



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 30, 2013

FROM: ACCOUNTING

**SUBJECT: RESOLUTION NO. _____ - PERSONAL SERVICES AGREEMENT
BETWEEN SIMPSON & SIMPSON, CPAs AND THE CITY OF LOS
ANGELES HARBOR DEPARTMENT**

SUMMARY:

The proposed Agreement with Simpson & Simpson, CPAs (S&S), headquartered in Los Angeles, California, will retain independent certified public accountants to perform the annual financial statement audit and the single audit of the City of Los Angeles Harbor Department (Harbor Department). In addition, the auditors will perform other financial auditing services, including the audit of the financial statements of Los Angeles Harbor Improvement Corporation (LAHIC) and upon request, provide expert accounting opinions regarding significant accounting policies. The proposed Agreement is for a three-year term and a not-to-exceed amount of \$450,000.

RECOMMENDATION:

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

1. Find that in accordance with City of Los Angeles Charter Section 1022, the services under the subject professional services agreement are of a professional, expert, and technical nature, which can only be performed by an independent, licensed certified public accounting firm;
2. Approve the Agreement with Simpson & Simpson, CPAs at an amount not-to-exceed \$450,000 and a term of three (3) years;
3. Authorize the Executive Director or designee to execute the Agreement and the Board Secretary to attest to the Agreement; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background/Context - In accordance with Section 362 of the City Charter, an independent certified public accounting firm must annually audit the financial position, revenues and expenditures of the Harbor Department. A variety of stakeholders, including the City of Los Angeles (City), investors, debt rating agencies, and the general

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public, rely on such statements to help assess and validate the financial health of the Harbor Department. The Harbor Department requires the services of a qualified firm to prepare the Harbor Department's financial audits for three fiscal years starting with Fiscal Year (FY) 2012/13 that just ended, FY 2013/14 and FY 2014/15. Currently, the Harbor Department uses KPMG, LLP to perform annual financial audits under a three-year contract with an expiration date of July 25, 2013. Under the contract with KPMG, the firm audited the financials of the Harbor Department for three fiscal years, from FY 2009/10 through FY 2011/12.

The independent audit firm will conduct a financial audit of the Harbor Department. The auditors, in carrying out their function, will conclude each FY audit with a written opinion. The opinion will state as to whether or not the financial statements provided by the Harbor Department present fairly, in all material respects, its financial position, the changes in its financial position, and its cash flows for and as of a FY end date in conformity with generally accepted accounting principles as practiced in the United States. In accordance with Government Auditing Standards, the audit firm will issue a report on their consideration of the Harbor Department's internal control over financial reporting. The internal control report describes the scope that the auditors established in order to test such controls over financial reporting and compliance with provisions of laws, regulations, contracts, grant agreements. 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 Circular A-133 Compliance Supplement, called a "Single Audit" that are applicable to its major federal programs.

Selection Process – On April 11, 2013, the Harbor Department issued a Request for Proposals (RFP) for professional financial auditing services; however, the Harbor Department only received one proposal in response to the RFP. As a result of receiving only one proposal, the Harbor Department re-issued the RFP on May 14, 2013. In addition to posting the RFP on the Port of Los Angeles website and the Los Angeles Business Assistance Virtual Network, staff also conducted additional outreach to local auditing firms. After this second effort, five firms submitted proposals. The list of proposers is included in Transmittal 1.

A four-member evaluation committee reviewed the submitted proposals. The committee comprised of three persons from the Harbor Department, representing the Accounting Division, the Grants Section of the Contracts and Purchasing Division, the Chief Financial Officer, and one person from the City Controller's Office. The evaluation committee reviewed and scored the proposals based on the following five weighted criteria: 1) firm qualifications, experience and references; 2) project organization, personnel and staffing; 3) project approach, work plan, management and timeline; 4) rates, fees, and budget control; and 5) quality and responsiveness of the proposal (Transmittal 2). The review panel selected S&S based upon the final total composite score as well as ordinal scoring done in accordance with the evaluation criteria stated above. Transmittal 3 shows the final composite scores. Currently, S&S performs annual financial audits of the City.

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Small Business Enterprise and Local Business Enterprise Preference Programs - S&S is a certified Small Business Enterprise, Very Small Business Enterprise, Minority-owned Business Enterprise, and Woman-owned Business Enterprise; therefore, 100% of the proposed Agreement will contribute towards the Harbor Department's SBE/VSBE objectives. The contract opportunity was also eligible for the new Local Business Enterprise Preference Program which provides for an eight percent (8%) preference for qualifying Local Business Enterprises (LBE). S&S, located in Los Angeles County, is a qualified Local Business Enterprise (LBE). Although the contract opportunity provided for an 8% preference for LBEs, all proposers were LBEs; therefore, the preference did not impact the results.

Scope of Work - The scope of work covered in the Agreement with S&S 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(s) of the Harbor Department's grant programs with auditor's report on the Schedule of Expenditures of Federal Awards as well as the 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. The proposed Agreement is included as Transmittal 4.

Anticipated Cost - Provisions of the proposed three-year Agreement provide for a not-to-exceed amount of \$450,000 with S&S, which includes \$324,991 for the services requested, and \$125,009 for contingency and as-needed opinions. Contingency amounts cover requests for one-time special accountant opinions that may arise over the course of the year. In the past, these have included reviews and opinions on rules promulgated by the Government Accounting Standards Board, instruction as to the managing of risk related to financial reporting, as well as an opinion on the taxability to an employee of the Harbor Department's tuition reimbursement program. It is expected that the proposed appropriations for the audit and related services shall be as follows:

Fiscal Year	Proposed Annual Not to Exceed Amount	Amount Including Contingency
2013/2014	\$105,145	\$150,000
2014/2015	\$108,299	150,000
2015/2016	\$111,547	150,000
Total	\$324,991	\$450,000

ENVIRONMENTAL ASSESSMENT:

The proposed action for approval of an Agreement with S&S for financial auditing services is an administrative activity. The Director of Environmental Management has determined that the proposed action is administrative activity exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

Approval of the proposed Agreement will support 4 direct and 2 secondary one-year equivalent jobs for the five county regions.

FINANCIAL IMPACT:

The total cost impact of this proposed Agreement will not exceed \$450,000 over a three-year period if this action is approved by the Board. This amount is comprised of \$324,991 of financial audit services and a contingent amount of \$125,009 that are likely to arise from the request of specific activities regarding accounting board rulings or compliance rulings. Average annual expenditures over the past two years with KPMG has totaled slightly more than \$132,000.

The budget for fiscal year 2013/14 includes the money for this proposed action in the amount of \$203,000 in Account 54420, Work Order 000000, under Division Number 0630 and Job Facility 000000, Program 000. A funding out clause is included in the proposed Agreement.

CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the Agreement as to form and legality.

TRANSMITTALS:

1. List of Proposers
2. RFP Selection Evaluation Form
3. Final Composite Scores for Proposers
4. Agreement with Simpson & Simpson, CPAs

FIS Approval: KR (initials)
 CA Approval: gh (initials)


 KARL K. Y. PAN
 Chief Financial Officer


 MOLLY CAMPBELL
 Deputy Executive Director

APPROVED: 
 GERALDINE KNATZ, Ph.D.
 Executive Director