



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 22, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to amend the attached agreement with KPMG, LLC to extend the contract term one year to perform the audit of the Comprehensive Annual Financial Report (CAFR) and Federal Single Audit for the City of Long Beach and related reporting entities. The contract price will be \$1,042,475 plus \$25,665 per required Single Audit program exceeding 13 programs and cover fiscal year 2012, extending the term of the agreement to September 30, 2013.

DISCUSSION:

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

In August 2007, the Office of the City Auditor issued a Request for Proposal (RFP) to perform the annual audit of the CAFR and the Federal Single Audit for the City of Long Beach and related reporting entities. Six auditing firms responded to the RFP. An eight-member steering committee reviewed the proposals in depth and conducted interviews of the finalists. The committee unanimously selected KPMG to perform the requested services.

The original term of the contract covered fiscal years 2007 through 2009 and included two one-year renewal options the City exercised for fiscal years 2010 and 2011. The Office of the City Auditor has negotiated a one year extension to this existing agreement. The audit fees for fiscal year 2012 include a 2% CPI adjustment over the fiscal year 2011 fees. This is lower than the 3% annual increase for the 2011 auditing fees.

Over the years, KPMG has developed a solid understanding of the City, its multiple reporting entities and complex operations. In addition, there are three key factors that support extending the contract with KPMG for one additional year.

1. Available Staff Time. There is a significant learning curve for new auditors, especially for a city as large and complex as Long Beach. Financial Management has experienced turnover recently in key positions, including the Director and Budget Manager. The arrival of new staff make it difficult to afford sufficient time to train a new auditing firm. This may result in delays which could affect critical bond and debt reporting requirements.
2. Elimination of the Redevelopment Agency (RDA). The elimination of the RDA has resulted in an additional layer of complexity to the audit. KPMG is familiar with RDA's history and transactions and has a detailed understanding of the pending legislation. As the reporting requirements for the RDA are in flux, it would be very costly to spend the time to educate another firm on these issues.
3. Issuance of Bonds. The Harbor Department expects to be issuing bonds each year over the next five years. Harbor management believes the credibility of having KPMG on the bond offering documents rather than a smaller firm could impact the ratings firms' opinions of the quality of the bond offering.

Extending the KPMG contract for one year will ensure that the City receives a quality audit at a competitive price from a firm that has an extensive understanding of the City's operations.

TIMING CONSIDERATIONS:

City Council approval is requested on May 22, 2012, to allow sufficient time for the planning of the audit engagement.

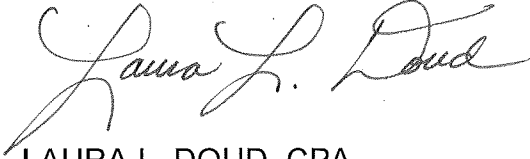
FISCAL IMPACT:

The annual cost of the audit of \$1,042,475, will be allocated to the departments and funds receiving the services. The allocation to the General Fund is estimated at \$215,000. Additional fees of \$25,665 will be charged for each required single audit program exceeding 13 programs. The contract price of \$1,042,475, includes funding for 13 single audit programs. The audit fees for fiscal year 2012 include a 2% CPI adjustment over the fiscal year 2011 fees.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Laura L. Doud". The signature is written in black ink and is positioned above the printed name.

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment



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20 Pacifica
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Telephone +1 949 885 5400
Fax +1 949 885 5410
Internet www.us.kpmg.com

March 8, 2012

Ms. Laura Doud
City Auditor
City of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802

Dear Ms. Doud:

This letter (the Engagement Letter) is incorporated by reference in the agreement between the City of Long Beach, California (the City) and KPMG LLP dated November 12, 2007 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City of Long Beach, California (the City).

Objectives and Limitations of Services

Financial Statement Audit Services

We will issue a written report upon our audit of the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements, that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.



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Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to the City electronically for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the City's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control over financial reporting and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.



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OMB Circular A-133 Audit Services

We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts, and grant agreements applicable to federal programs is the responsibility of management, including:

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the City's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

Offering Document

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our



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consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our reports on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

Our Responsibility to Communicate with the City Council

We will report to the City Council, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



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If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

Management Responsibilities

The management of the City is responsible for the fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, OMB Circular A-133 also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.



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In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the City has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2012.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the reports, the reports will indicate the status of management's responses.

Government Auditing Standards require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

Management is responsible for the distribution of the reports issued by KPMG.

Other Matters

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.



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In connection with the performance of services under the Engagement Letter, KPMG may utilize the services of KPMG controlled entities, KPMG member firms and/or third party service providers within and without the United States to complete the services under the Engagement Letter. Moreover, KPMG may utilize third party service providers within and without the United States to provide, at KPMG's direction, administrative and clerical support services to KPMG.

The City agrees to provide prompt notification if the City or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the City or such subsidiary.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to Regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to Regulators pursuant to authority provided by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to Regulators. Such Regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Collaboration Site

KPMG has developed a collaborative, virtual workspace ('Collaboration Site') in a protected, online environment. This Collaboration Site allows for the placement of certain documents into the Collaboration Site to be used by those providing the Services to you. The Collaboration Site will be decommissioned at the end of the Engagement, unless otherwise required by applicable law or professional standards, or other requirements of the engagement team.

