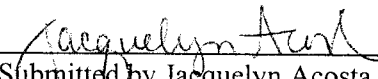


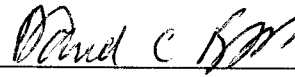


# City of Carson Report to Mayor and City Council

May 7, 2013  
New Business Consent

**SUBJECT: REQUEST FOR APPROVAL TO EXTEND THE PROFESSIONAL SERVICES AGREEMENT WITH VASQUEZ AND COMPANY, LLP FOR ANNUAL AUDITING SERVICES**

  
Submitted by Jacquelyn Acosta  
Director of Administrative Services

  
Approved by David C. Biggs  
City Manager

## **THIS IS A COMPANION AGENDA ITEM**

### **I. SUMMARY**

On July 6, 2010, the City awarded a professional services agreement to the firm of Vasquez and Company, LLP (Vasquez) to provide financial auditing services for the City for the three fiscal years ending June 30, 2010, 2011, and 2012, with the option for two additional fiscal years ending June 30, 2013, and 2014, at the City's discretion. The services for the initial three-year period have been provided. Vasquez has completed the first three annual audits in an exemplary and thorough manner and the City is desirous of having them perform our annual audit for the next two years. Therefore, Council is being asked to approve the extension of the agreement for the two additional fiscal years.

### **II. RECOMMENDATION**

TAKE the following actions:

1. EXTEND the agreement with Vasquez and Company, LLP for the fiscal years ending June 30, 2013, and 2014, in the amounts of and \$52,855.00 and \$54,377.00, respectively.
2. AUTHORIZE the Mayor to sign the audit engagement letter for the fiscal year ending June 30, 2013.

### **III. ALTERNATIVES**

TAKE any other action the City Council deems appropriate.

### **IV. BACKGROUND**

On July 6, 2010, the City Council awarded Vasquez and Company, LLP, a professional auditing firm, the agreement to provide financial auditing services for the years ended June 30, 2010, 2011, and 2012, with the option for two additional years (Exhibit No. 1). This firm is a full service Certified Public Accounting company licensed to practice in the state of California. Founded in 1967, the firm has over 40 years experience specializing in financial and compliance audits for all

types of governmental entities, not-for-profit organizations, privately-held and publicly-traded companies. In accordance with the agreement, it has completed the annual audit of the books of accounts and financial records of the City for the years ended June 30, 2010, 2011, and 2012. In the course of providing its services, this company has enabled the City to be in compliance with the requirements of financial accounting and reporting standards of the Governmental Accounting Standards Board (GASB) such as GASB Statement No. 45, which relates to Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB), and GASB Statement No. 54, which pertains to Fund Balance Reporting and Governmental Fund Type Definitions.

The services of the firm are required for the fiscal years ending June 30, 2013, and June 30, 2014. The costs of these services were incorporated in the original agreement in the amounts of \$47,267.00 and \$49,592.00, respectively. In its letter dated April 26, 2013, the firm, through its Managing Partner, Mr. Gilbert R. Vasquez is proposing to extend the agreement for the two additional years for a fee of \$52,855.00 and \$54,377.00, respectively (Exhibit No. 2). Compared to the original proposal, the new proposed fees represent increases of \$5,588.00, or 11.8%, for the 2013 audit and \$4,785.00, or 9.6%, for 2014. Vasquez provided the following explanations for the fee increases:

1. The original audit proposal anticipated only 550 hours per year. For the last 3 years of the audit services, actual hours ranged from over 700 hours to a high of 826 hours resulting to a very low realization rate of \$90 per hour.
2. The original audit proposal did not account for the additional time required to audit late post-closing adjusting journal entries which were submitted after the trial balance was received from the City - 24 in 2010; 18 in 2011; and 20 in 2012.
3. Using past experience as the basis, the new proposal reflects an estimate of 700 hours that will be incurred for the FY 2012/13 audit because of the extent of the work that they do and the level of detail that is committed to CAFR preparation. While the work hours may have increased, the firm kept the cost low.
4. Additional hours will be required to assist the City in the implementation of GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, which the firm will absorb in the fees requested.

