

Livermore Area Recreation and Park District

Staff Report

TO: Chair Boswell and Finance Committee

FROM: Mathew Fuzie, General Manager

PREPARED BY: Jeffrey Schneider, Business Services Manager
Julie Dreher, Finance Officer, and Lynn Loucks, Accountant

DATE: April 18, 2022

SUBJECT: **Audit Partner – Agreement Extension**

RECOMMENDATION: That the Finance Committee recommends that the Board of Directors authorize General Manager Fuzie to execute a proposed three-year extension of the District’s agreement with Financial Audit partner James Marta & Company, LLC.

BACKGROUND:

The District utilized Maze & Associates as its Auditor from 1988 through 2012. After completing an RFP, the District replaced Maze with James Marta and Company, who completed its first District audit for the 2012-13 fiscal year (FY).

Marta’s partner on the District’s account retired in 2021 and was replaced by Jesse Deol, who led the audit effort for FY20-21. Other changes have been made to Marta’s audit engagement managers in the last 5 years, with 3 senior accounts alternately supporting LARPD playing that role in that time frame. Jefferson Gamir has served in this capacity since the FY18-19 audit.

The current audit agreement covered the recently completed FY20-21 audit, and the District is in need of a new agreement for the FY21-22 audit year, at least.

CONSIDERATIONS:

1. Industry guidance (California Special District Association (CSDA) and the California Society of Municipal Finance Officers (CSMFO) would suggest that LARPD consider changing its audit partner every 5 to 7 years, or at least request a lead auditor rotation every five years. The later is a much more cost effective way of increasing independence between auditors and clients. When the lead auditor (Partner) changes, they must “start from scratch” with their client, which means no longstanding relationship is intact.

2. LARPD is currently pleased with the rigor, objectivity, technical expertise, and partnership that Marta has exhibited in recent years (coinciding with the assignment of Mr. Gamir), and Mr. Deol has proven to be an active and effective Partner in his brief time to date in support of LARPD. That being said, here are a few perspectives on the topic of switching audit firms:
 - a. There are three main reasons the District might decide to regularly rotate its auditor: ensuring their independence, getting a new perspective, and keeping fees competitive.
 - i. A concern is that the longer the District works with an auditor, the higher the independence risk – in other words, a close relationship could make it harder for the auditor to remain objective.
 - ii. An extended relationship could create complacency, leading to inefficiency as the same processes are followed without questioning how they could be improved.
 - iii. Bringing on a new auditor brings with them a new perspective and fresh ideas on how things could work, while at the same time getting the opportunity to find more competitive fees.
 - b. In response to the above reasons for rotating our auditor:
 - i. Staff believes we have in place a good auditor with a solid understanding of our organization, and the benefits of sticking with them outweigh any advantages of switching. The long-term relationship is more of an advantage than a risk, making the audit faster, less stressful on our team, and thus more valuable to our organization. Marta's Partner (Mr. Deol) is new to our account and has been energized, objective, and technically helpful in his initial audit with the District. As well, the engagement lead (Mr. Gamir), because he is entering his 4th year on our account, has real familiarity with the District's operations and is well-positioned to assist staff with its efforts to complete the following initiatives in the coming months: a) implement a fixed asset module; b) implement a purchasing module, and c) implement a new chart of accounts. Mr. Gamir's familiarity with LARPD will enable him to provide knowledgeable support to the aforementioned initiatives.
 1. In addition, per Mr Deol, the proposed agreement is set for three years to coincide with the planned migration of the LARPD account to a new partner at the time of its conclusion.
 - ii. Changing the District's auditor can be disruptive. First, there's the time required to prepare and conduct an RFP (request for proposal) process and then assess options, and our FY21-22 audit process will begin in earnest in May, 2022. Second, there's the time required for staff to get a new auditor up to speed, explaining processes and sharing organizational and financial information that would not otherwise be required. Third, there is risk that the new service could fall below required standards and/or that the relationship may not be productive.

- iii. A good auditor will be able to build up an understanding of our organization and thus make the audit process run smoothly, and they'll also be able to maintain their objectivity and challenge staff when it's needed, which is exactly how staff views Marta. They won't just go through the motions or do things the way they've always been done. Instead, they'll look for new ways to improve their own service, as well as giving practical feedback on your organization's systems and processes.
 - iv. Lastly, in surveying related agencies, Hayward Area Recreation District (HARD) and the Pleasant Hill Recreation and Park District, we found their relationship with their audit partners is similar to what we are proposing here and is based on the assessment that the benefits of stability outweigh the costs of transition. In one instance, there is reliance on the rotation of audit partners within the same firm; in the other, there is a systematic rotation between two firms.
3. **Cost:** we are satisfied that Marta's service is cost-effective: we have surveyed other potential providers and Marta's fees are in line with similar organizations (HARD in particular). The proposal from Marta reflects a 5% increase for FY21-22, and 3.5% increases for FY22-23 and FY23-24 respectively. Annually, these fees will amount to \$32,000, \$33,120, and \$34,280 for the three years under consideration.

About James Marta & Company:

The firm is located in Sacramento and has over 30 years of experience specializing in auditing for California Special Districts and other governmental agencies. There are three Partners and a total of nine staff. Each year James Marta & Company conducts over 100 audits to help clients meet the requirements of state and federal law. From the latest Peer Review of the firm: "In our opinion, the system of quality control for the accounting and auditing practice of James Marta & Company, LLP...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. James Marta & Company, LLP has received a peer review rating of pass."