

RESOLUTION NO 2025-03

A RESOLUTION OF THE MARINA CITY COUNCIL AMENDING A CONTRACT FOR
AUDITING SERVICES AND AUTHORIZING THE CITY MANAGER TO EXECUTE A
CONTRACT AMENDMENT WITH CHAVAN AND ASSOCIATES, LLP

WHEREAS, in February 2020, the City requested proposals for audit services, and;

WHEREAS, pursuant to the request and a competitive evaluation process, Chavan & Associates, LLP was awarded a three-year contract, with an option to renew for two additional years, and;

WHEREAS, Chavan & Associates, LLP has demonstrated technical expertise and provided the City with professional audit services over the five-year contract period, and;

WHEREAS, in the current fiscal year, the City is transitioning the complex monthly and year-end accounting entries from a contract accountant to the City's internal staff, with the goal of becoming self-sufficient by the end of the fiscal year, and;

WHEREAS, almost all of the Finance Department staff have been with the City less than three years, and Fiscal Year 2023/24 was the first year that the City's internal accounting staff assumed the majority of these responsibilities, and;

WHEREAS, the City desires to retain Chavan & Associates, LLP for one additional year to provide the Finance Department staff with more time to learn these year-end processes, before considering a change in audit firms.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Marina does hereby:

1. Approve a contract amendment with Chavan and Associate, LLP for one additional year in accordance with Exhibit A, and;
2. Authorize the Finance Director to make necessary accounting and budgetary entries, and;
3. Authorize the City Manager to execute the contract on behalf of the City subject to final review and approval by the City Attorney.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 22nd day of January 2025 by the following vote:

AYES: COUNCIL MEMBERS: McCarthy, Biala, Visscher, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: McAdams

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

December 11, 2025

City of Marina
211 Hillcrest Ave.
Marina, CA 93933

We are pleased to confirm our understanding of the services we are to provide for the City of Marina (the “City”) for the fiscal year ending June 30, 2025. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City and the related notes to the financial statements, which collectively comprise the City’s basic financial statements.

In addition, we will audit the City’s compliance over major federal award programs each fiscal year. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audits will be conducted with the objectives of our expressing an opinion on each opinion unit and an opinion on compliance regarding the City’s major federal award programs.

The objectives of our audit of the financial statements 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America (GAGAS), 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.

The objectives of our compliance audit are to obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirement about whether the City complied in all material respects with the applicable compliance requirements and identify audit and reporting requirements specified in the governmental audit requirement that are supplementary to GAAS and *Government Auditing Standards*, if any, and perform procedures to address those requirements.

Accounting principles generally accepted in the United States of America, (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), require that the items noted below 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 and will be subjected to certain limited procedures but will not be audited:

1. Management's discussion and analysis.
2. Major fund budget to actual schedules.
3. Pension schedules.
4. Other postemployment benefit schedules.

Supplementary Information Other than RSI

Supplementary information other than RSI will accompany the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with U.S. GAAS.

We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

1. Nonmajor fund combining balance sheets and schedules of revenues, expenditures and changes in fund balances.
2. Nonmajor budgetary comparison schedules, as applicable.
3. Fiduciary fund statements, as applicable.
4. General fund combining schedules, as applicable

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. ACFR introductory section.
2. Statistical tables.

Schedule of Expenditures of Federal Awards

We will subject the schedule of expenditures of federal awards to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the schedule to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of



America. We intend to provide an opinion on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements as a whole.

Data Collection Form

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the federal audit clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the federal audit clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the *earlier* of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.

Audit of the Financial Statements

We will conduct our audit in accordance with U.S. GAAS, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). As part of an audit of financial statements in accordance with GAAS, and in accordance with *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also complete the following:

- 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 City'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 City'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 or noncompliance (whether caused by errors, fraudulent financial reporting, misappropriation of assets, detected abuse, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

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

We will issue a written report upon completion of our audit of the City's basic financial statements. Our report will be addressed to governing body of the City. We cannot provide assurance that unmodified opinions will be expressed. 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 over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

Audit of Major Program Compliance

Our audit of the City's major federal award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget's (OMB) Uniform Guidance; and will include tests of accounting records, a determination of major programs in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether material noncompliance with applicable laws and regulations, the provisions of contracts and grant agreements applicable to major federal award programs, and the applicable compliance requirements occurred, whether due to fraud or error, and express an opinion on the City's compliance based on the audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the federal programs as a whole.

