



Chairman

Andrew Vanderlaan
Public Member

February 3, 2014

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Vice Chairman

John Ingalls
Santa Fe
Irrigation District

TO: Local Agency Formation Commission

FROM: Executive Officer

Members

Bill Horn
County Board of
Supervisors

SUBJECT: Retention of Public Accounting Firms Per AB 1345 (Lara)

Dianne Jacob
County Board of
Supervisors

The enactment of AB 1345 (Lara) in 2012 amended Government Code Section 12410.6 and restricts local agencies from employing a public accounting firm to provide audit services if the lead audit partner or coordinating audit partner has performed audit services for the local agency for six consecutive fiscal years. For purposes of calculating the six consecutive fiscal years, the new law requires that the local agency shall not take into account any time that the audit firm was employed prior to FY 2013-14. The State Controller may waive this requirement if it is determined that no other eligible public accounting firm is available to perform the audit.

Bud Pocklington
South Bay
Irrigation District

Lorie Zapf
Councilmember
City of San Diego

To ensure that the AB 1345 requirements are appropriately followed by the Commission and its outside auditor (MHM, P.C.), a copy of this LAFCO memorandum will be placed in MHM's contractor file. In addition, a provision will be added to MHM's future contracts, indicating that no further contract extensions will be permitted beyond FY 2018-19, if the firm's lead audit partner(s), coordinating partner(s), or audit partner(s) responsible for reviewing LAFCO's audit, have performed audit services for the San Diego LAFCO for six consecutive fiscal years. The new contract requirement per AB 1345 will be discussed with the LAFCO Audit Committee after the February 3rd LAFCO meeting in the context of an upcoming contract extension with MHM for fiscal years ending on June 30, 2014, 2015, and 2016. If MHM is granted a contract extension, the AB 1345 requirement will be referenced and added to MHM's contract with LAFCO as indicated above to ensure compliance with the new law. This item is for the Commission's information and no action is necessary.

Jim Janney
Mayor
City of Imperial Beach

Sam Abed
Mayor
City of Escondido

Alternate Members

Greg Cox
County Board of
Supervisors

Sherri Lightner
Councilmember
City of San Diego

Jo MacKenzie
Vista Irrigation District

Respectfully submitted,

Lorraine Wood
Councilmember
City of Carlsbad

Harry Mathis
Public Member

MICHAEL D. OTT
Executive Officer

Executive Officer

MDO:ra

Michael D. Ott

Attachment: AB 1345

Counsel

Thomas Bosworth

Assembly Bill No. 1345

CHAPTER 231

An act to amend Section 12410.5 of, and to add Section 12410.6 to, the Government Code, relating to audits.

[Approved by Governor September 7, 2012. Filed with
Secretary of State September 7, 2012.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1345, Lara. Local government: audits.

(1) The federal Single Audit Act of 1984 requires any nonfederal entity, defined as a state, local government, or nonprofit organization, that expends \$300,000 or more in federal money to prepare an annual audit that meets certain specifications and transmit that audit to specified federal agencies. Existing law requires the Controller to receive every audit report prepared by any local public agency, pursuant to the federal Single Audit Act of 1984, and review those reports for compliance with federal law before forwarding them to the designated state agency.

This bill would require the annual audit reports made pursuant to the federal Single Audit Act of 1984 to be submitted to the Controller within 9 months after the end of the period audited or pursuant to applicable federal or state law. This bill would authorize the Controller to appoint a qualified certified public accountant or public accountant to complete an audit report if a local agency, as defined, fails to submit the audit report to the Controller by the specified date. The bill would require the Controller to first notify a local agency of its failure to submit the audit report and give the local agency a reasonable amount of time to submit the report before appointing a certified public accountant or public accountant. The bill would require the Controller to report certain misconduct and nondisclosures to the California Board of Accountancy.

(2) Existing law requires certain audits to be performed by specified accountants and accounting firms.

This bill would require any audit for any local agency to be performed by a certified public accountant or public accountant, as specified. The bill would prohibit a local agency from employing certain public accounting firms to perform an audit, as specified, unless the Controller finds that another eligible public accounting firm is not available to perform the audit.

The people of the State of California do enact as follows:

SECTION 1. Section 12410.5 of the Government Code is amended to read:

12410.5. (a) The Controller shall receive every audit report prepared for any local agency, as defined in Section 53890, in compliance with the federal Single Audit Act of 1984 (31 U.S.C. Sec. 7501 et seq.) and required under any law to be submitted to any state agency, and shall, after ascertaining its compliance with that federal act, transmit the report to the designated state agency.

(b) The audit report shall be submitted to the Controller within nine months after the end of the period audited or pursuant to applicable federal or state law.

(c) An audit report for any local agency submitted to the Controller pursuant to this section shall comply with the Government Auditing Standards issued by the Comptroller General of the United States.

(d) If a local agency does not submit the audit report required by this section to the Controller by the due date established in subdivision (b) of this section, the Controller may appoint a qualified certified public accountant or public accountant to complete the report and to obtain the information required. Any cost incurred by the Controller pursuant to this subdivision, including a contract with, or the employment of, the certified public accountant or public accountant, in completing the audit shall be borne by the local agency and shall be a charge against any unencumbered funds of the local agency.

(e) Before appointing a certified public accountant or public accountant pursuant to subdivision (d), the Controller shall first notify a local agency of its failure to submit the audit report and give the local agency a reasonable amount of time to submit the report.

(f) The Controller shall refer any matters of unprofessional conduct, as defined in Section 5100 of the Business and Professions Code, and multiple and repeated failures to disclose noncompliant acts to the California Board of Accountancy.

SEC. 2. Section 12410.6 is added to the Government Code, to read:

12410.6. (a) An audit for any local agency, including those submitted to the Controller pursuant to subdivision (a) of Section 12410.5, shall be made by a certified public accountant or public accountant, licensed by, and in good standing with, the California Board of Accountancy.

(b) Commencing with the 2013–14 fiscal year, a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years. For purposes of calculating the six consecutive fiscal years, the local agency shall not take into account any time that a public accounting firm was employed by that local agency prior to the 2013–14 fiscal year. The Controller may waive this requirement if he or she finds that another eligible public accounting firm is not available to perform the audit.