In order to maintain the confidentiality of the information contained in the Collaboration Site, KPMG has taken certain steps to provide protection against unauthorized access. Access to the Collaboration Site is limited to KPMG authenticated and authorized users and the Collaboration Site is protected by encryption and a secure network.

Other Government Auditing Standards Matters

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

Additional Reports and Fees for Services

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.



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In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the Client's subsequent fiscal years until either Management or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

In accordance with your instructions, we have forwarded a copy of this letter to Patrick West, Robert Shannon, and John Gross.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Christopher B. Ray
Partner

CBR:bmp:glb:T1088

Enclosures:
Appendix I
Peer Review Report

cc: Patrick West, City Manager, City of Long Beach
Robert Shannon, City Attorney, City of Long Beach
John Gross, Director of Finance, City of Long Beach



City of Long Beach
March 8, 2012
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ACCEPTED:

City of Long Beach, California

Authorized Signature

Title

Date

Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements of the City of Long Beach, California as of and for the years ended September 30, 2012	\$862,820
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Other Reports:

The reports that we will issue as part of this engagement are as follows:

Report	Fee
Reports issued on the basic financial statements of the City ¹	\$ 388,600
Reports issued in connection with OMB Circular A-133 ²	141,500
Airport Enterprise Fund	55,080
Passenger Facility Charges	19,650
Aquarium of the Pacific – 9/30	53,490
Aquarium of the Pacific – 12/31	23,640
Harbor Department	125,780
Water Department	55,080

Additional fees for each single audit program exceeding 6 programs: \$25,665

¹ Fee assumes the City Auditor completes quarterly Cash & Investment audits similar to those completed in Fiscal Year 2011 and provides KPMG access to the audits to review and the ability to rely on the work performed in conjunction with our year-end audit.

² Fee includes agreed-upon procedures to the financial information submitted electronically through the Department of Housing and Urban Development's (HUD) Real Estate Assessment Center (REAC) system of the Housing Authority of the City (the Housing Authority).

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Expenses for items such as travel, telephone, postage, and typing, printing, and reproduction of financial statements are included in the above estimate. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.



System Review Report

To the Partners of KPMG LLP
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 2, 2011

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1 applicable, Contractor shall also perform all necessary and required procedures to
2 issue a report on compliance and/or internal controls as required by legal or
3 professional standards. The examinations of the individual financial statements
4 will also include an analysis of the differences between the Generally Accepted
5 Accounting Principles (GAAP) basis and the Budget basis of accounting and of the
6 components of the Budget basis fund equity for those entities selected by City.
7 Contractor will also assist City in meeting the requirements of the Government
8 Finance Officers Association's Certificate of Achievement for Excellence in
9 Financial Reporting program for the entities selected by the City.

- 10 1) Comprehensive Annual Financial Report
- 11 2) Water Department
- 12 3) Gas Enterprise Fund
- 13 4) Southeast Recovery Facility Joint Powers Authority
- 14 5) Aquarium of the Pacific
- 15 6) Aquarium of the Pacific Corporation
- 16 7) Redevelopment Agency of the City of Long Beach
- 17 (RDA)
- 18 8) Long Beach Housing Development Company
- 19 9) Harbor Department
- 20 10) Airport Enterprise Fund
- 21 11) Air Quality Management District

22 B. Contractor shall perform all necessary and required
23 procedures and issue a report to comply with the requirements of the Single Audit
24 Act of 1984, as amended in 1996 and the Office of Management and Budget
25 (OMB) Circular A-133, relating to the Federal assistance programs listed in the
26 City's Schedule of Expenditures of Federal Awards. Contractor will coordinate the
27 planning and development of testing methods and review these plans with City
28 Management and the City Auditor and, if necessary, review these methods with

OFFICE OF THE CITY ATTORNEY
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1 the Federal cognizant agency. This audit must comply with the federal
2 requirements for the timeframe of the completion of the Single Audit, which is two
3 hundred seventy (270) days from the end of the fiscal year.

4 C. Contractor shall perform all necessary and required
5 procedures and issue a separate compliance report on the RDA, as required by
6 certain sections of California Health and Safety Code.

7 D. Contractor shall perform an examination of and issue a report
8 on the Schedule of Passenger Facility Charges, Revenues, and Expenses of the
9 City of Long Beach Airport (PFC). The PFC examination shall comply with the
10 requirements prescribed by the most recently revised Passenger Facility Charge
11 Audit Guide for Public Agencies issued by the Federal Aviation Administration
12 Passenger Facility Charge Branch. This guide has been prepared to provide
13 auditors with a comprehensive set of procedures for auditing a public agency's
14 schedule of PFC revenue in accordance with 14 Code of Federal Regulations Part
15 158, "Passenger Facility Charges" requirements.

16 E. Contractor shall submit an audit work plan for the City's
17 review and approval for each report listed in Sections 1A through 1D above no
18 later than November 12, 2007 for the first contract year and July 31 of each
19 subsequent year under audit. The work plan should give an overview of the City
20 and the audits to be performed. The work plan should contain discussion on the
21 following items: (1) the organizational structure of the City, Finance Department,
22 and the audit firm; (2) an overview on the basis of accounting utilized, any
23 significant accounting areas, data processing, and the budgetary process; (3)
24 financial and operating information as considered necessary; (4) any areas of
25 potential concern for the firm; (5) description of client assistance required,
26 including a listing of reports and workpapers and when those would be required;
27 (6) reporting requirements, specifying due dates of all reports to be issued, and
28 number of copies provided to the City; (7) engagement staffing; and (8) other

1 issues Contractor believes should be included. Contractor shall also indicate what
2 methods of communication will be used to keep City personnel informed during
3 audit fieldwork.

