



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

7b

AGENDA REPORT
 Business | Action

December 2, 2019

TO: Commissioners

FROM: Keene Simonds, Executive Officer

SUBJECT: **Approval of Independent Audit Expense | Associated with Selection of New Outside Accounting Firm**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will consider approval of an independent audit expense in the amount of \$9,950. Approval of the expense is required under Commission policy and associated with the completion of a competitive request for proposal process and selection therein by the Executive Officer for R.J. Ricciardi and Associates to audit LAFCO’s financial statements beginning with 2018-2019. The Executive Officer recommends the Commission approve the audit expense.

BACKGROUND

Adopted Policies | Selection of Independent Auditor and Expense Approval

San Diego LAFCO’s adopted policies authorize the Executive Officer to engage the services of an outside accounting firm to audit the Commission’s financial statements on an annual basis. The Commission separately establishes procurement allowances for the Executive Officer and includes competitive bid procedures for transactions at or above \$10,000 and separate Commission approval for transactions at or above \$125,000. The procurement policies apply

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for all transactions with the exception of requiring Commission approval for any independent audit expense regardless of the amount.

Adopted Workplan | Selection of New Auditor Beginning with 2018-2019 Fiscal Year

San Diego LAFCO's current workplan was adopted at a noticed hearing held on April 3, 2019 and outlines specific project goals for the fiscal year. Two of the projects included in the workplan relate to auditing services. The first related goal involves selecting a new outside auditor through a formal request for proposal (RFP) process given audits dating back to 2008-2009 have been performed by Davis Farr (formerly Mayer, Hoffman, & McCann).¹ The second related goal involves proceeding with an independent audit for 2018-2019.

DISCUSSION

This item is for San Diego LAFCO to consider a recommendation from the Executive Officer to approve an independent audit expense for R.J. Ricciardi and Associates to review the Commission's financial statements for 2018-2019. The expense totals \$9,950 and includes the preparation of the audit report, management letter, and all related travel expenses. The item also provides an opportunity for the Commission to review the associated RFP process as summarized in the succeeding section and provide related direction. This includes possible direction to the Executive Officer to request the outside auditor address additional items of interest and/or reissue a new RFP for outside auditing services.

ANALYSIS

The recommended expense approval for independent audit services to review San Diego LAFCO's financial statements in 2018-2019 can be accommodated through the adopted budget and is informed by a competitive RFP process. The process commenced in late June with the preparation of an RFP by the Executive Officer for auditing services beginning with 2018-2019 with one-year options through 2022-2023. The RFP was directly circulated to 15 established accounting firms as well as posted on the LAFCO website. The RFP generated four written responses and were subsequently reviewed for completeness by the Executive Officer. All four responders proceeded to participate in interviews with the Executive Officer and Administrative Assistant Erica Blom in early August and relative to staff considering four distinct criteria factors: (a) completeness of the written proposal; (b) firm qualifications; (c) client references; and (d) costs.² All four responders receive relatively high and equal marks with respect to the evaluation of the first three criteria factors (i.e., proposal completeness, qualifications, and references). The fourth criteria – costs – proves to be the primary separator between the responders with a range of \$7,125 to \$12,000; a difference of more than

¹ The selection of Mayer, Hoffman, & McCann was made by the Commission in February 2012 following an RFP process overseen by an Audit Committee. The initial agreement with Mayer Hoffman McCann included preparing five fiscal year audits starting with 2008-2009 and extending through 2012-2013. (The Commission did not previously perform annual audits.) The Commission approved extending the agreement in August 2013 for coverage through 2017-2018.

² The Administrative Assistant position is responsible – and among other tasks – to maintain accounting records and coordinate monthly outside bookkeeping services provided under contract with Leaf and Cole LLP.

two-thirds. The lowest bid – however – also allocates the least number of hours to the audit at 65 with only 11 involving a firm manager. The second lowest bid tallies \$9,950 and allocates 89 total hours with 31 involving a firm manager. The second lowest bid is with R.J. Ricciardi and Associates (San Rafael) and has been selected by the Executive Officer to prepare an independent audit in 2018-2019 subject to the Commission approving the expense. Markedly, R.J. Ricciardi and Associates offers San Diego LAFCO the best combination of costs and dedicated staff time – including more management participation – in preparing the outside audit and helping to ensure all appropriate standards are followed and/or appropriately identified. The Executive Officer also draws on prior and positive experience working with R.J. Ricciardi and Associates while employed with Marin LAFCO.³

A summary of all four responses with respect to costs and project hours follows with copies of each written proposal provided as attachments for Commissioners only.

