, ASSISTANT FINANCE DIRECTOR (714) 754-5219

RECOMMENDATION

1. Award contract for annual transient occupancy tax audit services for fiscal years 2014, 2015 and 2016 to Mayer Hoffman McCann, P.C., in the total amount of \$58,500 with an option to extend the contract in one-year periods, for a minimum of two fiscal years.
2. Authorize City Chief Executive Officer to sign and execute a professional services agreement with the selected audit firm.

BACKGROUND

The City currently has 30 hotels with transient occupancy taxes (TOT) totaled \$7.2 million in fiscal year 2012-2013. In previous years, TOT compliance audits were performed by an internal staff member, who reviewed four to six hotels per year on a rotating basis. Due to reduction in staff and reorganization of departmental functions, performing TOT internal audits on a continuing basis is no longer feasible. In an effort to maintain level of compliance with the City's TOT ordinance and ensure proper collection of TOT revenues, staff recommended outsourcing TOT compliance audit functions. On April 4, 2014, a Request For Proposal (RFP) was released for TOT audit services (see Attachment 1) with the following schedule:

- Release of RFP April 4, 2014
- Proposals Due May 9, 2014

In response to the City's RFP, proposals were received from seven vendors. A five-person evaluation committee which was comprised of two Financial Advisory Committee members, independently evaluated the seven proposals.

The proposals were evaluated using the following criteria:

- Qualifications of entity and key personnel
- Approach to providing the requested scope of services
- Price proposal
- Result of reference checks

In the evaluation team's cumulative evaluation score summary, Mayer Hoffman McCann P.C., ranked first with a score of 2,240 and White Nelson Diehl Evans, LLP placed second with a score of 2,060 and MuniServices, LLC place third with a score of 1,905.

On June 24, 2014, the Finance Advisory Committee unanimously approved the selection of Mayer Hoffman McCann, P.C. as the TOT audit services contractor. A copy of the cumulative evaluation score sheet can be seen on Attachment 2.

ANALYSIS

The top three firms under consideration offer exceptional TOT audit services. The evaluation committee, however, found that the TOT audit proposal offered by Mayer Hoffman McCann, P.C was superior - most notably in these areas: (1) quality of auditors that are assigned to the Costa Mesa TOT audit; (2) exceptional references from other governmental agencies with similar TOT audits; (3) reasonable field audit hours budgeted for this engagement; and (4) low annual audit fees,

The following list summarizes the advantages to the City for selecting the firm of Mayer Hoffman McCann P.C.

- The firm specializes in local government auditing, including TOT compliance audits. Over the last three years, the firm has performed over 120 TOT audits for various municipalities.
- The firm takes a proactive leadership role in local government accounting and auditing issues, and is the expert in issues of governmental accounting and auditing.
- Based on the City's past experience working with the firm, they have demonstrated a high level of responsiveness to staff's inquiries and do not bill for non-TOT compliance audit consultation and advisory services.
- The firm will provide feedback to the City regarding the language in the ordinance and the forms used to report and collect TOT.

ALTERNATIVES CONSIDERED

If City Council wishes to change the TOT audit firm recommended by the review committee, the review committee would recommend awarding the TOT audit services contract to White Nelson Diehl Evans, LLP, which proposed a total TOT audit fees of \$78,000 for a 3 year contract (\$26,000 per year on average). It should be noted, that the fiscal year 2013-14 budget includes \$25,000 for TOT audit services and the same amount is approved in the fiscal year 2014-15 budget. While the average cost per year proposed by White Nelson Diehl Evans is slightly higher than the approved budget for TOT audits, the overage can be covered by budget savings from other areas.

City Council also may choose to expand the scope of the services, however those additional services may revise original prices proposed.

FISCAL REVIEW

An amount of \$25,000 per year is currently included as part of fiscal years 2013-14 and 2014-15 budgets for TOT audit services. As proposed, the cost of a three year contract with Mayer Hoffman McCann, P.C. would be \$58,500, with first year pricing of \$21,150 and second year \$19,800. The City would realize a total budget savings of \$9,050 in the first two years of contract. The audit fees are proposed to decrease to \$17,550 in 2015-16 as auditors become more familiar with the scope of TOT audits and City's requirements.

Should City Council choose White Nelson Diehl Evans, LLP as the alternative, first year pricing would be \$28,300 and second year \$26,000. Amounts in excess of approved budget for TOT audits can be covered by budget savings from other areas.

LEGAL REVIEW

The professional service agreement (Attachment 4) has been reviewed and approved as to form.

RECOMMENDATION

We are recommending Mayer Hoffman McCann, P.C. be awarded the TOT audit services contract based on the TOT audit services committee's review, recommendation and the subsequent approval of the Finance Advisory Committee. The firm has a solid understanding of the scope of the project; and has extensive TOT auditing experience with other municipal governments.

Stephen Dunivent
Interim Finance Director

THOMAS DUARTE
City Attorney

Attachments:

1. [RFP for Financial Audit Services](#)
2. [Cumulative Evaluation Score Sheet](#)
3. [Proposal](#)
4. [Professional Services Agreement](#)