4 F. Contractor will assist City and its related entities in responding
5 to inquiries from federal, state and/or regional agencies on issues related to the
6 audits.

7 G. In conjunction with the annual financial audits, Contractor
8 shall provide a management letter, alone, or in conjunction with other reports as
9 required by applicable professional standards that shall set forth the following:

10 1) The findings and recommendations for improvements
11 resulting from a survey of systems of internal control conducted as part of
12 the examination;

13 2) The findings and recommendations for improvements
14 in the accounting system that were noted during the conduct of the
15 examination;

16 3) The findings for non-compliance with laws, rules,
17 regulations and charter requirements coming to the attention of Contractor
18 during the course of the examination;

19 4) Any other material items coming to the attention of
20 Contractor in the course of the examination which Contractor believes
21 should be brought to the attention of management, the City Auditor and/or
22 the governing boards of the related entities;

23 5) A summary listing of all non-material items which were
24 communicated to management;

25 6) A listing of the status of all management letter
26 comments from prior letters both resolved and unresolved; and

27 7) Management's response to the findings and
28 recommendations noted in the letter.

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333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 H. Upon completion of the audits, Contractor is required to be
2 available for the presentation of the audit reports at the respective entities'
3 Council, commission and board meetings.

4 I. Contractor will be involved in and provided technical advice
5 for the implementation of any new accounting standards as required to conform to
6 Governmental Accounting Standards Board (GASB) Statements.

7 J. Contractor shall make a "reasonable efforts" attempt to
8 maintain its team management continuity during the course of a specific annual
9 engagement and from year to year during the term of this Agreement.

10 K. Contractor shall provide forty (40) hours per contract year of
11 "Executive Time" to conduct special reviews, research and training sessions at the
12 request of City. Contractor will inform City Management and City Auditor as these
13 hours are scheduled and used.

14 L. Contractor shall permit the City Auditor's staff to attend
15 Contractor's training programs, open to personnel of Contractor's clients, including
16 Contractor's governmental audit staff training program, staff training seminars and
17 workshops on governmental accounting updates and personal computer usage, as
18 needed.

19 M. Contractor may select the time and place of its performance;
20 provided, however, that access to City documents, records, and the like, if needed
21 by Contractor, shall be available only during City's normal business hours and
22 provided that milestones for performance, if any, are met.

23 N. Contractor represents that Contractor has obtained all
24 necessary information on conditions and circumstances that may affect its
25 performance and has conducted site visits, if necessary.

26 O. Each year, upon receipt of final payment for services
27 pertaining to that fiscal year, Contractor shall provide to City Auditor copies of all
28 Contractor's workpapers that Contractor would be required by professional

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1 standards to allow successor auditors to review. Contractor shall maintain all such
2 workpapers for a minimum of three (3) years, or for any longer period required by
3 law, from the date of termination or completion of this Agreement.

4 P. CAUTION: Contractor shall not begin work until this
5 Agreement has been signed by both parties and until Contractor's evidence of
6 insurance has been delivered to and approved by City.

7 2. TIME OF PERFORMANCE. Time is of the essence in performing all
8 services described herein. Except as extended by mutual agreement of Contractor and
9 City or for reasons of force majeure as stated in Section 34 below, Contractor shall meet
10 the times specified for performance and completion of all services described in Section 1
11 and which shall be set for in the annual audit work plan approved by City, described in
12 Section 1 above.

13 3. TERM. The term of this Agreement shall commence at midnight on
14 October 29, 2007, and shall terminate at 11:59 p.m. on September 30, 2010, or unless
15 sooner terminated as provided in this Agreement, or unless the services or the Project is
16 completed sooner.

17 4. PAYMENT.

18 A. City shall pay Contractor a sum not to exceed \$970,010 for
19 the services defined in Section 1 of this Agreement pertaining to fiscal year 2007.
20 This cost of services shall be adjusted annually for each successive fiscal year.
21 The base for computing the adjustment shall be the Consumer Price Index (CPI)
22 for All Urban Consumers (with a base year of 1982-1984=100), All Items, for the
23 Los Angeles – Riverside – Orange County area, published by the United States
24 Department of Labor Bureau of Labor Statistics. CPI for the month of May 2007
25 shall be the base index. As such, the FY 2008 contract price shall be the FY 2007
26 contract price multiplied by the May 2008 CPI and divided by the May 2007 CPI.
27 The FY 2009 contract price shall be the FY 2008 contract price multiplied by the
28 May 2009 CPI and divided by the May 2008 CPI. The preceding provisions

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1 notwithstanding, the annual contract price increase shall not exceed 5% of the
2 previous year's contract price. Annual compensation adjustments shall apply to
3 the initial contract term, plus any contract extensions that are exercised by City.