RFP Responses Outside Auditing Services							
Name	Cost 2018-19	Cost 2019-20	Cost 2020-21	Cost 2021-22	Cost 2022-23	Mgt. Hours	Total Hours
San Diego Firm	\$7,125	\$7,140	\$7,706	\$8,015	\$8,335	11	65
R.J. Ricciardi *	\$9,950	\$9,950	\$9,950	\$9,950	\$9,950	31	89
Roseville Firm	\$11,500	\$11,905	\$12,322	\$12,752	\$13,194	30	100
San Bernardino Firm	\$12,000	\$12,400	\$12,800	\$13,200	\$13,600	n/a	90

* Executive Officer selection

Should the Commission proceed with approving the outside audit expense R.J. Ricciardi and Associates are expected to be onsite by the first full week in January 2020.⁴ It is also expected a complete draft report will be provided to the Executive Officer for review by February 15th.

RECOMMENDATION

It is recommended that San Diego LAFCO approve the independent audit expense with R.J. Ricciardi and Associates in the amount of \$9,950 to provide an audit report for 2018-2019. This recommendation is consistent with Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternative actions are available to San Diego LAFCO and can be accomplished with a single-motion:

³ The Executive Officer was employed with Marin LAFCO between September 2013 and September 2017 and during the latter period R.J. Ricciardi began performing the agency’s outside audit. R.J. Ricciardi and Associates continues to prepare outside audits for Marin as well as several other LAFCOs in the San Francisco Bay Area.

⁴ R.J. Ricciardi and Associates were initially scheduled to be onsite at San Diego LAFCO during the first week of December 2019. However, this initial schedule did not account for the need under policy for the Commission to separately approve the audit expense. The Executive Officer identified the need for Commission approval in November and suspended the onsite visit accordingly.

Alternative One (recommended):

Approve the independent audit expense with R.J. Ricciardi and Associates consistent with the selection of the firm by the Executive Officer to prepare an audit for 2018-2019 as provided under policy.

Alternative Two:

Continue consideration to a future meeting and provide direction to staff concerning additional information or related tasks.

PROCEDURES

This item has been placed on the agenda for action as part of San Diego LAFCO's business calendar. The following procedures are suggested in the consideration of this item:

- 1) Receive verbal report from staff unless waived; and
- 2) Discuss item and consider recommendation.

Respectfully,



Keene Simonds
Executive Officer

Attachments:

- 1) San Diego LAFCO Rule No. 1.8
- Authorization to Executive Officer to Engage Outside Auditor
- 2) San Diego LAFCO Rule No. 8.1
- Commission Approval of Audit Expenses
- 3) San Diego LAFCO RFP for Auditing Services
- 4) RFP Responses (Commission Only)
-- These documents will be provided to Commissioners under separate cover

LAFCO RULES

1.8 EXECUTIVE OFFICER

There is hereby established the position of Executive Officer. The duties of the Executive Officer shall be to:

1. Execute the policies and directives of the Commission;
2. Conduct and perform the day-to-day business of the Commission;
3. Execute payment of claims and expenses, consistent with Commission policy and directives;
4. Prepare and present the annual budget;
5. Prepare the agenda for each meeting of the Commission;
6. Act as custodian of all official books, records, documents, and correspondence of the Commission;
7. Represent the Commission, as directed;
8. Perform such other duties as may be assigned by the Commission;
9. Appoint Commission employee;
10. Administratively approve out-of-agency service agreements, if all conditions of approval have been met in accordance with Government Code Section 56133, and the applicant has satisfactorily demonstrated the existence of public health, safety, or welfare impacts. The Executive Officer is required to inform the Commission at the next available LAFCO meeting about any administratively approved service agreements;
11. Approve his/her own expense claims (e.g., general, travel, or non-travel) up to \$500 for any single claim, consistent with Commission budget policy and direction. The Executive Officer is required to submit a summary of all self-approved claims and to the full Commission on a quarterly basis. Beginning in FY 2008-09 and every fiscal year thereafter, the Executive Officer is authorized to engage the services of an outside auditor to review applicable expenditure accounts of the Commission. The estimated cost and scope of the outside audit will be addressed in the Commission's annual budget; and
12. Approve step adjustments after above-standard employee performance evaluations, consistent with LAFCO budget policy and Commission direction (See also section 6.8).

