

**OFFICE OF THE CITY AUDITOR**
Long Beach, CaliforniaLAURA L. DOUD, CPA
City Auditor

September 21, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California**RECOMMENDATION:**

Authorize the City Manager to amend the attached agreement with KPMG, LLC to exercise the two one-year options to perform the audit of the Comprehensive Annual Financial Report (CAFR) and perform the Federal Single Audit for the City of Long Beach and related reporting entities in an amount not to exceed \$994,865 per year covering fiscal years 2010 and 2011, and extend the term of the agreement to September 30, 2012.

DISCUSSION:

Pursuant to Section 803 of the City Charter, the Office of the City Auditor is charged with causing "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 could exercise for fiscal years 2010 and 2011. The City has contracted these auditing services with KPMG for 19 of the last 20 years. Over the years, KPMG has developed a solid knowledge of the City, its multiple reporting entities and complex operations. Exercising the renewal options will allow continuity of audit services, which is critical to meet reporting deadlines required by bond and other debt covenants, as well as audit requirements for Federal grants including American Recovery and Reinvestment Act funds.

TIMING CONSIDERATIONS:

City Council approval is requested on September 21, 2010, to allow sufficient time for the planning of the audit engagement.

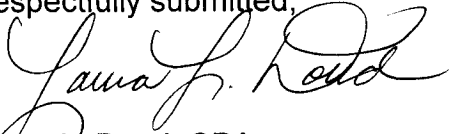
FISCAL IMPACT:

The annual cost of the audit of \$994,865 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 \$24,430 will be charged for each required single audit program exceeding 6 programs. The contract price of \$994,865 includes funding for 9 single audit programs. There will be no CPI adjustment of the fees for the FY 10 audit services. A CPI adjustment may be applied to the audit fees for fiscal year 2011.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Laura L. Doud".

Laura L. Doud, CPA
CITY AUDITOR

Attachment

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

AGREEMENT

30387

THIS AGREEMENT is made and entered, in duplicate, as of November 12, 2007 for reference purposes only, pursuant to a minute order adopted by the City Council of the City of Long Beach at its meeting held on October 16, 2007, by and between KPMG LLP, a Delaware limited liability partnership, with a business address of 355 South Grand Street, Suite 2000, Los Angeles, California 90017 ("Contractor"), and the CITY OF LONG BEACH, a municipal corporation ("City").

WHEREAS, City requires specialized services requiring unique skills to be performed in connection with its annual financial audits ("Project") for the fiscal years ending in 2007 through 2009, after which time City may exercise two (2) one-year options for renewal for the fiscal years ending in 2010 and 2011; and

WHEREAS, City has selected Contractor and City has ascertained that Contractor and its employees are qualified, licensed, if so required, and experienced in performing such specialized services; and

WHEREAS, City desires to have Contractor perform these specialized services, and Contractor is willing and able to do so on the terms and conditions stated in this Agreement;

NOW, THEREFORE, in consideration of the mutual terms, covenants, and conditions in this Agreement, the parties agree as follows:

1. SCOPE OF WORK OR SERVICES.

A. Contractor shall perform examinations of the financial statements of the following entities in accordance with applicable generally accepted auditing standards as promulgated by the AICPA, the applicable auditing standards contained in the most recently revised Government Auditing Standards, issued by the Comptroller General of the United States, and the engagement letter attached as Exhibit "A" hereto and incorporated herein by reference, with the objective of expressing an opinion on the financial statements, as a whole. Where

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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

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

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

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

E. Contractor shall submit an audit work plan for the City's review and approval for each report listed in Sections 1A through 1D above no later than November 12, 2007 for the first contract year and July 31 of each subsequent year under audit. The work plan should give an overview of the City and the audits to be performed. The work plan should contain discussion on the following items: (1) the organizational structure of the City, Finance Department, and the audit firm; (2) an overview on the basis of accounting utilized, any significant accounting areas, data processing, and the budgetary process; (3) financial and operating information as considered necessary; (4) any areas of potential concern for the firm; (5) description of client assistance required, including a listing of reports and workpapers and when those would be required; (6) reporting requirements, specifying due dates of all reports to be issued, and 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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H. Upon completion of the audits, Contractor is required to be available for the presentation of the audit reports at the respective entities' Council, commission and board meetings.

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

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

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

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

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

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

O. Each year, upon receipt of final payment for services pertaining to that fiscal year, Contractor shall provide to City Auditor copies of all 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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ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

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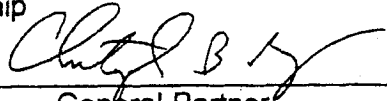
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IN WITNESS WHEREOF, the parties have caused this document to be duly executed with all formalities required by law as of the date first stated herein.