4 B. The services defined in Section 1B of this Agreement include
5 audit services pertaining to a maximum of six (6) "Major Programs." In the event
6 that laws, regulations or professional standards require additional programs to be
7 audited, such additional programs shall be audited at a cost of \$24,000 per
8 program, provided that Contractor notifies City in writing of the requirement to
9 audit such additional programs and City acknowledges in writing its understanding
10 of such requirement prior to the commencement of audit work.

11 C. All services provided under this Agreement shall be included
12 in the not to exceed price set forth in Section 4A above. Under no circumstances
13 will the total compensation exceed the not to exceed amount set forth in Section
14 4A above, except as stipulated in Section 4B above. Any unanticipated expenses
15 incurred in the performance of the audit by Contractor shall be the sole
16 responsibility of Contractor.

17 D. Contractor has requested to receive regular payments.
18 Contractor shall, on a percentage-of-completion method, submit original invoices
19 to the City Auditor no more frequently than once per month. Said invoices shall
20 set forth the services performed and by whom, the entity for whom performed, the
21 percentage of work completed, and the amount of the bill. Contractor shall certify
22 on the invoices that Contractor has performed the services in full conformance
23 with this Agreement and is entitled to receive payment. City shall pay said
24 invoices up to ninety percent (90%) of the not to exceed amount. The balance of
25 the contracted amount will be paid within thirty (30) days after the delivery of all
26 reports, opinions, letters, workpapers or other Deliverables, as defined below,
27 provided that the City has determined that Contractor has met all conditions of this
28 Agreement.

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1 E. Additional accounting or audit services may be necessary
2 from time to time for the various accounting entities included in this proposal. The
3 effective hourly rates detailed in the fee section of the proposal, attached hereto as
4 Exhibit "B" and incorporated herein by reference, will be the rates used for such
5 services.

6 5. COORDINATION AND ORGANIZATION. Contractor shall
7 coordinate its performance with a representative of City. Contractor shall advise and
8 inform City's representative of the work in progress on the Project in sufficient detail so as
9 to assist City's representative in making presentations and in holding meetings on the
10 Project.

11 6. CONTRACT ADMINISTRATOR. The City Auditor is designated as
12 the City's authorized representative to accept and approve or reject the services
13 furnished by Contractor hereunder.

14 7. INDEPENDENT CONTRACTOR. In performing its services,
15 Contractor is and shall act as an independent contractor and not an employee,
16 representative, or agent of City. Contractor shall have control of Contractor's work and
17 the manner in which it is performed. Contractor shall be free to contract for similar
18 services to be performed for others during this Agreement provided; however, that
19 Contractor acts in accordance with Section 12 and Section 14 of this Agreement.
20 Contractor acknowledges and agrees that (a) City will not withhold taxes of any kind from
21 Contractor's compensation; (b) City will not secure workers' compensation or pay
22 unemployment insurance to, for, or on Contractor's behalf; and (c) City will not provide
23 and Contractor is not entitled to any of the usual and customary rights, benefits or
24 privileges of City employees. Contractor expressly warrants that neither Contractor nor
25 any of Contractor's employees or agents shall represent themselves to be employees or
26 agents of City.

27 8. INSURANCE. As a condition precedent to the effectiveness of this
28 Agreement, Contractor shall procure and maintain at Contractor's expense for the

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1 duration of this Agreement from insurance companies that are admitted to write
2 insurance in California and have ratings of or equivalent to A:XV by A.M. Best Company
3 or from authorized non-admitted insurance companies that have ratings of or equivalent
4 to A:VIII by A.M. Best Company the following insurance:

5 (a) Commercial general liability insurance (equivalent in scope to ISO form
6 CG 00 01 11 85 or CG 00 01 10 93) in an amount not less than \$1,000,000 per each
7 occurrence and \$2,000,000 general aggregate. This coverage shall include but not be
8 limited to broad form contractual liability, cross liability, independent contractors liability,
9 and products and completed operations liability. City, its officials, employees and agents
10 shall be named as additional insureds by endorsement (on City's endorsement form or on
11 an endorsement equivalent in scope to ISO form CG 20 10 11 85 or CG 20 26 11 85),
12 and this insurance shall contain no special limitations on the scope of protection given to
13 City, its officials, employees and agents.

14 (b) Workers' Compensation insurance as required by the California Labor
15 Code and employer's liability insurance in an amount not less than \$1,000,000.

16 (c) Professional liability or errors and omissions insurance in an amount not
17 less than \$1,000,000 per claim.

18 (d) Commercial automobile liability insurance (equivalent in scope to ISO
19 form CA 00 01 06 92), covering Auto Symbol 1 (Any Auto) in an amount not less than
20 \$500,000 combined single limit per accident.

21 Any self-insurance program or self-insured retention must be separately
22 approved in writing by City's Risk Manager or designee and shall protect City, its officials,
23 employees and agents in the same manner and to the same extent as they would have
24 been protected had the policy or policies not contained retention or deductible provisions.
25 Each insurance policy shall be endorsed to state that coverage shall not be reduced,
26 non-renewed, or canceled except after thirty (30) days prior written notice to City, and
27 shall be primary and not contributing to any other insurance or self-insurance maintained
28 by City. Contractor shall notify the City in writing within five (5) days after any insurance

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1 has been voided by the insurer or cancelled by the insured. If this coverage is written on
2 a "claims made" basis, it must provide for an extended reporting period of not less than
3 one year, commencing on the date this Agreement expires or is terminated, unless
4 Contractor guarantees that Contractor will provide to the City evidence of uninterrupted,
5 continuing coverage for a period of not less than three (3) years, commencing on the
6 date this Agreement expires or is terminated.

