



Meeting Date: 05/03/11

ACTION	TYPE OF ITEM
<input type="checkbox"/> Approved Recommendation	<input type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input checked="" type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input type="checkbox"/> Other Study Session

Prepared By: James Cameron *J.C.* Agenda Item No. 0-1
 Reviewed By: City Manager *J.M.* City Attorney *J.P.* Finance *J.C.* Other (Specify) _____

DATE: April 25, 2011

TO: City Council

FROM: James Cameron, Chief Financial Officer *James Cameron*
Finance Department

SUBJECT: Discussion of City Auditor Agreement

RECOMMENDATION

That City Council receive a report on the current agreement with Mayer Hoffman McCann P.C. (MHM) for financial audit services and provide direction to staff regarding the Fiscal Year 2010-2011 audit.

DISCUSSION

In March 2010, the Finance Department requested proposals for the fiscal years 2009-2010, 2010-2011, and 2011-2012 financial audit services. The request for proposals included audit services for Riverpark JPA, High Tide and Green Grass, and Measure "O", as well as the standard annual audits for the City, CDC and Single Audit. Nine proposals were received and reviewed. MHM was selected based on a combination of the quality of their audit approach and fee structure.

Because MHM was the auditor for the City of Bell, concerns have been raised about the continued use of MHM by the City of Oxnard. The State Controllers Office performed a review of the FY 2008-09 audit of the City of Bell. Although there were nine findings, a number of the findings were related to lack of documentation. Section 5097 of the California Business and Professions Code states that lack of documentation raises a presumption that procedures were not applied and tests not performed. Other findings included consideration of risk of fraud, "going concern", federal program compliance and controls, and Redevelopment Agency compliance, which were 2 of the 9 findings. The State Controllers Audit team states that their report is solely applicable to Bell for FY 2008-09 and is not intended to pertain to any other work of MHM.

In response to the State Controller's report, MHM commissioned an independent review by the accounting firm of Carr Riggs & Ingram (CRI) led by a Certified Fraud Examiner with expertise on accounting and auditing standards. The task of the CRI was to examine the assertion by MHM that its municipal audit practice met all auditing standards, including Federal Office of Management and

Budget Circular A-133 and California Business and Professional Code. The Independent Accountant's Report, attached, stated that the assertion is "fairly stated".

The City is at a point where a decision must be made regarding the continued use of MHM or to seek the services of another auditor. Recently the State Controller sponsored legislation, Assembly Bill 229 that would establish guidelines for independent audits of local government. This bill, which includes a requirement that auditors be selected from a directory of accountants established by the State Controller, is still in committee. There is a significant amount of work for both the auditor and City staff when a new firm is hired, making it impractical to hire an auditor for one year. The cost of that effort is normally amortized over several years; however, AB 229, would make it difficult to award a multi-year contract until it is approved in final form. Due to the potential of new requirements for City audits, the Council may wish to consider the use of MHM for the FY 2010-2011 audit only. The City would be in a better position to seek a new auditor for future years based on the requirements of AB 229.

As a final point, on April 18, 2011, the State Controller did in fact approve the Single Audit performed by MHM for the City.

FINANCIAL IMPACT

The average annual cost of the current three year contract with MHM is under \$92,000 per year. This was lower than the second ranked firm by about \$15,000 a year. It is anticipated that a single year contract will likely be more expensive because the additional up front cost could not be amortized over multiple years. The majority of the cost will impact the general fund.

Attachment #1: Independent Accountant's Report



INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of
Mayer Hoffman McCann P.C.

We have examined management's assertion regarding the California Municipal Audit Practice of Mayer Hoffman McCann P.C. that:

"the system of quality control for the accounting and auditing practice applicable to municipal audits performed by the California offices of Mayer Hoffman McCann P.C. in effect for the year ended October 31, 2010, has been designed to meet the requirements of the quality control standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, referred to as generally accepted governmental auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the California Business and Professional Code. The system of quality control was also complied with during the year ended October 31, 2010, to provide the firm with reasonable assurance of complying with the applicable professional standards"

Mayer Hoffman McCann P.C.'s management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion; however, our examination does not provide a legal determination on compliance with the requirements of specified laws, regulations or rules.

In our opinion, management's assertion referred to above is fairly stated, in all material respects, based on the criteria set forth above.

Carr Riggs & Ingram

Gainesville, Florida
March 3, 2011