



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

5C

AGENDA REPORT
 Consent | Action

August 4, 2025

TO: Chair Whitburn and Commissioners

FROM: Keene Simonds, Executive Officer
 Erica Sellen, Commission Clerk

SUBJECT: Approval of Independent Audit Expense for 2024-2025

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will consider approval of an independent audit expense of \$12,950 with Davis Farr, LLP for financial statement auditing services covering the 2024-2025 fiscal year. The expense has been negotiated by LAFCO staff and represents the prior fiscal year audit cost plus a reasonable inflation adjustment. The proposed one-year audit services contract with Davis Farr will serve as a bridge arrangement allowing LAFCO to proceed with a planned competitive bidding process later this year to establish a multi-year contract beginning with fiscal year 2025-2026 consistent with the adopted workplan. Davis Farr previously provided audit services to LAFCO as late as 2018-2019 and is familiar with the agency's financial structure and operations.

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 with discretion on the selection process. These policies require all audit expenses be approved by the Commission irrespective of amount.

<p>Administration Keene Simonds, Executive Officer 2550 Fifth Avenue, Suite 725 San Diego, California 92103 T 619.321.3380 E lafco@sdcounty.ca.gov www.sdlafco.org</p>	<p>Paloma Aguirre County of San Diego</p> <p>Joel Anderson County of San Diego</p> <p>Monica M. Steppe, 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>Chair Stephen Whitburn City of San Diego</p> <p>Marni von Wilpert, Alt. City of San Diego</p>	<p>Vice Chair Barry Willis Alpine Fire Protection</p> <p>Jo MacKenzie Vista Irrigation</p> <p>David Drake, Alt. Rincon del Diablo</p>	<p>Vacant General Public</p> <p>Brigitte Browning, Alt. General Public</p>
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DISCUSSION

This item is for San Diego LAFCO to consider a recommendation to approve an independent audit expense for Davis Farr (Irvine) and their supervising partner Shannon Ayala to review the Commission's financial statements for 2024-2025. The negotiated expense totals \$12,950 and covers the preparation of an audit report and accompanying management letter. Out-of-pocket expenses incurred by Davis Farr will be billed as reimbursements.

ANALYSIS

The recommended expense for independent audit services to review San Diego LAFCO's financial statements in 2024-2025 can be readily accommodated through the adopted budget. Davis Farr previously performed outside auditing services for LAFCO before the current consultant – O'Connor and Associates (Novato) – assumed duties as part of a six-year contract award starting with 2018-2019. Davis Farr's familiarity with LAFCO's financial structure and operations is advantageous in serving as a bridge arrangement and allowing LAFCO to proceed with a planned competitive bidding process later this year to establish a multi-year contract beginning with fiscal year 2025-2026 consistent with the workplan.

RECOMMENDATION

It is recommended San Diego LAFCO approve the independent audit expense with Davis Farr in the amount of \$12,950 to provide an audit report for 2024-2025.

ALTERNATIVES FOR ACTION

The following alternative actions are available to San Diego LAFCO.

Alternative One (recommended):

Approve the independent audit expense with Davis Farr for 2024-2025.

Alternative Two:

Continue consideration to a future meeting and provide direction as needed.

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
Commission Clerk

Attachment:

- 1) Davis Farr, Audit Engagement Letter



Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

July 24, 2025

San Diego Local Agency Formation Commission
2550 Fifth Avenue, Suite 725
San Diego, CA 92103

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide San Diego Local Agency Formation Commission (the "Entity").

You have requested that we audit the Entity, as of June 30, 2025 and for the year then ended and the related notes, which collectively comprise the Entity's basic financial statements as listed in the table of contents.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 auditing standards generally accepted in the United States of America (GAAS) and in accordance with Government Auditing Standards 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 made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information ("RSI") such as management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

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

Auditor Responsibilities

We will conduct our audit in accordance with GAAS and in accordance with Government Auditing Standards. As part of an audit in accordance with GAAS and in accordance with Government Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and in accordance with Government Auditing Standards.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the Entity'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.

Management Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;

- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit;
 - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
 - iv. A written acknowledgement of all the documents that management expects to issue that will be included in the annual report and the planned timing and method of issuance of that annual report; and
 - v. A final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report.
- d. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by us;
- e. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- f. For adjusting the basic 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 current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- g. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- h. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- i. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- j. For the accuracy and completeness of all information provided.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit.

Nonattest Services

With respect to any nonattest services we perform:

At the end of the year, we agree to perform the following:

- Propose adjusting or correcting journal entries detected during the audit, if applicable, to be reviewed and approved by the Entity's management.
- Word process the financial statements using information provided by management.

We will not assume management responsibilities on behalf of the Entity. However, we will provide advice and recommendations to assist management of the Entity in performing its responsibilities.

The Entity's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the nonattest services are as follows:

- We will perform the services in accordance with applicable professional standards
- The nonattest services are limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries. Our firm will advise the Entity with regard to tax positions taken in the preparation of the tax return, but the Entity must make all decisions with regard to those matters.

Reporting

We will issue a written report upon completion of our audit of the Entity's basic financial statements. Our report will be addressed to the Commission of the Entity. 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 an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements 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 to issue a report as a result of this engagement.

In accordance with the requirements of Government Auditing Standards, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

Engagement Fees

We estimate that our fixed fees for the services previously outlined will be \$12,950. Should the audit exceed the 100 hours we have budgeted, we will bill you \$150 per hour, based on actual hours incurred.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity's records and, where applicable, upon the Entity's personnel providing the level of assistance identified in the "prepared by client" request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.). Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with you and bill you at a flat rate of \$150 per hour, based on additional hours incurred..

Other Engagement Matters

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Enclosed, as required by *Government Auditing Standards*, is a copy of the report on the most recent peer review of our firm.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

The undersigned is the engagement partner responsible for supervising the engagement and signing the report.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

At the conclusion of our audit engagement, we will communicate to the Commission the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of Davis Farr LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulatory agencies pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Davis Farr LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to regulatory agencies. The regulatory agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the basic financial statements including our respective responsibilities.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement.

Very truly yours,



Shannon Ayala, Partner
Davis Farr LLP

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

San Diego Local Agency Formation Commission

By _____
Keene Simonds, Executive Director

Date _____

Date Contract was approved by the Commission: _____



Report on the Firm's System of Quality Control

Davis Farr LLP

and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Davis Farr LLP (the firm) in effect for the year ended May 31, 2022. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act; and examination of a service organization (SOC 1 engagement).

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

CPAs ■ Advisors

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Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Davis Farr LLP in effect for the year ended May 31, 2022, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Davis Farr LLP has received a peer review rating of *pass*.

GYL LLP

Ontario, California
August 8, 2022