Unlike previous auditors, the fees of Vasquez also included printing the report pages and binding the City's Comprehensive Annual Financial Report (CAFR). Vasquez has also been a valuable resource for City questions regarding accounting and financial reporting - giving sage advice and clear guidance. Furthermore, Vasquez is knowledgeable in the requirements of the provisions of the law

May 7, 2013

governing the dissolution of redevelopment agencies and has assisted the City with the completion of the Due Diligence Reviews for the Carson Successor Agency (CSA) and the Carson Housing Authority (CHA) that were required by the State Department of Finance.

In consideration of the foregoing, staff is recommending the extension of the Vasquez agreement for two additional fiscal years for the provision of financial auditing services for the City. Concurrently presented this evening are the reports of the CSA and CHA which likewise recommend the extension/award of the agreement. The audit engagement letter attached to this report delineates the process and parameters for the June 30, 2013 audit (Exhibit No. 3). Should the City Council approve the two-year agreement extension, a separate engagement letter will be provided by Vasquez prior to the start of the June 30, 2014 audit.

**V. FISCAL IMPACT**

Funds required for the June 30, 2013 component of this agreement have been included in the proposed FY 2013/14 budget of the City. The required funds for the audit services for the 2014/15 fiscal year will be included in that year's budget.

**VI. EXHIBITS**

1. Excerpt of the minutes of City Council meeting held on July 6, 2010. (pg. 4)
2. Audit proposal from Vasquez dated April 26, 2013. (pgs. 5-6)
3. Audit Engagement letter from Vasquez dated April 26, 2013. (pgs. 7-18)

Document 1

Prepared by: Trini H. Catbagan, Finance Officer

TO: Rev 09-04-2012

Reviewed by:

City Clerk	City Treasurer
Administrative Services	Public Works
Community Development	Community Services

**Action taken by City Council**

Date \_\_\_\_\_ Action \_\_\_\_\_

**ITEM NO. (9)      CONSIDERATION OF AWARD OF A PROFESSIONAL SERVICES  
AGREEMENT      FOR      FINANCIAL      AUDITING      SERVICES  
(ADMINISTRATIVE SERVICES)**

**THIS IS A JOINT AGENDA ITEM WITH AGENCY ITEM NO. 4**

Council Item No. 9 / Agency Item No. 4 were heard after the Continued Council Closed Session Report at 9:08 P.M.

RECOMMENDATION for the City Council:

TAKE the following actions:

1.      AWARD a professional services agreement to Vasquez and Company LLP for the provision of financial auditing services for the three (3) fiscal years ending June 30, 2010, 2011 and 2012, in the amounts of \$40,801.00, \$42,840.00, and \$44,982.00, respectively, with the option to extend the agreement for two additional fiscal years, at the city's discretion.
2.      AUTHORIZE the Mayor to sign the professional services agreement after approval as to form by the City Attorney.

ACTION:      It was moved to approve the staff recommendation on motion of Dear, seconded by Santarina and unanimously carried by the following vote:

Ayes:	Mayor/Chairman Dear, Mayor Pro Tem/Vice Chairman Santarina, Council/Agency Member Gipson, Council/Agency Member Davis Holmes, and Council/Agency Member Ruiz-Raber
Noes:	None
Abstain:	None
Absent:	None

**RECESS:**      After Council Item No. 9 / Agency Item No. 4, the City Council was Recessed at 9:10 P.M. by Mayor/Chairman Dear to the Redevelopment Agency for New Business Consent Calendar Item No. 6.



April 26, 2013

To the Honorable Members of City Council  
**City of Carson**  
Carson City Hall  
701 E. Carson Street  
Carson, CA 90745

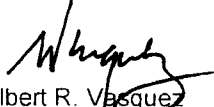
We have completed our agreement to serve as the City of Carson's (City) independent auditor for the three fiscal years ending June 30, 2010 through June 30, 2012. We are pleased to extend the agreement for an additional two years. Our fees to perform the audits of the City for the fiscal years ended June 30, 2013 and 2014 are presented below.