7 Contractor shall require that all subcontractors and contractors which
8 Contractor uses in the performance of services maintain insurance in compliance with
9 this Section unless otherwise agreed in writing by City's Risk Manager or designee.

10 Prior to the start of performance, Contractor shall deliver to City certificates
11 of insurance and endorsements for approval as to sufficiency and form. In addition,
12 Contractor, shall, within thirty (30) days prior to expiration of the insurance furnish to City
13 certificates of insurance and endorsements evidencing renewal of the insurance. City
14 reserves the right to require complete certified copies of all policies of Contractor and
15 Contractor's subcontractors and contractors, at any time. Contractor shall make
16 available to City's Risk Manager or designee all books, records and other information
17 relating to the insurance, during normal business hours.

18 Any modification or waiver of these insurance requirements shall only be
19 made with the approval of City's Risk Manager or designee. Not more frequently than
20 once a year, the City's Risk Manager or designee may require that Contractor,
21 Contractor's subcontractors and contractors change the amount, scope or types of
22 coverages if, in his or her sole opinion, the amount, scope, or types of coverages are not
23 adequate.

24 The procuring or existence of insurance shall not be construed or deemed
25 as a limitation on liability relating to Contractor's performance or as full performance of or
26 compliance with the indemnification provisions of this Agreement.

27 9. ASSIGNMENT AND SUBCONTRACTING. This Agreement
28 contemplates the personal services of Contractor and Contractor's employees, and the

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1 parties acknowledge that a substantial inducement to City for entering this Agreement
2 was and is the professional reputation and competence of Contractor and Contractor's
3 employees. Contractor shall not assign its rights or delegate its duties under this
4 Agreement, or any interest in this Agreement, or any portion hereof, without the prior
5 approval of City, except that Contractor may with the prior approval of the City Manager
6 of City, assign any moneys due or to become due Contractor under this Agreement. Any
7 attempted assignment or delegation shall be void, and any assignee or delegate shall
8 acquire no right or interest by reason of an attempted assignment or delegation.
9 Furthermore, Contractor shall not subcontract any portion of its performance without the
10 prior approval of the City Manager or designee or substitute a subcontractor or contractor
11 without the prior approval to the substitution. Nothing stated in this Section shall prevent
12 Contractor from employing as many employees as Contractor deems necessary for
13 performance of this Agreement.

14 10. CONFLICT OF INTEREST. Contractor, by executing this
15 Agreement, certifies that, at the time Contractor executes this Agreement and for its
16 duration, Contractor does not and will not have any interests which would in any manner
17 affect Contractor's independence with respect to this Agreement as that word is defined
18 in Sections 220.01 and 220.07 inclusive of American Institute of Certified Public
19 Accountants Auditing Standards.

20 11. MATERIALS. Contractor shall furnish all labor and supervision,
21 supplies, material, tools, machinery, equipment, appliances, transportation, and services
22 necessary to or used in the performance of Contractor's obligations hereunder.

23 12. OWNERSHIP OF DATA AND DELIVERABLES. All deliverables
24 provided to City by Contractor under this Agreement ("Deliverables") and all materials
25 and information furnished to Contractor in connection with this Agreement, including but
26 not limited to documents, estimates, calculations, studies, maps, graphs, charts,
27 computer disks, computer source documentation, samples, models, reports, summaries,
28 drawings, designs, notes, plans, information, material, and memorandum ("Data"), shall

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1 be the exclusive property of City. Deliverables shall be provided by Contractor to City in
2 accordance with the terms of this Agreement, and City shall have the unrestricted right to
3 use and disclose the Deliverables in any manner and for any purpose without payment of
4 further compensation to Contractor. Copies of Deliverables may be retained by
5 Contractor. For a period of five (5) years following the termination of this Agreement,
6 Deliverables and Data shall not be made available outside of Contractor without prior
7 approval of City, except as required by law or legal process, or to fulfill professional
8 standards or obligations.

9 13. TERMINATION. Either party shall have the right to terminate this
10 Agreement for any reason or no reason at any time by giving thirty (30) calendar days
11 prior notice to the other party. In the event of termination under this Section, City shall
12 pay Contractor for services satisfactorily performed and costs incurred up to the effective
13 date of termination for which Contractor has not been previously paid. The procedures
14 for payment in Section 4D with regard to invoices shall apply. On the effective date of
15 termination, Contractor shall deliver to City all Deliverables that have been completed as
16 of the effective date of termination. And, Consultant acknowledges and agrees that City's
17 obligation to make final payment is conditioned on Contractor's delivery of the
18 Deliverables to City.

19 14. CONFIDENTIALITY. Contractor shall keep all Data and all
20 information relating to any correspondence, records, contracts, grants and enterprise
21 activities of City confidential during the term of this Agreement and thereafter. Other than
22 the reports submitted to the City, or as required by law or legal process, Contractor shall
23 not publish, reproduce or otherwise divulge such information in whole or in part, in any
24 manner or form, or authorize or permit others to do so. Contractor shall promptly notify
25 the City Auditor in writing if Contractor determines or has reason to suspect a breach
26 hereof.

