



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Meeting of June 27, 2017

**TO:** Honorable Mayor and Members of the City Council

**SUBMITTED BY:** David Biggs, City Manager  
Annie To, Director of Finance

**SUBJECT:** Adopt a resolution and execute an engagement letter with CliftonLarsonAllen LLP (Gallina LLP) for Annual Audit Services to the City and Its Related Entities as Required by Law for FY 2016-17, FY 2017-18, and FY 2018-19

### **RECOMMENDED ACTION:**

Adopt a resolution authorizing the City Manager to execute an engagement letter with CliftonLarsonAllen LLP to provide annual audit services to the City and its related entities for FY 2016-17, FY 2017-2018, and FY 2018-19 for a not to exceed amount of \$57,600, \$58,675, and \$59,765, respectively for a three year engagement.

### **FISCAL IMPACT OF RECOMMENDATION:**

The costs of the annual audit services are a not-to-exceed \$57,600 for FY 2016-2017, \$58,675 for FY 2017-2018, and \$59,765 for FY 2018-2019. The Finance Department budgets the FY 2017-2018 in the in proposed budget under the line item for Financial Services. Finance Department will budget future expenditures in the subsequent years.

### **DISCUSSION:**

Each year the City and its related entities including Wastewater, and the Hercules Public Financing Authority (PFA) are required by law to have an audit performed on its accounting records by an outside auditing firm. This service has been performed by Gallina LLP since FY 2010-11 for six (6) years. Since the Government Accounting Standards Board recommends to issue a Request for Proposal when hiring an external auditor, the Finance Department issued a Request for Proposals (RFP) to several Certified Public Accountant firms to audit the City's financial statements for the fiscal years 2016-17, 2017-18 and 2018-2019.

The four firms that submitted proposals, with proposal summary information are as follows:

**LIST OF FIRMS THAT SUBMITTED PROPOSALS**

Audit Firm	Contact	1st Year	2nd Year	3rd Year	Total 3 Years
Patel & Associates LLP	Sanwar Harshwal	\$36,980	\$36,980	\$36,980	\$110,940
Badawi & Associates	Ahmed Badawi	\$55,130	\$56,790	\$58,490	\$170,410
MUN CPAs	Justin Williams	\$57,000	\$57,000	\$57,000	\$171,000
CliftonLarsonAllen LLP	Elba Zuniga	\$57,600	\$58,675	\$59,765	\$176,040

Each of the four proposals were thoroughly reviewed by staff. During the interview process, the firm representative was asked to present the qualifications of their firm and assigned staff, as well as a brief summary of how they would conduct the audit. Each firm was then asked a series of questions based upon their submitted proposals. In addition, staff considered the following Government Finance Officers Association (GFOA) recommendations in the selection process:

- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the SOLE criterion for the selection of an independent auditor.
- Governmental entities should enter into multi-year agreements of at least five years in duration. Such agreements allow for greater continuity.
- The frequent lack of competition among audit firms that are fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory.

Staff recommends executing the engagement letter with CliftonLarsonAllen LLP to perform the annual audit services for FY 2016-17, FY 2017-18, and FY 2018-19.

***Financial Impact***

**Description:** The costs of the audit engagement are a not-to-exceed \$57,600 for FY2016-2017, \$58,675 for FY 2017-18, and \$59,765 for FY 2018-19.

**Funding Source:** 100-4625-611.60-00

Council Policy Change: ☐ No ☐

**ATTACHMENTS:**

Attachment 1 – Resolution

Attachment 2 – Engagement Letter