



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

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AGENDA REPORT
 Consent | Action

October 2, 2023

TO: Commissioners

FROM: Keene Simonds, Executive Officer
 Erica Sellen, Executive Assistant

SUBJECT: Approval of Independent Audit Expense for FY2022-2023

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will consider approval of an independent audit expense in the amount of \$9,950 with O’Conner and Company covering 2022-2023. This amount is consistent with the terms of an earlier proposal received from O’Conner and Company as successor to R.J. Ricciardi and Associates to provide annual auditing services to the Commission as part of an open selection process completed in September 2019. Staff recommends the Commission approve the expense with any related direction in proceeding with the audit.

BACKGROUND

**Adopted Policies |
 Selection of Independent Auditor and Audit 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

<p>Administration Keene Simonds, Executive Officer 2550 Fifth Avenue, Suite 725 San Diego, California 92103 T 619.321.3380 www.sdlafco.org lafco@sdcounty.ca.gov</p>	<p>Chair Jim Desmond County of San Diego</p> <p>Joel Anderson County of San Diego</p> <p>Nora Vargas, Alt. County of San Diego</p>	<p>Kristi Becker City of Solana Beach</p> <p>Dane White City of Escondido</p> <p>John McCann Alt. City of Chula Vista</p>	<p>Vice Chair Stephen Whitburn City of San Diego</p> <p>Marni von Wilpert, Alt. City of San Diego</p>	<p>Jo MacKenzie Vista Irrigation</p> <p>Barry Willis Alpine Fire Protection</p> <p>David Drake, Alt. Rincon del Diablo</p>	<p>Andy Vanderlaan General Public</p> <p>Harry Mathis, Alt. General Public</p>
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policies apply for all transactions with the notable exception of requiring Commission approval for any independent audit expense regardless of the amount.

DISCUSSION

This item is for San Diego LAFCO to consider a recommendation from the Executive Officer to approve an independent audit expense for O’Conner and Associates (Novato) to review the Commission’s financial statements for 2022-2023. The expense totals \$9,950 and covers the preparation and related analysis therein of an audit report along with an accompanying management letter. Out-of-pocket expenses will be billed as reimbursements.

ANALYSIS

The recommended expense approval for independent audit services to review San Diego LAFCO’s financial statements in 2022-2023 can be readily accommodated through the adopted budget. Approval is also informed by an earlier competitive selection process with additional details footnoted.¹ If approved, O’Conner and Company anticipates initiating the audit in November with the goal of producing a draft as early as December. Should the Commission approve the expense, it will be the fifth consecutive outside audit prepared by O’Conner and Company via its successor role to R.J. Ricciardi and Associates.

RECOMMENDATION

It is recommended San Diego LAFCO approve the independent audit expense with O’Conner and Company in the amount of \$9,950 to provide an audit report for 2022-2023. This recommendation is consistent with Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternative actions are available to San Diego LAFCO.

Alternative One (recommended):

Approve the independent audit expense with O’Conner and Company to prepare an audit for 2022-2023 as provided under policy.

Alternative Two:

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

¹ The competitive process commenced in June 2019 with the preparation of a request for proposal (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 and relative to considering four distinct criteria factors: (a) completeness of the written proposal; (b) firm qualifications; (c) client references; and (d) costs. At the conclusion of the interview process, the Executive Officer subsequently selected R.J. Ricciardi and Associates’ proposal via its co-principal, Michael O’Conner. R.J. Ricciardi and Associates dissolved in late 2022 with O’Conner and Company emerging as the client successor.

PROCEDURES

This item has been placed on the San Diego LAFCO’s agenda as part of the consent calendar. A successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation unless otherwise specified by the Commission.

On behalf of the Executive Officer,



Erica Sellen
Executive Assistant

Attachment:

- 1) Audit Engagement Letter

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September 19, 2023

Keene Simonds, Executive Officer
San Diego County Local Agency Formation Commission
Subdivision of the State of California | Regional Service Planning
2550 Fifth Avenue, Suite 725
San Diego, California 92103-6624

Dear Keene Simonds:

We are pleased to confirm our understanding of the services we are to provide San Diego Local Agency Formation Commission for the year ended June 30, 2023.