	2013	2014
City Audit	\$ 41,593	\$ 42,500
Single Audit	9,562	10,002
AQMD	1,700	1,875
Successor Agency	9,700	9,900
Housing Authority	2,500	2,550
Total	\$ 65,055	\$ 66,827

Vasquez remains committed to providing the level of service the City has come to expect, even as we strive to exceed our past performance. Our relationship with the City is important to us and your feedback indicates you are satisfied with our work on your current engagement. We trust you will continue to find Vasquez uniquely qualified to serve as the City's auditor. I, Gilbert R. Vasquez, Managing Partner of Vasquez & Company LLP am authorized to negotiate and bind the firm to the terms of the proposal. Should you have any questions or desire further assistance, please contact me at 213-873-1701.

Very truly yours,

VASQUEZ & COMPANY LLP

  
Gilbert R. Vasquez  
Managing Partner

### Explanation of Audit Fees

#### City Audit

1. The original audit proposal anticipated 550 hours per year. For the last three years the audit services actual hours ranged from 700 hours to a high of 826 hours resulting in a rate per hour of \$90.
2. The original audit proposal did not account for additional time required to audit late post-closing journal entries which were submitted after the trial balance was received from the City – 24 in 2010; 18 in 2011; and 20 in 2012.
3. Using past experience as the basis, the new proposal reflects an estimate of 700 hours that will be incurred for the 2012-13 audit because of the extent of the work that we do and the level of detail that is committed to CAFR preparation. While the work hours may have increased the firm kept the cost low.
4. Additional hours will be required to assist the City in the implementation of GASB 63 which the firm will absorb in the fees requested.

#### Redevelopment/Successor Agency Audit

With respect to the redevelopment agency, while the original agency was dissolved in January, we still expect to incur significant hours because the successor agency will be included within the scope of the annual audit and presented as a separate private purpose trust fund. We will continue to be required to do the following:

- Audit existing short and long-term debt transactions, cash and investments, payments of payables, collection of receivables, any continuing construction activity occurring as a result of construction contract commitments in place, and all other fiscal year 2012-2013 transactions.
- Audit final Agency asset, liability and net asset balances in accordance with liquidation accounting as applicable to a discontinued entity.
- Assist with the preparation of appropriate disclosures consistent with the status of the dissolved redevelopment agencies and state legislation then in effect.
- Audit compliance with pertinent legal and regulatory provisions in accordance with the compliance auditing requirements of generally accepted governmental auditing standards.
- Audit the restricted assets (bond proceeds, etc.) of the former Agency to ensure they are spent on allowable projects.

For your reference, set forth below is a copy of the fees as set forth in the Original Cost Proposal:

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
City	\$ 31,029	\$ 32,580	\$ 34,209	\$ 35,919	\$ 37,715
Agency	4,200	4,410	4,631	4,862	5,105
Single Audit	8,229	8,640	9,072	9,562	10,002
Air Quality Fund	1,542	1,620	1,701	1,786	1,876
	<u>\$ 45,000</u>	<u>\$ 47,250</u>	<u>\$ 49,613</u>	<u>\$ 52,129</u>	<u>\$ 54,698</u>

April 26, 2013

To the Honorable Mayor and Members of the City Council  
**City of Carson**  
Carson City Hall  
701 E. Carson Street  
Carson, CA 90745

We are pleased to confirm our understanding of the services we are to provide City of Carson (City) for the year ended June 30, 2013. We will audit the City's basic financial statements as of and for the year ended June 30, 2013. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis (MD&A)
- 2) Budgetary Comparison Schedules
- 3) Required Supplementary Information

We have also been engaged to report on supplementary information other than RSI which accompanies 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole:

- 1) Schedule of Expenditures of Federal Awards
- 2) Combining nonmajor fund financial statements

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditors' report will not provide an opinion or any assurance.