27 15. BREACH OF CONFIDENTIALITY. Contractor shall not be liable for
28 a breach of confidentiality with respect to Data that: (a) Contractor demonstrates

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1 Contractor knew prior to the time City disclosed it; or (b) Is or becomes publicly available
2 without breach of this Agreement by Contractor; or (c) A third party who has a right to
3 disclose does so to Contractor without restrictions on further disclosure; or (d) Must be
4 disclosed pursuant to subpoena or court order, or as otherwise required by law.

5 16. ADDITIONAL COSTS AND REDESIGN. Any costs incurred by City
6 due to Contractor's failure to meet the standards required by the Scope of Work or
7 Contractor's failure to perform fully the tasks described in the Scope of Work which, in
8 either case, causes City to request that Contractor perform again all or a part of the
9 Scope of Work shall be at the sole cost of Contractor and City shall not pay any
10 additional compensation to Contractor for its re-performance.

11 17. AMENDMENT. This Agreement, including all Exhibits, shall not be
12 amended, nor any provision or breach waived, except in writing signed by the parties
13 which expressly refers to this Agreement.

14 18. LAW. This Agreement shall be governed by and construed pursuant
15 to the laws of the State of California (except those provisions of California law pertaining
16 to conflicts of laws). Contractor shall comply with all laws, ordinances, rules and
17 regulations of and obtain all permits, licenses, and certificates required by all federal,
18 state and local governmental authorities.

19 19. ENTIRE AGREEMENT. This Agreement, including all Exhibits,
20 constitutes the entire understanding between the parties and supersedes all other
21 agreements, oral or written, with respect to the subject matter in this Agreement. The
22 parties agree that in the event of a conflict between Agreement and the engagement
23 letter attached as Exhibit "A", the Agreement shall take precedence, except to the extent
24 that the Agreement conflicts with professional standards applicable to Contractor.

25 20. INDEMNITY. Contractor shall indemnify and hold harmless City, its
26 Boards, Commissions, and their officials, employees and agents (collectively in this
27 Section "City") from and against any and all liability, claims, demands, damage, causes of
28 action, proceedings, penalties, loss, costs, and expenses (including reasonable

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1 attorney's fees, court costs, and expert and witness fees) (collectively "Claims" or
2 individually "Claim") for damage to tangible property, bodily injury or death arising from
3 any negligent act or omission, misrepresentation, or willful misconduct of Contractor, its
4 officers, employees, agents, subcontractors, or anyone under Contractor's control or from
5 Contractor's breach of this Agreement or Claims by any employee of Contractor relating
6 in any way to workers' compensation. Contractor shall defend City against a Claim within
7 the scope of the preceding sentence and shall continue such defense until the Claim is
8 resolved, whether by settlement, judgment or otherwise. Contractor shall notify City of
9 any Claim within ten (10) days. Likewise, City shall notify Contractor of any Claim, shall
10 tender the defense of such Claim to Contractor, and shall assist Contractor, as may be
11 reasonably requested, in such defense.

12 21. AMBIGUITY. In the event of any conflict or ambiguity between this
13 Agreement and any Exhibit, the provisions of this Agreement shall govern.

14 22. COSTS. If there is any legal proceeding between the parties to
15 enforce or interpret this Agreement or to protect or establish any rights or remedies under
16 this Agreement, the prevailing party shall be entitled to its costs and expenses, including
17 reasonable attorneys' fees.

18 23. NONDISCRIMINATION. In connection with performance of this
19 Agreement and subject to applicable rules and regulations, Contractor shall not
20 discriminate against any employee or applicant for employment because of race, religion,
21 national origin, color, age, sex, sexual orientation, AIDS, HIV status, handicap, or
22 disability. Contractor shall ensure that applicants are employed, and that employees are
23 treated during their employment, without regard to these bases. These actions shall
24 include, but not be limited to, the following: employment, upgrading, demotion or transfer,
25 recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of
26 compensation, and selection for training, including apprenticeship.

27 It is the policy of City to encourage the participation of Disadvantaged,
28 Minority and Women-owned Business Enterprises in City's procurement process, and

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1 Contractor agrees to use its best efforts to carry out this policy in the hiring of
2 subcontractors and contractors to the fullest extent consistent with the efficient
3 performance of this Agreement. Contractor may rely on written representations by
4 subcontractors and contractors regarding their status. Contractor shall report to City in
5 May and in December or, in the case of short-term agreements, prior to invoicing for final
6 payment, the names of all subcontractors and contractors hired by Contractor for this
7 Project and information on whether or not they are a Disadvantaged, Minority or Women-
8 owned Business Enterprise, as defined in Section 8 of the Small Business Act (15 U.S.C.
9 Sec. 637).

10 24. NOTICES. Any notice or approval required under this Agreement
11 shall be in writing and personally delivered or deposited in the U.S. Postal Service, first
12 class, postage prepaid, addressed to Contractor at the address first stated above, and to
13 the City at 333 West Ocean Boulevard, Long Beach, California 90802 Attn: City Manager.
14 Notice of change of address shall be given in the same manner as stated for other
15 notices. Notice shall be deemed given on the date deposited in the mail or on the date
16 personal delivery is made, whichever first occurs.

17 25. COPYRIGHTS AND PATENT RIGHTS.