As part of a compliance 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 noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Our procedures will consist of determining major federal programs and, performing the applicable procedures described in the U.S. Office of Management and Budget *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs, and performing such other procedures as we consider necessary in the circumstances. The purpose of those procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Also, as required by the Uniform Guidance, we will obtain an understanding of the City's internal control over compliance relevant to the audit in order to design and perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the City's major federal award programs. Our tests will be less in scope



than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report. However, we will communicate to you, regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we have identified during the audit.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the City's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Management's Responsibilities

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

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
3. For identifying, in its accounts, all federal awards received and expended during the period and the federal programs under which they were received;
4. For maintaining records that adequately identify the source and application of funds for federally funded activities;
5. For preparing the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the Uniform Guidance;
6. For designing, implementing, and maintaining effective internal control over federal awards that provides reasonable assurance that the entity is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards;
7. For identifying and ensuring that the entity complies with federal laws, statutes, regulations, rules, provisions of contracts or grant agreements, and the terms and conditions of federal award programs, and implementing systems designed to achieve compliance with applicable federal statutes, regulations, and the terms and conditions of federal award programs;
8. For disclosing accurately, currently, and completely the financial results of each federal award in accordance with the requirements of the award;
9. For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
10. For taking prompt action when instances of noncompliance are identified;
11. For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;



12. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
13. For submitting the reporting package and data collection form to the appropriate parties;
14. For making the auditor aware of any significant contractor relationships where the contractor is responsible for program compliance;
15. To provide us with:
 - a. Access to all information of which *management* is aware that is relevant to the preparation and fair presentation of the financial statements including the disclosures, and relevant to federal award programs, such as records, documentation, and other matters;
 - b. Additional information that we may request from *management* for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence;
 - d. 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
 - e. 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.
16. For adjusting the 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 financial statements as a whole;
17. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
18. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
19. 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 compliance;
20. For the accuracy and completeness of all information provided;
21. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
22. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information and schedule of expenditures of federal awards (SEFA) referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information and SEFA in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding the supplementary information and SEFA, (c) to include our report on the supplementary information and the SEFA in any document that contains the supplementary information and that indicates that we have reported on such supplementary information and the SEFA, and (d) to present the supplementary information and the SEFA with the audited financial statements, or if the



supplementary information and the SEFA will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information and the SEFA no later than the date of issuance by you of the supplementary information and the SEFA and our reports thereon.

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

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Nonattest Services

With respect to any nonattest services we perform, we will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist City management in performing its responsibilities. At the end of the year, we agree to perform the following:

- Prepare the audited financial statements (ACFR), related note disclosures, required supplementary information, supplementary information (as noted above), the schedule of expenditures of federal awards, and the data collection form. These items will be prepared from information prepared and provided by the City during our audit, such as the City's trial balance.
- Propose adjusting or correcting journal entries to be reviewed and approved by City management.

City 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, including GAAS, GAGAS, GASB and U.S. GAAP.
- The nonattest services are limited to the services previously outlined above. 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 City with regard to certain positions taken in the preparation of the audited financial statements, but City must make all decisions with regard to those matters.

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.

Audit Administration and Fees

Our all-inclusive maximum fee for these services will be as follows:

	2025
City Audit	\$ 30,000
GANN Limit Review Report	1,000
Single Audit	4,500
Marina Club Casino AUP	3,000
TAMC Measure X Audit	4,000
Preston Park Audit	8,500
Abrams Park Audit	8,500
SCO AFTR	3,500
SCO AFTR PFA	2,000
FORA Trust Fund	2,500
Total All Inclusive Maximum Fees	\$ 67,500

Our fees include out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.).

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit as follows:

Engagement Partner	\$400 per hour
Associate Partner/Reviewer	\$300 per hour
Audit Manager	\$200 per hour
Supervisor	\$150 per hour
Staff Auditor	\$125 per hour
Administrative	\$100 per hour

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If



Chavan and Associates, LLP

Certified Public Accountants

we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report.

You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If cooperation is not provided as anticipated and at a level that hinders the progress of the services to be provided, we retain the right to terminate the contract for cause with thirty (30) days' notice. During that time, the City will have the opportunity to provide the cooperation required to complete the audit and C&A may rescind the cancellation.

If the services to be performed by C&A are not performed in an acceptable manner to the City, the City may cancel this contract for cause by providing notice to C&A, giving at least thirty (30) days' notice of the proposed cancellation and the reasons for same. During that time period, C&A may seek to bring the performance of services to a level that is acceptable to the City, and the City may rescind the cancellation if such action is in the City's best interest. Notwithstanding the above provisions, the City may, upon the expiration of thirty (30) days written notice to C&A, terminate the agreement at will. Payment for services or goods received prior to termination shall be made by the City provided those goods or services were provided in a manner acceptable to the City. Payment for those goods and services shall not be unreasonably withheld.

Sheldon Chavan, CPA, is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Chavan & Associates LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Other 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.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.



Chavan and Associates, LLP

Certified Public Accountants

The audit documentation for this engagement is the property of Chavan & Associates LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to state and federal agencies and the U.S. Government Accountability Office 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 Chavan & Associates LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature. You agree to inform us of facts that may affect the 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.

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. At the conclusion of our audit engagement, we will communicate to management and the Board the following significant items from the audit:

- Our view about the qualitative aspects of the City'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.

In accordance with the requirements of *Government Auditing Standards*, a copy of our latest external peer review report is available on our website. If the foregoing is in accordance with your understanding, please indicate your agreement by signing this letter and emailing it to us at info@cnallp.com or following the DocuSign link in the separate email. If you have any questions, please let us know. We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.