- Schedule of Funding Progress for PERS and OPEB
- Statistical Section



### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance and with OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to







acknowledge in the management representation letter our assistance with the preparation of the financial statements and the schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate a management-level individual with suitable skill, knowledge, or experience to oversee the bookkeeping, tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present the supplementary information with the audited financial statements or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.



With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your 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.

#### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, funding sources, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures—Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance 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 major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.



An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and OMB Circular A-133.

#### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of test of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. 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 OMB Circular A-133.

#### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail transmission. As e-mails may be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that e-mails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of e-mail transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure or communication of confidential or proprietary information.

#### **Ownership of Audit Documentation**

The audit documentation for this engagement is the property of Vasquez & Company LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a Cognizant or Oversight Agency for Audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Vasquez & Company LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the Cognizant Agency, Oversight Agency for Audit, or Pass-through Entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.





### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us immediately prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

### **Dispute Resolution Procedure**

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in the City in which the Vasquez & Company, LLP office providing the majority of services involved exists, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In



rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

#### **Audit Administration, Fees, and Other**

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Cristy Canieda is the engagement partner and is responsible for supervising the engagement. Gilbert Vasquez is responsible for signing the audit report.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the City; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. We will provide information to management as to where the reporting packages should be submitted and the number to submit.

We expect to begin our audit on approximately May 2013 to perform early test of controls and to issue our reports no later than December 2013. Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Our fees for the services outlined in this engagement letter are based on our estimates of the time needed to complete the project at our standard hourly rates. You acknowledge that any fee



estimates we have furnished are only our good faith estimates based on our understanding of the engagement assumptions and the facts and circumstances we are aware of at this time. If the bases of our estimates are inaccurate, the fees and expenses may be different from those we each anticipate. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. The fees are based on anticipated cooperation from your personnel and the assumption that unexpected circumstances (Exhibit I) will not be encountered during the audit. We anticipate the annual fee for the fiscal year 2013 to be as follows:

	2013
City Audit	\$ 41,593
Single Audit	9,562
AQMD	1,700
Successor Agency	9,700
Housing Authority	2,500
Total	\$ 65,055

Our fees are based on the determination of two (2) major programs subject to the Single Audit Act Amendments of 1996 and OMB Circular A-133. Should we determine that additional programs are required for audit, we will discuss this with you in advance of performing the additional work.

Our invoices for these fees will be rendered in accordance with the terms set forth in our contract 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 will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notice of termination, even if we have not issued a report. You will be obliged to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. Invoices aged over thirty days may be subject to a 10% late charge.

Should any litigation or adverse action (such as audits by outside organizations and/or threatened litigation, etc.), by third parties arise against the City of Carson or its officers subsequent to this engagement, which results in the subpoena of documents from Vasquez & Company and/or requires additional assistance from us to provide information, depositions or testimony, City of Carson hereby agrees to compensate Vasquez & Company (at our standard hourly rates) for additional time charges and other costs (copies, travel, etc.), and to indemnify us for any attorney's fees to represent Vasquez & Company.

#### **Engagement Assumptions**

The Proposed Cost Schedule assumes the following:

1. Staff and management availability to answer questions within the agreed timeframe;
2. Audit fieldwork procedures conducted at a centralized location;
3. No instances of fraud that will require additional procedures;
4. All information requested provided within agreed timeframe;
5. Information provided is complete and correct.

#### **Other Services**

We are always available to meet with you and/or other executives at various times throughout the year to discuss current business, operations, accounting, and auditing matters affecting



City of Carson  
April 26, 2013  
Page 9

the City. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you the scope of the additional services and estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2010 peer review report follows as Exhibit II to this engagement letter.