18 A. City reserves the exclusive right to seek and obtain a patent
19 or copyright registration on any Deliverables or other result arising from
20 Contractor's performance of this Agreement. By executing this Agreement,
21 Contractor assigns any ownership interest Contractor may have in the
22 Deliverables to City.

23 B. Contractor warrants that the Deliverables do not violate or
24 infringe upon any patent, copyright, trade secret or other proprietary right of any
25 other party. Contractor agrees to and shall protect, defend, indemnify and hold
26 City, its officials and employees harmless from any and all claims, demands,
27 damages, loss, liability, causes of action, costs or expenses (including reasonable
28 attorneys' fees) whether or not reduced to judgment, arising from any breach or

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1 alleged breach of this warranty.

2 26. COVENANT AGAINST CONTINGENT FEES. Contractor warrants
3 that Contractor has not employed or retained any entity or person to solicit or obtain this
4 Agreement and that Contractor has not paid or agreed to pay any entity or person any
5 fee, commission, or other monies based on or from the award of this Agreement. If
6 Contractor breaches this warranty, City shall have the right to terminate this Agreement
7 immediately notwithstanding the provisions of Section 10 hereof or, in its discretion, to
8 deduct from payments due under this Agreement or otherwise recover the full amount of
9 the fee, commission, or other monies.

10 27. WAIVER. The acceptance of any services or the payment of any
11 money by City shall not operate as a waiver of any provision of this Agreement, or of any
12 right to damages or indemnity stated in this Agreement. The waiver of any breach of this
13 Agreement shall not constitute a waiver of any other or subsequent breach of this
14 Agreement.

15 28. CONTINUATION. Termination or expiration of this Agreement shall
16 not affect rights or liabilities of the parties which accrued or existed during the term of this
17 Agreement and prior to termination or expiration of this Agreement.

18 29. TAX REPORTING. As required by federal and state law, City is
19 obligated to and will report the payment of compensation to Contractor on Form 1099-
20 Misc. Contractor shall be solely responsible for payment of all federal and state taxes
21 resulting from payments under this Agreement. Contractor's Employer Identification
22 Number is 13-5565207. Contractor acknowledges and agrees that City has no obligation
23 to pay Contractor until Contractor provides this number.

24 30. ADVERTISING. Contractor shall not use the name of City, its
25 officials or employees in any advertising or solicitation for business, nor as a reference,
26 without the prior approval of the City Manager or designee.

27 31. AUDIT. City shall have the right upon reasonable advance notice,
28 during normal business hours, and with Contractor present, during the term of this

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1 Agreement and for a period of five (5) years after termination or expiration of this
2 Agreement, to examine, audit, inspect, and review, financial records, accounts, and other
3 documents of Contractor relating to this Agreement.

4 32. THIRD PARTY BENEFICIARY. This Agreement is intended by the
5 parties to benefit themselves only and is not in any way intended or designed to or
6 entered for the purpose of creating any benefit or right for any person or entity of any kind
7 that is not a party to this Agreement.

8 33. COOPERATION. City agrees to cooperate with Contractor in the
9 performance of the services under this Agreement and shall provide the Contractor timely
10 access to and use of City's personnel, facilities, equipment, data, and information to the
11 extent necessary for the Contractor to perform the services hereunder.

12 34. FORCE MAJEURE. Neither City nor Contractor shall be liable for
13 any delays resulting from circumstances or causes beyond its reasonable control,
14 including, without limitation, earthquake, fire or other casualty, act of God, strike or labor
15 dispute, war, or any law, order or requirement of any governmental agency or authority.

16 35. GOVERNING LAWS. This Agreement shall be governed by and
17 construed pursuant to the laws of the State of California, except with respect to principles
18 of conflicts of laws.

19 36. INTEGRATION. This agreement constitutes the entire
20 understanding between the parties and supersedes all other agreements, whether written
21 or oral, with respect to the subject matter herein.


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IN WITNESS WHEREOF, the parties have caused this document to be duly executed with all formalities required by law as of the date first stated herein.

KPMG LLP, a Delaware limited liability partnership

NOVEMBER 13, 2007

By 
General Partner
CHRISTOPHER B. RAY
(Type or Print Name)

"Contractor"

CITY OF LONG BEACH, a municipal corporation

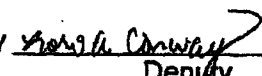
11/16, 2007

By 
City Manager

"City"

This Agreement is approved as to form on 11/13, 2007.

ROBERT E. SHANNON, City Attorney

By 
Deputy

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1 necessary and required procedures to issue a report on compliance and/or internal
2 controls as required by legal or professional standards. The examinations of the
3 individual financial statements will also include an analysis of the differences
4 between the Generally Accepted Accounting Principles (GAAP) basis and the
5 Budget basis of accounting and of the components of the Budget basis fund equity
6 for those entities selected by City. Contractor will also assist City in meeting the
7 requirements of the Government Finance Officers Association's Certificate of
8 Achievement for Excellence in Financial Reporting program for the entities
9 selected by the City.