Chavan and Associates, LLP
Certified Public Accountants

Very truly yours,

C & A LLP

Sheldon Chavan, CPA, Managing Partner
Chavan & Associates, LLP

RESPONSE:

This letter correctly sets forth the understanding of the City of Marina.

Signature:

Title:

Date:

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of January 22, 2025

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2025-,
AMENDING A CONTRACT FOR AUDITING SERVICES, AND
AUTHORIZING THE CITY MANAGER TO EXECUTE A CONTRACT
AMENDMENT WITH CHAVAN AND ASSOCIATES, LLP**

RECOMMENDATION

It is recommended that the City Council:

1. Consider adopting Resolution No. 2025-, amending the contract for auditing services to Chavan and Associates, LLP (C&A), Certified Public Accountants (CPA), for one additional in the amount of \$67,500 and;
2. Authorize the Finance Director to make necessary accounting and budgetary entries, and;
3. Authorize the City Manager to execute a contract amendment on behalf of the City subject to final review and approval by the City Attorney.

BACKGROUND

The City is required to retain the services of a licensed CPA firm to perform an independent audit of all City funds and financial transactions. The goal of the annual audit is to receive an independent auditor's "opinion letter" and other management reports. These reports address the fair presentation of the City's financial position in the financial statements, identify significant matters involving internal controls over financial reporting, and assess compliance with applicable laws, regulations, contracts, and grants. In addition to providing various mandated audit services, the independent audit firm also prepares any corresponding reports for the State Controller's Office (SCO).

In Fiscal Year 2019/20, the City initiated a competitive proposal for audit services. The request for proposal was published in the Monterey Herald and also circulated to 15 audit firms. Eight firms submitted proposals and Chavan and Associates, LLP was selected based on their experience in the governmental accounting field, the strength of their proposed audit team, positive references, and client training. The resulting contract was for three years, with an option for two additional years. The City retained C & A for the complete five-year term, ending with the Fiscal Year 2023/24 audit.

In considering whether to issue a new request for proposal (RFP) for audit services, staff considered the impact to the City's Finance staff and their knowledge of year-end processes. Over the last several years, the City has retained a consultant to prepare complex monthly and year-end accounting entries. At the close of Fiscal Year 2023/24, staff assumed all of the year-end closing entries, as well as most of the complex year-end adjustments that were handled by the audit firm. In most Cities, these types of entries are prepared by internal staff. The City plans to fully transition the remaining monthly processes to the Finance Department staff by the end of the fiscal year. Due to a significant number of these entries taking place only at the end of each fiscal year, it may take two to three cycles before staff are fully proficient with these processes.

During this learning period, a transition to a new audit firm could be challenging. The Finance Department staff have only had one year of experience in preparing key year-end entries and schedules for debt, capital assets, pensions, other post-employment benefits; and new lease and software subscription pronouncements. As part of a new audit, they would be required to walk the auditors through financial policies, internal controls, and complex transactions within their respective areas. In addition, new audit firms will typically request extensive samples of financial transactions to become familiar with City processes; and work with staff to gain an understanding of the City's accounting structure and the unique operations associated with different funds. While the City would be subject to a robust audit with C & A, they would already have an basic understanding of the City's accounting processes and systems; and staff would not be impacted by the introductory processes.

ANALYSIS

Government Code, Section 12410.6(b) requires local agencies to change audit firms or rotate audit partners, if the lead audit partner, or the audit partner responsible for reviewing the audit has been performing the services for six consecutive years. The City's contract ended in Fiscal Year 2023/24, which marks the fifth consecutive year of service. Amending their contract for an additional year would be within the six-year requirement. Chavan and Associates, LLP has also noted that they have sufficient partners to meet the rotation requirement.

The proposed cost for one additional year of audit services is \$67,500. A copy of the C & A proposal is included in Exhibit A. This proposal lists the cost of each audit service; however, in some years all of the services may not be needed. For example, in Fiscal Year 2023/24, the City did not expend more than \$750,000 in federal grant funds and a Single Audit was not required. While the attached proposal is \$13,000 greater than the amount in the original agreement, the previous C & A proposal did not incorporate any inflationary increases over the five-year period and the City's audit costs remained flat. The City also expanded the scope of services to include an optional State Controller's Office Annual Financial Transactions Report for the Public Financing Authority (SCO AFTER PFA). Prior to the addition of the new SCO report, the proposed increase would equate to approximately 4% each year, when amortized over the six-year period. The new proposal could also be considered reasonable, because the City's prior audit firm submitted a proposal for \$69,450 during the original competitive process.

FISCAL IMPACT

There is no additional impact planned to City funds. Sufficient funds have been included in the General Fund, Preston Park Fund, and Abrams B Housing Funds to support the additional audit costs.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Tori Hannah
Finance Director
City of Marina

Layne P. Long
City Manager
City of Marina