KPMG LLP, a Delaware limited liability partnership

NOVEMBER 13, 2007

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

"Contractor"

CITY OF LONG BEACH, a municipal corporation

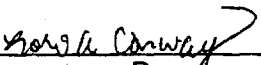
11/16, 2007

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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ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Telephone 213 972 4000
Fax 213 622 1217
Internet www.us.kpmg.com

Exhibit A

City of Long Beach
Laura Doud
City Auditor
333 W. Ocean Blvd.
Long Beach, California
90802

November 12, 2007

Dear Ms. Doud,

This letter is incorporated by reference in the attached Agreement between the City of Long Beach, California (the City) and KPMG LLP dated November 12, 2007 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 written reports upon our audit of City's financial statements as set forth in Appendix I.

We have a 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 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.

Our report will be addressed to the City Council of 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.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider City's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. 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 City's compliance with certain provisions of laws, regulations, contracts and grants, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall 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 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 City's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, this report will include any significant deficiencies and material weaknesses to the extent they come to our attention. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. This report will also include illegal acts



and fraud, unless clearly inconsequential, and material violations of grants, contracts, and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of 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 immaterial violations of grants and contracts and abuse that comes to our attention, unless clearly inconsequential.

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 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 grants 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 grants applicable to each of 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 grants applicable to federal programs is the responsibility of management. We will perform tests of City's compliance with certain provisions of laws, regulations, contracts, and grants 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 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 grants 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 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 Documents

Should 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 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 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 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 you, 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 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 serious 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 you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have 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 you our reasons for modification or withdrawal.

Management Responsibilities

The management of 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 City complies with laws, regulations, contracts, and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. 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 significant deficiencies and material weaknesses in the design or operation of such controls.

Management of 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 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 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 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. City agrees to notify 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.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to November 31, 2007.

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, City will release KPMG LLP 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 report(s), the report(s) will indicate the status of management's responses.



City of Long Beach
November 12, 2007

Management is responsible for the distribution of the reports issued by KPMG. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

Other Matters

This letter shall serve as City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG LLP (KPMG) and City and between KPMG and outside specialists or other entities engaged by either KPMG or City. 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, 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 City solely for presentations or reports to 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.

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 regulatory agencies 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 given to it 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 regulatory agencies. These regulatory agencies 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 relating to this engagement for City in judicial or administrative proceedings to which KPMG is not a party, 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 included a copy of KPMG's most recent peer review report and letter of comments in our proposal submitted to the City.

We will also assist management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we are required to confirm that management accepts responsibility for the financial statements and notes and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment about them and that management will:

- Designate a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements.
- Establish and monitor the performance of the engagement to ensure that it meets management's objectives.
- Make any decisions that involve management functions related to the engagement and accept full responsibility for such decisions.
- Evaluate the adequacy of the financial statements and notes.

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.

* * * * *



City of Long Beach
November 12, 2007

Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I for each of its 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 as noted in the attached Agreement between the City.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read 'Christopher B. Ray', written in a cursive style.

Christopher B. Ray
Partner

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:

	Revised 2007 Est. Hours	Revised 2007 Fees Assuming 3 Groups are Audited	
Group 1			
CAFR	2,450	363,400	Note 1
Single Audit	900	132,310	Note 2
Water Department CAFR	350	51,500	
Gas Enterprise Fund	290	42,600	
SERRF JPA	70	10,300	
Aquarium of the Pacific- 9/30/2007	340	50,000	
Aquarium of the Pacific- 12/31/2007	150	22,100	
RDA	400	58,800	
RDA Compliance Report	40	5,900	
HDC	230	33,800	
Estimated Cost for Group 1	5,220	\$ 770,710	
Group 2			
Harbor Department	800	117,600	
Group 3			
Long Beach Airport and Compliance Report	350	51,500	
PFC Report	125	18,400	
AQMD and Compliance Report	80	11,800	
GANN (agreed upon Procedures)			
Los Cerritos Wetlands Authority			
Estimated Cost for Group 3	555	\$ 81,700	
Total	6,575	\$ 970,010	

Note 1: The estimated hours for the CAFR audit assumes that the City Auditor will perform the same cash and investment testwork that they performed in fiscal 2006.

Note 2: The hours and fee estimate for the single audit is based on the assumption that 6 programs will be required to be audited in 2007. An additional fee of \$24,000 will be billed for each additional program required to be audited.

The above estimates are based on the level of experience of the individuals who will perform the services and includes out of pocket expenses. 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 the City 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 City. 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 City.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

Exhibit B

Discounted Effective Hourly Rates

Partner	\$ 325
Director	\$ 275
Senior Manager	\$ 270
Consulting Manager	\$ 245
Manager	\$ 235
Supervising Senior	\$ 175
Consulting Staff	\$ 175
Senior	\$ 155
2 nd Year Staff	\$ 125
1 st Year Staff	\$ 105