



# Staff Report

## City of Manhattan Beach

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

**THROUGH:** Geoff Dolan, City Manager

**FROM:** Bruce Moe, Finance Director  
Russell Morreale, Assistant Finance Director  
Henry Mitzner, Controller

**DATE:** February 20, 2007

**subject:** Consideration of a Two Year Extension of the Existing Contract for Financial Audit Services with Lance, Soll and Lunghard (Not to Exceed \$36,722/year)

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### **RECOMMENDATION:**

Staff recommends that the City Council accept the Finance Subcommittee and staff recommendation to extend the current contract with Lance, Soll, and Lunghard (LSL) to provide financial audit services for an additional two fiscal years. The extension will commence with the audit for the current fiscal year ending June 30, 2007 and include one subsequent fiscal year ending June 30, 2008.

### **BUDGET IMPLICATION:**

The proposed contract extension covers fiscal years 2006-2007 and 2007-2008. The cost for this standard year-end audit service is contracted on a fixed fee basis outlined by fiscal year as follows:

<u>Fiscal Year Ending</u>	<u>Not To Exceed Fee</u>
June 30, 2007	\$ 35,310
June 30, 2008	\$ 36,722

The funds for this service are budgeted on an annual basis in the General Fund as part of Finance Administration. The extended contract pricing includes no increase for the first year and a modest increase for fiscal year 2007-2008.

### **DISCUSSION:**

The State of California requires an annual audit of the City's finances. Such audits are to be conducted in conformance with generally accepted auditing standards by a licensed independent public accounting firm. The City's financial policies also require the performance of an annual audit and establish a three-year contract term as a City standard, with two one-year options at City Council's discretion.

For the past three fiscal years the City has engaged the auditing firm of Lance, Soll & Lunghard (LSL). The City's original contract was designed for a three-year term. LSL was selected to be the City auditors as part of a competitive proposal process completed in 2004. This process involved City staff members as well as our City Treasurer and Finance Subcommittee members.

At this time the Finance Subcommittee and staff are recommending that the current contract with LSL be extended for an additional two years for the following reasons:

1. The City remains pleased with the performance of our independent auditors. City staff has found LSL to be responsive, timely, professional, diligent and objective in executing their duties. All year-end audits have been completed within budget and defined timelines. They have assisted us greatly in maintaining the award-winning standards of our Comprehensive Annual Financial Report (CAFR). With their assistance the City has maintained its CAFR award at the national GFOA (Government Finance Officers Association) level. With their help we also have successfully navigated through the new GASB 44 reporting requirements (statistical section enhancements).
2. More and more, the audit industry is calling on public agencies to expand and refine financial reports, as we have seen with the implementation of GASB 34 & GASB 44. Additionally, recently issued audit standards require that we bolster our documentation of operational processes and internal controls, similar to those required of private industry. As such, we anticipate doing a great deal of work over the course of the next two years in this documentation process. With the continued LSL contract, staff can immediately begin planning the implementation process, and do so confidently knowing that we will be aligned with an audit team that is familiar with our staff, service expectations, records, systems and environment.

Audit work for fiscal year 2006-2007 is slated to begin at the end of June with the annual physical inventory observation. Preliminary year end audit work will take place in July, with the main field work commencing in October.

The Finance Subcommittee reviewed and approved the proposed contract extension at their January 23, 2006 meeting. If the Council approves this extension, the City Manager will negotiate and execute the contract.