



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Director of Administrative Services

BY: Megan Schotborgh, Accounting Manager

SUBJECT: Agreement for Auditing Services

DATE: March 11, 2025

RECOMMENDATION:

Adopt a Resolution approving and authorizing the City Manager to execute an agreement with Moss, Levi, & Hartzheim LLP, in substantially final form, to provide auditing services.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The FY 2024-25 Budget includes approximately \$36,000 for auditing services. Moss, Levi, & Hartzheim's maximum cost to perform the FY 2024-25 audit in the current fiscal year is \$35,800. The full three-year contract cost to the City is \$111,205; FY 2025-26 and FY 2026-27 budgets will incorporate the cost each year during the budget development process. Audit services for Five City Fire Authority (FCFA) are also included in this agreement; however, the cost for these services are solely the responsibility of the FCFA.

BACKGROUND:

Municipalities are required to hire external auditors to audit their financial statements annually and to conduct evaluations of the entity's internal controls. The auditor is responsible for determining that the City's financial statements do not include material misstatements and do not misrepresent its financial condition. In addition, auditors evaluate the City's internal controls and procedures to reduce the risk of collusion, theft, or fraud.

On January 10, 2025, the Administrative Services Department issued a Request for Proposals (RFP) for auditing services to Certified Public Accounting (CPA) firms. One proposal was received. The selection process was performed by the City's audit selection team and was based on a set of scoring criteria. The results of that scoring recommend awarding the City's auditing services to Moss, Levi, & Hartzheim LLP (MLH).

The City's previous agreement for audit services, which happens to be with MLH, expired on June 30, 2024. In the past, the City has been satisfied with MLH's performance, responsiveness and audit procedures.

ANALYSIS OF ISSUES:

As discussed, the City audit selection team is recommending approval of a three-year audit service agreement with MLH, with two additional one-year extensions based on satisfactory performance. The City audit selection team evaluated the firm's proposal based on several criteria including: understanding of the work to be performed; the auditor's experience in conducting audits of cities of similar nature, size and complexity; technical experience and professional qualifications of the audit team; the firm's commitment to keeping the same team assigned to the job for each successive year; the ability of the proposed approach to meet the needs of the City and price. Table 1 below reflects the MLH's pricing proposals:

Table 1: MLH Pricing Proposal

| Audit Services | Fixed 3-Year Contract Term | | |
|---|----------------------------|---------------|---------------|
| | FY 2024-25 | FY 2025-26 | FY 2026-27 |
| City Audit | 25,935 | 26,845 | 27,785 |
| ACFR Preparation | 5,865 | 6,070 | 6,285 |
| TDA Audits | 2,000 | 2,070 | 2,140 |
| Single Audit Act Report (when required) | 2,000 | 2,070 | 2,140 |
| Total City Price | 35,800 | 37,055 | 38,350 |
| FCFA Audit and Financial Statements | 9,200 | 9,525 | 9,860 |
| Total Maximum All-Inclusive Price | 45,000 | 46,580 | 48,210 |

MLH is a local firm based out of Santa Maria that has more than 45 years of experience performing nonprofit and governmental audits. They demonstrate extensive experience with cities of similar nature, size, and complexity and currently provide audit services to the cities of Atascadero, Paso Robles, Goleta and Santa Maria. The firm has a history of technical experience and CPA professionals that specialize in governmental accounting and at a cost that is competitive.

Based on Government Code Section 12410.6(b), which requires the City not employ the same lead audit partner or coordinating audit partner for more than six consecutive years, MLH's proposal includes a new audit partner to be assigned to lead the City's audit work to ensure State law compliance, receive a different perspective, and to ensure objectivity.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Adopt a Resolution approving and authorizing the City Manager to execute an agreement with Moss, Levi, & Hartzheim LLP to provide auditing services in substantially final form; or
2. Provide other direction to staff.

ADVANTAGES:

Awarding the agreement to MLH will provide the City with a qualified accounting firm to perform the City's required audit and reporting requirements and within the approved budget. Contracting with MLH also provides advantages of operational familiarity and efficiencies for both City and MLH staff.

DISADVANTAGES:

The disadvantage of the recommendation is that other qualified audit firms will not be selected; however, no other auditing firms replied to the City's RFP, and MLH has confirmed a new audit partner will be assigned to the City.

ENVIRONMENTAL REVIEW:

Adopting the Resolution relates to organizational or administrative activities that will not result in direct or indirect physical changes in the environment, and therefore is not a project within the meaning of the California Environmental Quality Act ("CEQA") and the State CEQA Guidelines, section 15378(b)(5).

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

ATTACHMENTS:

1. Proposed Resolution