- 10 1) Comprehensive Annual Financial Report
- 11 2) Water Department
- 12 3) Southeast Recovery Facility Joint Powers Authority
- 13 4) Aquarium of the Pacific
- 14 5) Aquarium of the Pacific Corporation
- 15 6) Redevelopment Agency of the City of Long Beach (RDA)
- 16 7) Long Beach Housing Development Company
- 17 8) Harbor Department
- 18 9) Airport Enterprise Fund
- 19 10) Air Quality Management District"

20 2. Section 3 of Agreement No. 30387 is amended in its entirety to read
21 as follows:

22 "3. TERM. The term of this Agreement shall commence at midnight on
23 October 29, 2007, and shall terminate at 11:59 on September 30, 2012, or unless sooner
24 terminated as provided in this Agreement, or unless the services or the Project is
25 completed sooner."

26 3. Section 4.A. of Agreement No. 30387 is amended in its entirety to
27 read as follows:

28 ///

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IN WITNESS WHEREOF, the parties have caused this document to be duly executed with all formalities required by law as of the date first stated above.

KPMG LLP, a Delaware limited liability partnership

_____, 2010 By _____
General Partner

Type or Print Name

"Contractor"

CITY OF LONG BEACH, a municipal corporation

_____, 2010 By _____
City Manager

"City"

This First Amendment to Contract No. 30387 is approved as to form on

_____, 2010.

ROBERT E. SHANNON, City Attorney

By _____
Deputy

EXHIBIT "A-1"



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Telephone +1 949 885 6400
Fax +1 949 885 5410
Internet www.us.kpmg.com

Our ref S:\LAL_MISC\Long Beach, City of\2010\Eng
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August 5, 2010

Ms. Laura Doud
City Auditor
City of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802

Dear Ms. Doud:

This letter (the Engagement Letter) is incorporated by reference in the agreement between the City of Long Beach, California (the City) and KPMG LLP dated November 12, 2007 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City of Long Beach, California (the City).

Objectives and Limitations of Services

Financial Statement Audit Services

We will issue a written report upon our audit of the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements, that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.



August 5, 2010

Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to the City electronically for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the City's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control over financial reporting and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.



August 5, 2010

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

OMB Circular A-133 Audit Services

We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts, and grant agreements applicable to federal programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

Offering Document

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information; or the

August 5, 2010

manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report(s) on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

Our Responsibility to Communicate with the City Council

We will report to the City Council, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City’s financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of City Council meetings for consistency with our understanding of the communications made to the City Council and determine that the City Council has received copies of all material written communications between ourselves and management. We will also determine that the City Council has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the City Council our reasons for modification or withdrawal.

Management Responsibilities

The management of the City is responsible for the fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal programs as discussed above, OMB Circular A-133 also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.



August 5, 2010

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the City has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2010.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the reports, the reports will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG.

Other Matters

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.



August 5, 2010

The City agrees to provide prompt notification if the City or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the City or such subsidiary.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to Regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority provided by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to Regulators. Such Regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Other Government Auditing Standards Matters

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

Additional Reports and Fees for Services

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the City's subsequent fiscal years until either Management or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

In accordance with your instructions, we have forwarded a copy of this letter to Patrick West, Robert Shannon, Lori Ann Farrell.



City of Long Beach

August 5, 2010

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

Christopher B. Ray
Partner

CBR:glb

Enclosures:
Appendix I
Peer Review Report

cc:
Patrick West, City Manager, City of Long Beach
Robert Shannon, City Attorney, City of Long Beach
Lori Ann Farrell, Director of Finance, City of Long Beach



City of Long Beach

August 5, 2010

ACCEPTED:

City of Long Beach, California

Assistant City Manager

[Signature]
Authorized Signature

EXECUTED PURSUANT
TO SECTION 301 OF
THE CITY CHARTER.

City Manager
Title

8.20.10
Date

APPROVED AS TO FORM

8/11, 2010
ROBERT E. SHANNON, City Attorney

By [Signature]
HEATHER A. MAHOOD
ASSISTANT CITY ATTORNEY

Appendix I

Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements of the City of Long Beach,
California as of and for the year ended September 30, 2010 \$921,575

Other Reports:

The reports that we will issue as part of this engagement are as follows:

Report	Fee
Reports issued on the basic financial statements of the City	\$ 369,865
Reports issued in connection with OMB Circular A-133 ¹	134,700
Airport Enterprise Fund	52,430
Passenger Facility Charges	18,730
Aquarium of the Pacific - 9/30	50,910
Aquarium of the Pacific - 12/31	22,500
Harbor Department	119,730
Housing Development Company	34,410
Redevelopment Agency	65,870
Water Department	52,430

Σ = 921,575

Additional fees for each single audit program exceeding 6 programs: \$ 24,430 x 3 = 73,290
\$ 994,865

¹ Fee includes agreed-upon procedures to the financial information submitted electronically through the Department of Housing and Urban Development's (HUD) Real Estate Assessment Center (REAC) System of the Housing Authority of the City (the Housing Authority).

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Expenses for items such as travel, telephone, postage, and typing, printing, and reproduction of financial statements are included in the above estimate. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

PricewaterhouseCoopers LLP
400 Campus Drive
P. O. Box 988
Florham Park NJ 07932
Telephone (973) 236 4000
Facsimile (973) 236 5000

System Review Report

To the Partners of KPMG LLP
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm) applicable to non-SEC issuers in effect for the year ended March 31, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*, audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of KPMG LLP in effect for the year ended March 31, 2008, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 2, 2008