



Good Neighbors

San Diego  
Housing Commission

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# REPORT

**DATE:** For the Agenda of June 3, 2005 **ITEM 101**

**REPORT NO:** HCR05-50

**SUBJECT:** Award of Contract for Financial and Single Audits for Fiscal Years 2005 – 2009

## SUMMARY

**Issue 1:** Should the Housing Commission award a contract to the Reznick Group for the performance of financial and single audits, as well as other project audits, for Fiscal Years 2005 through 2009?

**Recommendation:** It is the Audit Committee's recommendation that the Housing Commission authorize the President and Chief Executive Officer (CEO) to execute a contract with the Reznick Group for the performance of Financial and Single Audits and various project audits for Fiscal Years 2005 through 2009 on a fixed price basis for five years for a cumulative total cost of \$435,000. Note: The FY05 audit cost will be \$65,000.

**Issue 2:** Should the Housing Commission revise the Fiscal Year 2005 and 2006 budgets by transferring \$24,518 and \$47,518 respectively from Local Reserves to Audit Services to cover the cost of FY05 and FY06 audit fees?

**Recommendation:** That the Housing Commission revise the Fiscal Year 2005 and 2006 budgets by transferring \$24,518 and \$47,518 respectively from Local Reserves to Audit Services.

**Fiscal Impact:** A decrease in local reserves of \$24,518 and \$47,518 in FY05 and FY06 respectively, and an increase in audit fee expense of \$24,518 and \$47,518 in FY05 and FY06 respectively.

**Environmental Review:** This activity is "not a project" for the purposes of the California Environmental Quality Act ("CEQA"). Further, this activity is exempt and

excluded under the applicable provisions of NEPA. Notices of Exemption and Exclusion have previously been issued in connection with this activity at the time of the budget review for FY 2006. Copies of those notices of Exemption and Exclusion are on file in the offices of the San Diego Housing Commission.

**Previous Related Action(s):** The current FY05 agency budget approved by the Housing Commission on May 14, 2004 provides \$40,482 of funding for audit fees. The FY06 budget, approved by the Housing Commission on May 20, 2005, provides \$40,482 of funding for audit fees.

## **BACKGROUND**

In FY87 the City Council directed City staff to consolidate all City and related agency audit services into a master audit contract beginning with audits for the five year period FY88 through FY92. This action was taken in order to improve the efficiency and the consistency of the City's total audit and was intended to save time and money for the agencies by no longer requiring each agency to solicit contracts with outside auditors.

Since 1989 and upon each contract expiration, the Housing Commission has been included within the scope of the City's master audit contract. The most recent five year master audit contract was awarded in November 2002 to the firm of Calderon, Jaham & Osborn, which was subsequently acquired by the firm of Caporicci and Larson. This contract provided for audit services beginning with Fiscal Year 2003 through Fiscal Year 2007 inclusive.

In June 2004, the City opted not to renew its contract with Caporicci and Larson. Because the firm had already completed substantial interim audit work for the Housing Commission during the month of May 2004 for the year ending June 30, 2004, the City Auditor concurred with the Commission's recommendation that Caporicci and Larson complete the audit engagement and issue the FY04 financial statements under terms of the existing contract.

Delays in the City's Request for Proposal for audit services resulted in the City Auditor's concurrence in March 2005 that the Commission independently initiate a selection process for Housing Commission audit services.

The audit services included in the scope of the Request for Proposals (RFP) are as follows:

### **Financial Audit**

Financial audits of all Housing Commission funds are performed on an annual basis as required by the Housing Authorities Law (Section 34327.6 of the California Government Code) which states that "all funds of Housing Authorities not subject to audit by a federal

agency shall be audited at least once every year at the expense of the Housing Authority by a certified public accountant."

### **Single Audit**

Congress passed the Single Audit Act in October 1984. This act required that local governments receiving federal financial assistance of \$100,000 or greater provide for a single audit of grant funds for fiscal years beginning after December 31, 1984. Amendments to the act in 1996 raised the assistance limit, which currently stands at \$500,000. The single audit is a more comprehensive audit than the financial audit and it includes internal control and compliance testing of certain programs as defined by the Office of Management and Budget.

### **Project Specific Audits**

Certain funds of the Housing Commission are required to be audited at a more detailed level. The State of California requires a financial audit of the State-financed operating programs on a yearly basis. In addition, the Housing Commission defined contribution pension plan must be audited on an annual basis.

## **DISCUSSION**

A Request for Proposals was issued by the Housing Commission on March 25, 2005 and was publicly noticed, as required. In addition, Notice to Bid was mailed to six public accounting firms. Two firms submitted bids by the closing date. Both firms were found to be responsive to the Request for Proposals. Details of the bids are summarized below:

<u>Audit Firm</u>	<u>Total Bid for FY05</u>	<u>Total # Hours</u>	<u>Total 5 Year Bid Amount</u>	<u>MBE / WBE</u>
Caporicci and Larson	\$39,200	700	\$200,800	No
Reznick Group	\$65,000	810	\$435,000	No

A three-member panel set up to evaluate the two proposals included the Director of Financial Services and the Accounting Supervisor of the Housing Commission, plus the Assistant Auditor and Comptroller of the City of San Diego.

The review process included scoring based on four criteria: Quality and Completeness, Qualifications and Experience of Audit Team, Experience with Housing Authorities, and Price. Upon tabulation of the results, it was found that scoring of both firms was very close. The panel report was shared with members of the Housing Commission's Audit Committee on May 20, 2005. Further discussion and a review of the proposals resulted in the Audit Committee's recommendation to award the five year audit contract to the Reznick Group.

The Reznick Group is a national public accounting and business advisory firm. Its main offices are located in Charlotte, North Carolina and the firm maintains a satellite office in Sacramento, California. Reznick serves a wide variety of governmental clients and has established a Public Housing Authority Service Group to provide specialized services for this industry segment. Included in its PHA client list are several large housing authorities such as the Housing Authority of the City of New Orleans and the Housing Authority of the City of Houston.

In order to provide funding for the increase in audit fees as recommended, the FY05 and FY06 budgets for audit services must be increased by \$24,518 and \$47,518 respectively. Funds are available in local reserves.

Staff is available to answer questions regarding the recommendation or any details contained in this report.

Submitted by,

**Signature on File  
With Original Document**

Approved by,

Edward P. Mauk, CIA  
Director of Financial Services

Elizabeth C. Morris  
President and Chief Executive Officer