

REPORT TO THE CITY COUNCIL



DATE: January 17, 2017

TITLE: Professional Services Agreement with The Pun Group, Incorporated for Professional Audit Services

Prepared by: Linda Kelly, Finance Manager

Reviewed by: Joseph M. Tanner, Administrative Services Director

RECOMMENDATION

Authorize the City Manager to extend the Professional Services Agreement with The Pun Group, Incorporated for a total amount not-to-exceed \$157,058.00 (\$78,529.00 per Fiscal Year) to continue professional Auditing Services for the City of Desert Hot Springs and the Desert Hot Springs Health and Wellness Foundation from July 1, 2017 through June 30, 2019; with approval as to form by the City Attorney.

BACKGROUND

On June 19, 2014 the City Council approved the Professional Services Agreement with the Pun Group Incorporated to perform the professional auditing services for the City for a term of one year with two additional one year terms.

The audit services to be performed include:

- Annual City Audit, including Successor Agency and Housing Authority
- Single Audit (as required, if not required there will be no cost) one program only
- Gann Limit Verifications
- Annual State Controllers Report
- Transient Occupancy Tax Agreed Upon Procedures (4)
- Utility User Tax Agreed Upon Procedures (1)
- Desert Hot Springs Health and Wellness Foundation Audit & Tax Returns

The time spent completing the work assignment are based on an estimated number of hours to complete the assigned times and blended rate. The Transient Occupancy Tax Audits will be done at the hotel sites rather than at City Hall.

If not all work elements are completed in any given fiscal year the costs associated will not be charged to the City.

DISCUSSION

In accordance with Government Auditing Standards, the City is required to complete an annual audit and annual financial statements each fiscal year. The audited financial statements are then report to the City Council. The audit work is very complex and requires at least two site visits. The first visit is for the testing of internal controls and review of a percentage of the accounting work. The auditors begin their audit work as soon as possible, so their work is not completed on a month to month basis. Therefore, it is important that their contract be approved on an annual basis.

Normally, a City will continue to work with an existing auditing firm for up to five years so that the audit firm can review several aspects of the account detail each year and depending on the City's financial issues, audit results, evaluation of operating performance and review and testing of internal policies and procedures.

Staff is requesting that this auditing firm continue to perform the audit services for an additional three years due to the complex New Market Tax Credit funding that was obtained for the build out of the Desert Hot Springs Health and Wellness Foundation. The New Market Tax Credit funding structure must go through a legal “unwind process” to reverse out the \$15,126,594 Investment Fund Leverage Loans prior to July 2019. It is because of this process that feel that it is imperative that the City keep the same auditing firm as they have been with the City since the inception of the New Market Tax Credit deal and have audited all of the records for the Desert Hot Springs Health and Wellness Foundation and understand the complexity of the funding structure and will be able to fully understand the “unwind process”.

Additionally, during the City’s fiscal crisis this vendor did agree to reduce their hourly rates and have continued to provide excellent service. This firm also provides two annual accounting seminars for all of their clients advising and updating staff with the GASB accounting standards, new implementations and changes in reporting to the financials.

Staff is recommending that the City Council approve the extension of the Professional Services Agreement (Exhibit 1) with The Pun Group for an additional three audit years of 2016-2017, 2017-2018 and 2018-2019 with guaranteed pricing not to exceed \$78,529.00 for all services per fiscal year.

Below are the costs associated with various elements of the audit work for the City, Successor Agency and the Health and Wellness Foundation:

Audit Report	FY 16/17	FY 17/18	FY 18/19
City Audit, including Housing, Successor Agency, and CAFR preparation	\$ 44,722	\$ 45,616	\$ 46,528
Single Audit (if required) per major program	3,570	3,641	3,714
GANN limit verifications	-	-	-
Annual State Controller's Report	2,708	2,762	2,817
Transient Occupancy Tax Agreed Upon Procedures (up to 4 hotels)	12,240	12,485	12,735
Utility User Tax (1)	2,040	2,081	2,123
Health and Wellness Foundation Audit and Tax Forms	10,200	10,404	10,612
Total (not to exceed)	\$ 75,480	\$ 76,989	\$ 78,529

The Government Finance Officers Association recommends that government entities should enter into multiyear agreements of at least five years in duration when obtaining services. Extending the terms will result in reduced costs to the City and save time during the wind-down process that is required for the Health and Wellness New Market Tax Credits.

FISCAL IMPACT

The funding of \$181,200.00 is included in the 2016-2017 and 2017-2018 budgets at \$90,600.00 per year. The General Fund (001) will be responsible for all audit costs except the costs for the Health and Wellness Foundation Audit and Tax Forms which will be charged to Fund (211).

EXHIBIT

- 1) Professional Services Agreement - The Pun Group, Incorporated
- 2) Government Finance Officers Association Best Practices - Audit Procurement