

ATTACHMENT 2

**FIRST AMENDMENT TO
PROFESSIONAL SERVICES AGREEMENT WITH
WHITE NELSON DIEHL EVANS LLP**

THIS FIRST AMENDMENT is made and entered into this February 17, 2015, by and between the CITY OF COSTA MESA, a California municipal corporation ("City") and WHITE NELSON DIEHL EVANS LLP, a limited liability partnership ("Consultant"). The abovementioned parties being hereinafter collectively referred to as the "Parties".

Recitals

- A. City entered into an Agreement with Consultant on May 1st, 2013, to provide auditing services (the "Agreement"); and
- B. The term of the Agreement expires on June 30, 2015; and
- C. The Agreement contains an option to extend the term up to 2 additional 1 year periods; and
- D. City desires to exercise the first of the extensions by entering into this First Amendment extending the term of the Agreement to June 30, 2016; and
- E. In consideration, Consultant desires to increase their fees by 3% and requests an additional fee of \$3,370.00 calculated upon the existing discounted rates for the implementation of GASB 68 imposing certain pension reporting standards requiring additional hours.

NOW, THEREFORE, in consideration of the mutual terms and conditions set forth in the Agreement, the Parties hereby amend the Agreement as follows:

- 1. Section 1.1 of the Agreement is amended to increase the scope of work as more specifically set forth in the Engagement Letter from Consultant dated January 13, 2015, which is attached to this First Amendment as Exhibit "A", attached hereto and incorporated herein.
- 2. Section 2.1 of the Agreement is amended to add the following:

"As compensation for the scope of services outlined in Exhibit A to this First Amendment, commencing on July 1, 2015 and extending through June 30, 2015, Consultant shall be shall be paid in accordance with the fees set forth in Exhibit "A" Consultants total compensation for this extended one year period shall not exceed Sixty Five Thousand Four Hundred Ten Dollars (\$65,410.00)."
- 3. Section 4.1 of the Agreement is amended to extend the term of the Agreement currently set to expire on June 30, 2015 so that the new termination date shall be June 30, 2016.
- 4. All other provisions of the Agreement shall remain in full force and effect. This Amendment with the Agreement shall be construed together and shall constitute one Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by and through their respective authorized officers, as of the date first above written.

Customer:
CITY OF COSTA MESA,
A Municipal Corporation

Consultant:
WHITE NELSON DIEHL EVANS LLP

Thomas A. Hatch
Chief Executive Officer

Nitin P. Patel
Signature

2/25/15
Date

NITIN P. PATEL, PARTNER
Name and Title

ATTEST:

33-0686301
Social Security or Taxpayer ID Number

Brenda Gme
City Clerk and ex-officio Clerk of the
City of Costa Mesa

2-11-2015
Date

Approved as to Form:
[Signature]
City Attorney

Approved as to Insurance:
[Signature]
Risk Management

02/24/15
Date

2-20-15
Date

Approved as to Content:

[Signature]
Project Manager

Stephen Dunivant
Interim Finance Director

2/6/15
Date

2.13.15
Date

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

January 13, 2015

Mr. Stephen Dunivent
Interim Finance Director
City of Costa Mesa
77 Fair Drive
Costa Mesa, CA 92626

Dear Mr. Dunivent:

Our original proposal dated March 27, 2012 and our professional services agreement dated May 1, 2013 to provide audit services to the City of Costa Mesa and related entities (City) allows the City to extend our contract in one-year periods for a minimum of two fiscal years. We are pleased to present our proposal to continue to provide audit services to the City for the first option year ending June 30, 2015. The proposed fees listed in the attached engagement letter for the fiscal year 2015 audit are increased by 3% compared to audit fees for the fiscal year 2014 audit. We are also requesting an additional fee of \$3,370 as detailed in the engagement letter for the implementation of GASB 68, the pension reporting standards which will require additional hours to audit and implement the proper reporting in the City's Comprehensive Annual Financial Report. The hourly rates used in the calculation of the additional fee for the implementation of GASB 68 is based on our discounted rates listed in our proposal dated March 27, 2012.

We have enclosed an engagement letter which lists the scope of the work and the timing of completion of the audit.