Section 5063(b)(1) of the California Accountancy Act requires us to report to the California Board of Accountancy, within 30 days of the date that we have knowledge of any restatement of a financial statement and related disclosures by an audit client.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Very truly yours,

VASQUEZ & COMPANY LLP

Roger A. Martinez  
Partner

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RESPONSE:

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

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Mayor Jim Dear

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Date



## EXHIBIT I – Examples of Unexpected Circumstances

### Incorrect accounting applications or errors in your records

We generally form our fee estimates on the expectations that your accounting records are in good order so that our work can be completed based upon our normal testing and other procedures. However, should we find numerous errors, incomplete records or disorganized bookkeeping methods, we will have to do additional work to determine that the necessary corrections have been made and properly reflected in the financial statements.

### Lack of audit facilitation or timely preparation

To minimize your costs, we plan the means by which your personnel can facilitate the audit (e.g. what schedules they will prepare, how to prepare them, the supporting documents that need to be provided, etc). We also discuss matter such as availability of your key personnel, deadlines and working conditions. Indeed, the information concerning these matters that you furnish to us is a key element in our fee quotation. Therefore, if your personnel are unable, for whatever reason, to provide these materials on a timely basis, it may substantially increase the work we must do to complete the engagement within the established deadlines. Moreover, in some circumstances this may require a staff withdrawal, as discussed in the following paragraph.

### Staff withdrawal

A staff withdrawal consists of our removing one or all staff because the condition of your records or the inability of your personnel to provide agreed upon materials within the established timetable makes it impossible for us to perform our work in a timely, efficient manner, as established by our engagement plan. Sometimes, a complete staff withdrawal is necessary to permit an orderly audit approach. A staff withdrawal is not necessarily an adverse reflection on your personnel. However, it involves additional costs, as we must reschedule our personnel; incur additional start-up costs, etc., to prevent total engagement costs from increasing significantly.

### Unforeseen events

Even though we communicate frequently with clients and plan our engagement with management and their staff, unforeseen events can occur. Examples include accounting problems, litigation, changes in your business or business environment, contractual or other difficulties with suppliers, third-party service providers, or customers, etc. When those circumstances occur, additional time is needed to provide you with assistance and complete our engagement in accordance with professional standards.

Again, we emphasize that we strive to give you optimum value for our professional services. Fee quotations are provided based upon the facts and circumstances that you describe to us. However, unlike the sale of products, the performance of professional services is affected by many variables, such as the foregoing, which may cause fee estimates to change.

We want you to receive the maximum value for our professional services and to perceive that our fees are reasonable and fair we therefore commit to inform you in advance of any need to revisit fee estimates.





EXHIBIT II – Peer Review Report



AICPA Peer Review Program  
Administered by the  
National Peer Review Committee

October 29, 2010

Gilbert R. Vasquez, CPA  
Vasquez & Company, LLP  
801 S Grand Ave Ste 400  
Los Angeles, CA 90017

Dear Mr. Vasquez:

It is my pleasure to notify you that on October 20, 2010 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is June 30, 2013. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

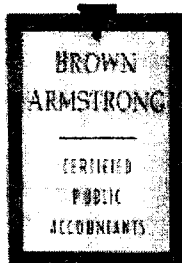
Robert Rohweder  
Chair—National PRC  
nprc@aicpa.org 919 402-4502

cc: Burton Armstrong, CPA

Firm Number: 10138115 Review Number: 305778



Peter C. Brown, CPA  
 Burton H. Armstrong, CPA, MST  
 Andrew J. Paulden, CPA  
 Steven R. Starbuck, CPA  
 Chris M. Thornburgh, CPA  
 Eric H. Xie, CPA, MBA  
 Richard L. Halle, CPA, MST  
 Aileen K. Keener, CPA



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## SYSTEM REVIEW REPORT

July 13, 2010

To the Partners  
 Vasquez & Company, LLP  
 and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Vasquez & Company, LLP (the firm) applicable to non-SEC issuers in effect for the year ended December 31, 2009. 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. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Vasquez & Company, LLP applicable to non-SEC issuers in effect for the year ended December 31, 2009, 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 deficiencies*, or *fail*. Vasquez & Company, LLP has received a peer review rating of *pass*.

BROWN ARMSTRONG  
 ACCOUNTANCY CORPORATION

By: Burton H. Armstrong