



LAURA DOUD

February 14, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Auditor to execute an Amendment to Contract No.33203 with KPMG, LLC to extend the contract term three years to provide annual audit services for the Comprehensive Annual Financial Report (CAFR) and Federal Single Audit for the City of Long Beach and related reporting entities. The contract price will not exceed \$857,000 in the first year, which includes six Single Audit programs. Contract price will increase 2.5% for the second and third years.

DISCUSSION

Pursuant to Section 803 of the City Charter, the Office of the City Auditor is charged with ensuring an annual audit of the City's financial records is performed and an appropriate auditor's opinion is rendered in accordance with auditing standards generally accepted in the United States.

In March 2013, the Office of the City Auditor issued a Request for Proposal (RFP) to provide external audit services for the audit of the CAFR and the Federal Single Audit for the City of Long Beach and related reporting entities for fiscal years 2013 through 2016. A five-member steering committee comprised of representatives throughout the City reviewed the proposals in depth and conducted interviews of the finalists. The committee unanimously selected KPMG, LLC to perform the requested services.

Annual audit services under the current contract will be finished over the next six months. Normally, during this time, this Office would begin the RFP process to assess the audit services with the possibility of procuring a new audit firm. Changing audit firms would require significant staff time to assist a new audit firm in understanding basic City operations, system structures, and internal processes. Currently, City resources are not available to transition new auditors because the City is in the process of implementing a Citywide Enterprise Resource Planning (ERP) system that involves 17 software modules, including financial and human resource applications. This is one of the largest projects the City has ever undertaken and the most complex system implementation in the City's history. It is expected to be completed in 2019. Due to the broad scope and wide range of functions encompassed in the ERP system, the project

requires a level of resources Citywide and at an amount that far surpasses typical project demands. Many of the staff working on this project are also significant participants in the annual audit process. Attempting to change auditing firms at the same time as implementing a new ERP system would jeopardize the success of both projects and is not advised at this time. This issue was reviewed with the Director of Financial Management who is in agreement with extending the term.

The current contract with KPMG, LLC limited the annual price increase by the change in the Consumer Price Index (CPI). The change in CPI for the past three years has been extremely low, resulting in a contractual price increase of less than 4% over the three-year term of the contract. KPMG, LLC is proposing a 6.3% increase for 2017. When considering the minimal increases during the current contract term, this would equate to a 2.5% average annual increase over the last four years. To determine if proposed pricing was reasonable, a survey was performed of California Society of Municipal Finance Officers, which revealed there was no responding agency currently limiting increases strictly by CPI. Almost all responses stated the audit firm bid their annual increases at a fixed price, with the lowest increase at 2%. Therefore, we consider the proposed pricing for the extended years to be realistic and in-line with other audit contracts in the industry.

TIMING CONSIDERATIONS:

City Council approval is requested on February 14, 2017 to allow for sufficient time for planning of the audit engagement and provide any assistance that may be needed during the ERP implementation.


FISCAL IMPACT:

The annual cost of the audit services is \$857,000, which will be allocated to the departments and funds receiving the services. The allocation to the General Fund is estimated at \$450,000. The annual cost includes funding up to six Single Audit programs. Audit fees for years two and three of the extended term will increase by 2.5% annually.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


LAURA L. DOUD, CPA
CITY AUDITOR