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LAFCO RULES

8.1 PURCHASING, PROCUREMENT, AND BIDDING PROCEDURES FOR GOODS AND SERVICES

LAFCO Purchasing, Procurement, and Bidding Procedure establishes the Commission's purchasing, procurement, and bidding procedures. The Commission shall procure goods and services in accordance with the following procedures (except Independent Auditor Services, which must have commission approval at any level):

8.2 REQUISITIONS LESS THAN \$1,000

If the estimated value of the purchase of supplies, services or equipment is less than \$1,000, the LAFCO purchasing clerk may:

- a. Select a vendor, without bid upon receiving approval from the Executive Officer;
- b. Complete the purchase transaction;
- c. Process the invoice for payment; and
- d. After supplies, services or equipment have been received or ordered, submit the invoice to the Executive Officer for approval.

8.3 REQUISITIONS MORE THAN \$1,000 AND LESS THAN \$10,000

If the estimated value of the purchase of supplies, services or equipment is more than \$1,000, but less than \$10,000, the LAFCO purchasing clerk shall:

- a. Obtain two (2) comparative cost estimates and document the reason for the selected vendor.
- b. Prepare and submit a requisition or similar document to the Executive Officer for approval.
- c. The Executive Officer will either approve or deny the purchase order to the selected vendor.
- d. After supplies, services or equipment have been received, or ordered through online purchasing, submit the invoice or similar document to the Executive Officer for payment.

8.4 REQUISITIONS \$10,000 TO \$124,999

If the estimated value of the purchase of supplies, services or equipment is \$10,000 or more, but less than \$125,000, the purchasing clerk shall follow procedures a-h below. If the value of the purchase is greater than \$124,999, then the proposed purchase shall be subject to Commission approval:

- a. Post a notice inviting bids/proposals on the Commission's website; advertise in public notice/legal section of 3 local general distribution newspapers, and direct mail to prospective contractors at least ten days before the date of opening of the bids.
- b. Solicit bids/proposals by written and telephonic request to prospective vendors.
- c. Require bids/proposals to be in writing.
- d. Seek at least three bids/proposals.
- e. Recommend the responsible vendor with the lowest bid price in conformity with the specifications and/or qualifications as appropriate.
- f. Prepare and submit a requisition or similar document to the Executive Officer for review and approval.
- g. The Executive Officer will issue a purchase order to the selected vendor.
- h. After supplies, services or equipment have been received, submit the invoice to the Executive officer for payment.
- i. Where otherwise required by this Chapter, the following procurements, contracts or transactions are exempted from the provisions of this section, at the discretion of the Executive Officer:
 1. Emergency procurements for construction, equipment or repairs;
 2. Goods or services that can be reasonably obtained from a single source;
 3. Sufficient, satisfactory bids are not received;
 4. Items required to match or be compatible with other goods, furnishings, materials or equipment previously purchased by the Commission;
 5. Utility services and related charges;
 6. Goods, services and/or professional services obtained from or through agreement with any governmental, public or quasi-public agency where the agency contracted for goods, services and/or services through a competitive process;
 7. Real property leases or purchases and related title and escrow fees, to the extent permitted by law or Commission authorization;
 8. Insurance and bonds;
 9. Advertising in magazines, newspapers or other media;
 10. Library collection materials or services or other books or periodicals;
 11. Membership dues, conventions, training, travel arrangements including hotels, car rentals and airfare;
 12. Surplus personal property owned by another government, public or quasi-public entity;
 13. Situations where solicitations of bids or proposals for goods, services and/or professional services would be impractical, unavailing, impossible, or not in the best interests of the Commission.