If you have questions on the proposed fees or engagement letter, please contact me at (714) 979-1300 or by email at npatel@wndecpa.com

Very truly yours,

WHITE NELSON DIEHL EVANS, LLP



Nitin P. Patel, CPA
Engagement Partner

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

January 13, 2015

Mr. Stephen Dunivent
Interim Finance Director
City of Costa Mesa
77 Fair Drive
Costa Mesa, CA 92626

Dear Mr. Dunivent:

We are pleased to confirm our understanding of the services we are to provide the City of Costa Mesa, the Costa Mesa Public Financing Authority, and the Costa Mesa Housing Authority (collectively, the City) for the year ending June 30, 2015. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the City as of and for the year ending June 30, 2015. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Budgetary Comparison Schedules - General and Major Special Revenue Funds.
- 3) Schedules of Funding Progress for CalPERS Miscellaneous Pension Plan, CalPERS Safety Pension Plan, Police 1% Supplemental Retirement Plan and Other Post-Employment Benefit Plan.

We have also been engaged to report on supplementary information other than RSI that accompanies the City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole:

- 1) Combining and individual fund financial statements.
- 2) Schedule of expenditures of federal awards.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditors' report will not provide an opinion or any assurance on that other information:

- 1) Introductory Section.
- 2) Statistical Section.

Audit Objectives:

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. The OMB Circular A-133 report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Both reports will state that the report is not suitable for any other purpose.

Audit Objectives (Continued):

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon the completion of our Single Audit. Our reports will be addressed to the City Council. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

Management Responsibilities:

Management is responsible for the financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal awards received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and that financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management Responsibilities (Continued):

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review.

You are responsible for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management Responsibilities (Continued):

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles (GAAP). You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures - General:

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Audit Procedures - General (Continued):

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Controls:

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance:

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees and Other:

Noted below is a listing of work required by City staff to assist in the audits.

1. Preparation of trial balances for all funds, after posting of all year-end journal entries.
2. Preparation of supporting schedules for all material balance sheet accounts, and selected revenue and expenditure accounts.
3. Typing of all confirmation requests.
4. Pulling and refiling of all supporting documents required for audit verification.

We will comply with all other provisions of our technical and cost proposals dated March 27, 2012 and the City's request for proposal and any additional agreements for professional services, which are incorporated herein by reference.

Our maximum annual fees for the year ending June 30, 2015 are as follows:

City of Costa Mesa			
Audit	0.*		
GASB 68 Implementation (a)	34,695.00+	\$	34,695.00
CAFR Preparation	3,370.00+		3,370
Costa Mesa Public Financing Authority:	5,445.00+		5,445
Audit and Financial Report	4,960.00+		4,960
Costa Mesa Housing Authority:	7,945.00+		6,520 CMHA
Audit and Financial Report	540.00+		7,945.00
Single Audit of Federal Grants	1,935.00+		540
GANN Appropriation Limit			1,935
AB 2766 Audit	58,890.00*		65,410
		\$	65,410
	City	58,890.00+	
	CMHA	6,520.00+	
	Total:	65,410.00*	

$\Sigma \textcircled{C} = 58,890.00$

Audit Administration, Fees and Other (Continued):

a) The GASB 68 Implementation fee is computed as follows:

	Hours	Discounted Rate	Total
Partner	6.00	\$ 219	\$ 1,314
Manager	8.00	164	1,312
Senior	8.00	93	744
			<u>\$ 3,370</u>

The maximum annual fees stipulated herein contemplate that conditions satisfactory to the normal progress and completion of the examination will be encountered and the City accounting personnel will furnish the agreed upon assistance in connection with the audit. However, if unusual circumstances are encountered which make it necessary for us to do additional work; we shall report such conditions to the responsible City officials and provide the City with an estimate of the additional accounting fees involved.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of White Nelson Diehl Evans LLP and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to grantor agencies or their designees, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of White Nelson Diehl Evans LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

In accordance with our firm's current record retention policy, all of your original records will be returned to you at the conclusion of this engagement. Our audit documentation files will be kept for a period of seven years after the issuance of the audit report. All other files will be kept for as long as you retain us as your accountants. However, upon termination of our service, all records will be destroyed after a period of seven years. Physical deterioration or catastrophic events may further shorten the life of these records. The audit documentation files of our firm are not a substitute for your original records.

Mr. Stephen Dunivent, Interim Finance Director
City of Costa Mesa
January 13, 2015
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Audit Administration, Fees and Other (Continued):

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our most recent peer review report accompanies this letter.

We appreciate the opportunity to be of service to the City of Costa Mesa and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

WHITE NELSON DIEHL EVANS, LLP



Nitin P. Patel, CPA
Engagement Partner

RESPONSE:

This letter correctly sets forth the understanding of the City of Costa Mesa.

By Stephen Dunivent

Title Interim Finance Director

Date 02-27-2015