



Chairman

Bill Horn
County Board of
Supervisors

June 6, 2016

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Vice Chairman

Sam Abed
Mayor
City of Escondido

TO: Local Agency Formation Commission

FROM: Executive Officer

Members

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County Board of
Supervisors

Andrew Vanderlaan
Public Member

Lorie Zapf
Councilmember
City of San Diego

Lorraine Wood
Councilmember
City of Carlsbad

Jo MacKenzie
Vista Irrigation District

Ed Sprague
Olivenhain Municipal
Water District

Vacant
Special District

SUBJECT: Audit Contract Renewal FY 2016-17 and 2017-18

On March 3, 2014, the Executive Officer was authorized to renew LAFCO's auditing contract with Davis Farr LLP (formerly incorporated as MHM P.C.) covering FY 2013-14, 2014-15, and 2015-16, with a maximum optional extension for two additional fiscal years (FY 2016-17 and 2017-18). The two-year contract extension provision for FY 2016-18 requires Commission approval. The Commission should accordingly provide direction to LAFCO staff whether a two-year contract extension should be authorized, or if a Request for Proposal (RFP) process should be initiated. For the Commission's information, the agreed upon cost for performing the upcoming audit for FY 2015-16 will be \$7,600, and a \$200 increase is proposed for each of the two final years included in the optional contract extension period (FY2016-17: \$7,800 and FY 2017-18: \$8,000). The \$200 annual increase is associated with the added responsibilities associated with GASB Nos. 67 and 68 audit testing and disclosure. If the Davis Farr contract is not renewed, then LAFCO staff will begin an estimated six month process of activating an audit committee and developing and circulating an RFP.

If the contract is extended to FY 2017-18, then Davis Farr will be retained by LAFCO for the maximum allowable amount of time a contract could be extended per requirements of AB 1345 (Lara). AB 1345 added Government Code Section 12410.6 to the audit statutes specifying that local agencies are prohibited from employing public accounting firms for audit services if the lead audit partner or coordinating partner has performed audit services for more than six consecutive fiscal years. A two-year contract extension would accordingly conform to the AB 1345 requirements. However, a change in audit / coordinating partners would be necessary after FY 2017-18.

Alternate Members

Greg Cox
County Board of
Supervisors

Chris Cate
Councilmember
City of San Diego

Racquel Vasquez
Councilmember
City of Lemon Grove

Vacant
Special District

Harry Mathis
Public Member

In addition to the possible contract extension, it is also recommended that the Davis Farr contract be amended to include a training component for FY 2015-16. The training component is necessary, because LAFCO's current bookkeeping/accounting contract with SMAA Accounting Inc. will end in FY 2015-16. Beginning with FY 2016-17, LAFCO staff will be assuming bookkeeping responsibilities from SMAA; training is therefore necessary to ensure that LAFCO staff's bookkeeping responsibilities conform to accepted auditing standards. Davis Farr has available and qualified staff to provide the necessary bookkeeping training. The associated training costs would be totally offset by cost savings associated with termination of the contract with SMAA Accounting Inc. Estimated annual bookkeeping training costs are \$7-10,000.

Executive Officer

Michael D. Ott

Legal Counsel

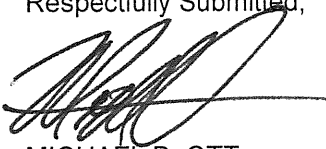
Michael G. Colantuono

Therefore it is

RECOMMENDED:

- 1) Direct the Executive Officer to renew the audit contract with Davis Farr LLP for FY 2016-17 and 2017-18 per the cost requirements specified in this memorandum (\$7,800 for FY 2016-17 and \$8,000 for FY 2017-18), or provide alternative direction for the Executive Officer to issue a Request For Proposal for the selection of a new auditor.
- 2) Approve the addition of a training component to the Davis Farr LLP contract up to \$10,000 to cover bookkeeping training.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "M. Ott", with a horizontal line drawn through the signature.

MICHAEL D. OTT
Executive Officer

MDO:ra

cc: Jennifer Farr