THE PORT OF LOS ANGELES

Executive Director's Report to the Board of Harbor Commissioners

DATE: **JUNE 12, 2019**

FROM: **ACCOUNTING**

SUBJECT: **RESOLUTION NO. _____ - FIRST AMENDMENT TO AGREEMENT NO. 16-3407 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND MACIAS GINI & O'CONNELL LLP TO PROVIDE FINANCIAL AUDITING AND RELATED SERVICES**

SUMMARY:

Staff requests the approval of the First Amendment to Agreement No. 16-3407 with Macias Gini & O'Connell, LLP (MGO) to extend the term of the agreement by two (2) years, for a total Agreement term not to exceed five (5) years.

MGO, a firm of independent certified public accountants, performs the annual audit of the Comprehensive Annual Financial Report (CAFR) and annual single audit of Federal major awards of the City of Los Angeles Harbor Department (Harbor Department). In addition, MGO performs the annual financial statement audit of the Los Angeles Harbor Improvement Corporation (LAHIC) and, upon request, provides expert accounting opinions regarding significant accounting policies and other financial auditing services.

The First Amendment is for a not-to-exceed amount of $266,393, including related expenses over two years. Payment of expenses incurred under the First Amendment will be the financial responsibility of the Harbor Department.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f), of the Los Angeles City CEQA Guidelines;

2. Find that in accordance with the City of Los Angeles (City) Charter Section 1022, the proposed services are of a professional, expert, and technical nature, which can only be performed by an independent, licensed certified public accounting firm;

3. Approve the proposed First Amendment to Agreement No. 16-3407 with MGO to extend the term for two (2) additional years for a not-to-exceed amount of $266,393, including related expenses;

4. Authorize the Executive Director and the Secretary to execute and attest to said proposed First Amendment to Agreement No. 16-3407 for and on behalf of the Board; and

5. Adopt Resolution No. _____ .

DISCUSSION:

Background - In accordance with Section 362 of the City Charter, the income and expenditures of the Harbor Department are required to be audited by an independent firm of certified public accountants. As a component unit of the City, the Harbor Department's financial statements are included in the basic financial statements of the City. The City's financial auditors rely on the report from the Harbor Department's financial auditors for purposes of expressing an opinion on the City's basic financial statements. Currently, the Harbor Department has a contract with MGO for financial auditing services under Agreement No. 16-3407. The contract was the result of a Request for Proposals (RFP) for financial auditing services in which MGO was selected based upon the final total composite score in accordance with the evaluation criteria discussed in Harbor Department Resolution 16-7963, adopted by the Board at its meeting held on July 21, 2016. This three-year Agreement commenced on August 10, 2016, and expires on August 10, 2019. The proposed First Amendment (Transmittal 1) will extend the term of Agreement No. 16-3407 (Transmittal 2) for two (2) additional years for the period August 11, 2019 through August 10, 2021. Under the proposed First Amendment, MGO will be responsible for performing the Harbor Department's financial and single audits, and the financial audit of the LAHIC, for the fiscal years ending June 30, 2019 and 2020.

Audit Objective - The objective of an independent financial audit of the Harbor Department's financial statements is to enable the auditors to express their opinion as to whether or not the financial statements present fairly, in all material respects, the financial position of the Harbor Department as of the fiscal year end date and the changes in its financial position and cash flows for the fiscal year in conformity with U.S. Generally Accepted Accounting Principles. In accordance with Government Auditing Standards, the auditors also issue a report on their consideration of the Harbor Department's internal controls over financial reporting. The purpose of this report is to describe the scope of the auditors' testing of internal controls over financial reporting and compliance with provisions of laws, regulations, contracts, grant agreements, and

the results of that testing. The report is not intended to provide an opinion on the effectiveness of internal controls over financial reporting or on compliance. Further, the auditors express an independent opinion on the Harbor Department's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Compliance Supplement that are applicable to major federal grant programs.

Scope of Work - The Scope of Work will remain the same under the proposed First Amendment. The scope of work covered in Agreement No. 16-3407 with MGO includes, but is not limited to, performing: (a) basic financial statement audits for the Harbor Department, LAHIC, and work related to the inclusion of the Harbor Department's component unit financial statements in the City's comprehensive annual financial report; (b) single audit of the Harbor Department's grant programs with an auditor's report on the Schedule of Expenditures of Federal Awards as well as reports on the internal control structure and compliance; and (c) debt issuance services or to issue "consent" and/or "comfort" letters if requested by the Harbor Department's financial advisor and/or the underwriter in connection with the sale of debt securities.

Anticipated Cost - Compensation received by MGO is presented within Exhibit B-1 (Transmittal 3) of the proposed First Amendment and provides for a not-to-exceed amount of $266,393 over two years. The proposed appropriations for the next two fiscal years under the proposed First Amendment have been increased by 3% annually due to cost-of-living adjustments.

ENVIRONMENTAL ASSESSMENT:

The proposed action is to extend the term of an agreement to an independent certified public accounting firm for financial auditing and related services, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is an administratively exempt from CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA guidelines.

FINANCIAL IMPACT:

Approval of the proposed First Amendment would authorize spending of $266,393 for external auditing services over a two-year period with spending anticipated to occur as follows:

Fiscal Year	Amount
2019/2020	$ 131,228
2020/2021	$ 135,165
Total	**$ 266,393**

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Funding for the proposed First Amendment has been budgeted in the amount of $131,228 in the FY 2019-2020 Operating Budget, Account No. 54420 (Audit Fees and Services), Center 0630 (Accounting), Program No. 000. A funding out clause is included in the original Agreement.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the First Amendment to Agreement No. 16-3407 as to form and legality.

TRANSMITTALS:

1. First Amendment to Agreement No. 16-3407
2. Agreement No. 16-3407
3. Exhibit B-1

FIS Approval: MB
CA Approval:

FRANK LIU
Director of Accounting

MARLA BLEAVINS
Deputy Executive Director and
Chief Financial Officer

APPROVED:

Mark Bleavins FOR

EUGENE D. SEROKA
Executive Director

MB/FL
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