Audit Scope and Objectives

We will audit the financial statements of the governmental-type activities and the major fund, including the notes to the financial statements, which collectively comprise the basic financial statements, of San Diego Local Agency Formation Commission (San Diego LAFCo) as of the year ended June 30, 2023. Accounting standards generally accepted in the United States of American (GAAP) provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), and the statement of revenues, expenditures, and changes in fund balance – budget and actual – for the General Fund, to accompany San Diego LAFCo's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to San Diego LAFCo's RSI in accordance with auditing standards generally accepted in the United States of America (GAAS). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any reassurance. The following RSI is required by GAAP and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis.
2. Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.
3. Proportionate Share of Net Pension Liability (Asset).
4. Schedule of Contributions.
5. Schedule of Changes in Net Other-Post Employment Benefits Liability and Related Ratios.
6. Schedule of Contributions – OPEB.

The objectives of our audit are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; issue an auditor's report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP; and report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

We will conduct our audit in accordance with GAAS and will include tests of your accounting records and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement.

We may, from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Our audit of the financial statements does not relieve you of your responsibilities.

Audit Procedures—Internal Control

We will obtain an understanding of the government and its environment, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of San Diego LAFCo's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance, and we will not express such an opinion.

Other Services

We will also prepare the financial statements of San Diego LAFCo in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

You agree to assume all management responsibilities for the financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Responsibilities of Management for the Financial Statements

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America with the oversight of those charged with governance.

Management is responsible for making drafts of financial statements, all financial records, and related information available to us and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management 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 of each opinion unit taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements.

Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with accounting principles generally accepted in the United States of America (GAAP). You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Engagement Administration, Fees, and Other

We understand that your employees will prepare any cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Further, we understand that your employees will prepare all information we request in our Client Participation List in the format requested and send it to us 30 days prior to scheduling the audit field work. If you have insufficient personnel or time to prepare these items we can assist you in this area and we will discuss with you the additional time required and estimated fee for these services.

The audit documentation for this engagement is the property of O'Connor & Company and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the regulating entity or its designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of O'Connor & Company personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the regulatory agency or its designee. The regulatory agency or its designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

Michael O'Connor is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our estimated fees for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our estimated fee, including expenses will be \$9,950 for the audit of San Diego LAFCo.

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination.

The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

If additional time is needed for us to assist San Diego LAFCo in the resolution or investigation of accounting errors, discrepancies, or reconciliation issues, assistance in the preparation of schedules, or to reflect in our workpapers corrections to the San Diego LAFCo's accounting records made after the start of the engagement, we will perform such additional work at our standard hourly rates indicated below:

Director \$200
Audit Director/Manager \$150
Audit Supervisor \$120-150
Senior Accountant \$100
Staff Accountant \$75-100
Administrative \$100

In addition to the estimated fees noted above, we reserve the right to invoice San Diego LAFCo at our standard hourly rates for time incurred providing information to successor auditors in compliance with AU Sec. 315. Our invoices and related fees for this service will be payable upon presentation.

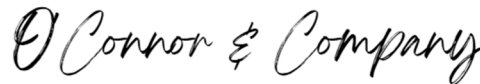
Reporting

We will issue a written report upon completion of our audit of San Diego LAFCo's financial statements. Our report will be addressed to those charged with governance of San Diego LAFCo. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or withdraw from this engagement.

We reserve the right to suspend or terminate our work if you have failed to fulfill your responsibilities set forth in this engagement letter, and such failure materially interferes with our work. If our work is suspended or terminated because of your failure to fulfill your responsibilities set forth in this engagement letter, you agree that we will not be responsible for your failure to meet government and other deadlines, for any penalties or interest that may be assessed against you resulting from your failure to meet such deadlines, and for any damages (including consequential damages) incurred as a result of the suspension or termination of our work.

We appreciate the opportunity to be of service to San Diego LAFCo, and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign a copy of this letter, and return it to us.

Very truly yours,



O'Connor & Company

RESPONSE:

This letter correctly sets forth the understanding of San Diego LAFCo:

Officer signature: _____

Title: _____

Date: _____

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