SAN DIEGO COUNTY LOCAL AGENCY FORMATION COMMISSION



REQUEST FOR PROPOSALS Audit Services

Issuance Date

Monday, June 17, 2019

Submittal Deadline

Monday, July 15, 2019

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I. Overview

The San Diego County Local Agency Formation Commission (LAFCO) is requesting proposals from qualified accounting firms to audit the agency's financial statements for the fiscal year ending on June 30, 2019 with four (4) one-year options to extend through June 30, 2023. The audit is to be performed in accordance with generally accepted principles as set forth by the Governmental Auditing Standards Board and issued by the Comptroller General of the United States. This project shall include an (a) individual audit report and (b) separate management letter issuing opinions and identifying any significant findings.

Past auditing services at San Diego LAFCO have been satisfactorily provided by the same accounting firm for the last six fiscal years. The change in accounting firms reflects only the interest of LAFCO to ensure a regular rotation of the outside review of its financial records.

It is the responsibility of each firm to obtain a thorough understanding of San Diego LAFCO's accounting system, the scope of the audit, and the work to be performed in order to successfully complete the audit prior to submitting their proposal.

II. Agency Description

San Diego LAFCO is a political subdivision of the State of California and delegated regulatory and planning powers in matching municipal services with community needs. This includes managing governmental boundary lines and service areas by approving or disapproving proposals involving the formation, expansion, consolidation, or dissolution of cities, towns, and special districts. San Diego LAFCO also regularly conducts studies to evaluate the level and range of local governmental services in step with informing its regulatory duties. In all, San Diego LAFCO has explicit jurisdiction over 100 local governmental agencies that collectively provide services to approximately 3.5 million residents.

Decision-making at San Diego LAFCO is directly vested with the 13-member Commission. The Commission is divided between eight regular voting members and five alternate voting members. Representation on the Commission is also divided between five distinct appointee categories: (a) three appointees from the County of San Diego; (b) three appointees from the cities/towns less the City of San Diego; (c) two appointees from the City of San Diego; (d) three appointees from the independent special districts; and (e) two appointees from the general public. State law specifies all Commission members shall exercise their independent judgment on behalf of the interests of the public as a whole. The Commission appoints an at-will Executive Officer to manage all agency activities.

San Diego LAFCO's audited total fund balance as of June 30, 2018 was \$1.607 million. Nearly all assets are categorized as current and tied to cash and investments. LAFCO's financial records are managed directly by staff with assistance – including use of Oracle software – provided by the County of San Diego.

III. Project Scope

The audits are to be performed in accordance with generally accepted principles as set forth by the Governmental Accounting Standards Board (GASB) and issued by the Comptroller General of the United States. This includes addressing GASB 68 (pension) and 75 (other post-employment benefits) requirements. The audit will include a written report consisting of the audited financial statements, notes to the financial statements, and required supplementary information. The audit will also include a management letter addressing the firm's evaluation of the adequacy of the internal control system. The management letter shall identify whether any material weaknesses have been identified and outline any related recommendations. The audit firm shall also be available to present the report to the Commission at a public meeting if requested by the Executive Officer.¹

The auditing firm shall submit a draft of the report no later than December 15th for the fiscal year ending on June 30, 2019. Draft reports for subsequent fiscal years shall be provided no later than October 15th of each year.

San Diego LAFCO staff and its contract bookkeeper will provide normal cooperation and assistance during the audit process. This includes compiling and refilling of supporting documents and reconciliations of major asset and liability balances. LAFCO staff will also be available during the audit process to explain and/or clarify existing management practices. LAFCO will provide the firm with a reasonable workspace as well as access to a telephone, copier, and the internet for all scheduled onsite visits.

IV. Project Budget

San Diego LAFCO has earmarked up to \$50,000 for audit work for the next five fiscal years beginning with the fiscal year ending on June 30, 2019. LAFCO encourages interested firms to identify an appropriate scope of work within the budgeted means of the agency while not excluding qualified firms from submitting responses above the referenced threshold if conditions and needs warrant.

V. Proposal Format and Content

All proposals must be accompanied by a cover letter. The cover letter must identify the complete name of the firm and office location submitting the proposal along with its federal identification number. The cover letter must also summarize the proposal in terms of (a) scope of work, (b) schedule and (c) cost. The cover letter must also identify and briefly describe whether there is any potential conflict of interest.

¹ San Diego LAFCO currently holds regular meetings on the first Monday of each month at 9:00 a.m. at the County of San Diego's Administration Center at 1600 Pacific Highway in San Diego.

As for the actual proposal, it should address the content sections presented below in narrative format. Information should be as concise as possible. Any supporting material included with the proposal should be directly related to one of the context sections.

- Firm Description and Statement of Qualifications
Provide a description of the firm, including type of business, years in operation, employee total, and office locations. Include a statement clearly outlining the firm's qualifications – including certification – to prepare an audit for San Diego LAFCO.
- Project Team
Identify the key staff members that would be assigned to the project and their respective office locations. Briefly describe each member's responsibility and relevant work experience.
- Related Work Experience and References
Provide a summary of the firm's previous work experience in preparing audits and familiarity with accounting standards for governmental agencies. Provide no less than three client references for contact by San Diego LAFCO.
- Scope of Services
Propose a scope of services to complete the project based on the firm's experience and understanding of San Diego LAFCO's needs.
- Project Costs and Timeline
Identify the total and all-inclusive cost to complete the project both in terms of the immediate task of preparing an audit for the fiscal year ending on June 30, 2019 along with options to extend the term to cover audits for the four subsequent fiscal years.

VI. Selection Process

Responses to this Request for Proposal (RFP) must be submitted in writing and received by San Diego LAFCO no later than 5:00 p.m. pacific standard time (PST) on Monday, July 15, 2019. No changes or adjustments to the deadline shall be made without a written addendum to this RFP signed by the Executive Officer and circulated to all respondents. Proposal submittals by e-mail are encouraged and should be directed to Keene Simonds at keene.simonds@sdcounty.ca.gov.

San Diego LAFCO staff will screen all proposals submitted for completeness relative to the RFP requirements. The highest ranked consultants will be invited to interview in person or by video conferencing at no cost to San Diego LAFCO to discuss the project on the week of July 22, 2019 unless amended by notice of the Executive Officer. Failure to participate in the interview may result in a proposal being found non-responsive and given no further consideration. The evaluation will be based on the following criteria.

- Completeness of Written Proposal
- Firm and Team Member Qualifications
- Client References
- Proposed Costs

The Executive Officer will award the contract. It is anticipated a negotiated contract will be awarded no later than July 31, 2019. Although cost is a factor, the Executive Officer is under no obligation to award the project to the consultant offering the lowest price. San Diego LAFCO also reserves the right to adjust its timeline as it deems necessary. Notification of adjustments to the timeline shall be provided to all respondents.

VII. Other Information

- Questions
All questions seeking clarification on the RFP must be received in writing no later than 5:00 p.m. PST on Tuesday, July 2, 2019. Responses to submitted questions will be prepared by San Diego LAFCO and sent to all respondents no later than 5:00 p.m. PST on Tuesday, July 9, 2019. All questions should be e-mailed to Keene Simonds at keene.simonds@sdcounty.ca.gov.
- Contract
The selected respondent's proposal will become part of the negotiated contract. Price quotations and other time dependent information contained in any proposal shall remain firm for a minimum of 90 days from the proposal submission deadline.
- Property of San Diego LAFCO
All proposals received will become the property of San Diego LAFCO and will not be returned. San Diego LAFCO reserves the right to copy the materials for internal evaluation purposes.
- Collusion Among Respondents
In submitting a proposal all respondents certify they are not party to any collusive actions relating to this RFP.
- Expenses Incurred
There is no expressed or implied obligation for San Diego LAFCO to reimburse respondents for any expenses associated with this RFP.

- Withdrawal of Proposal
Respondents may withdraw all or portions of their proposal up to the ratification of a contract between San Diego LAFCO and the selected firm.
- Withdrawal of RFP
San Diego LAFCO retains the right to withdraw, modify, or amend this RFP.

VIII. Contact Information

All questions and related inquiries to this RFP should be addressed to the following contact:

Mr. Keene Simonds
9335 Hazard Way, Suite 200
San Diego, California 92123

T: 858-614-7755

E: keene.simonds@sdcounty.ca.gov

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