

Patrick Jones  
County Member

Janice Powell  
City Member

Tim Garman  
County Member

Tenessa Audette  
City Member

Mary Rickert  
County Member Alternate

Stan Neutze  
City Member Alternate



Fred Ryness  
Special District Member

Larry Russell  
Public Member

Ronnean Lund  
Special District Member

Michael Spencer  
Public Member Alternate

Rosemary Smith  
Special District Alternate

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## AGENDA ITEM 9.B.

**Date:** June 6, 2024

**From:** George Williamson, Senior Advisor

**Subject:** **FY 2023-24 Audit Contract**

A professional auditing service contract has been prepared between Shasta LAFCO and O'Connor & Company for FY 2023-24.

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### BACKGROUND

Shasta LAFCO banks independently from Shasta County with US Bank. While audits are not required for LAFCOs, the Commission has chosen to conduct regular financial audits to provide transparency. These are conducted in accordance with U.S. generally accepted accounting principles (GAAP) to obtain reasonable assurance that the Commission's financial statements are free of material misstatement and are fairly presented. The last audit conducted for LAFCO was for FY 2016-17.

### DISCUSSION

At the April 8, 2024, meeting, the Commission accepted a proposal provided by O'Connor & Company based in Novato, CA, to provide professional audit services for FY 2023-24 and directed staff to prepare a draft professional services agreement for review and approval at the next Commission meeting.

O'Connor & Company will provide professional auditing services for Shasta LAFCO FY 2023-24 for an amount not to exceed \$12,500. Services shall begin on June 10<sup>th</sup>, 2024, and be completed by January 31, 2025. A draft professional services agreement has been prepared that was sent to the Executive Committee for review prior to full Commission review.

### RECOMMENDATION

Staff recommends the Commission approve the attached contract for O'Connor & Company professional auditing services covering FY 2023-24. Alternatively, the Commission may ask for revisions and continue the matter to the next Regular Commission meeting.

*"I move to approve the contract with O'Conner & Company for professional auditing services covering FY 2023-24 as presented in Attachment A of the staff report."*

### Attachments

Attachment A - Draft O'Connor & Company Professional Auditing Services Contract

**-DRAFT-**  
**PROFESSIONAL SERVICES AGREEMENT**  
**BETWEEN**  
**SHASTA LOCAL AGENCY FORMATION COMMISSION**  
**AND**  
**O'CONNOR & COMPANY**

This letter shall be our Agreement (“Letter Agreement”) regarding Professional Auditing Services described below (“Services”) to be provided by O’Connor & Company (“Consultant”) as an independent contractor to the Shasta Local Agency Formation Commission (the “Commission”) for the Commission’s FY 2023-24 Audit (“Project”). Consultant is retained as independent contractor and is not an employee of the Commission. Commission and Consultant are sometimes referred to herein as “Party” or “Parties.”

The Services to be provided are as described in **EXHIBIT A**. Services shall begin June 10<sup>th</sup>, 2024 and shall be completed by January 31, 2025, unless extended by the Commission in writing.

Consultant shall perform all Services under this Letter Agreement in a skillful and competent manner, consistent with the standards generally recognized as being employed by professionals in the same discipline in the State of California, and consistent with all applicable laws. Consultant represents that it, its employees and subcontractors have all licenses, permits, qualifications and approvals of whatever nature that are legally required to perform the Services, including any required business license, and that such licenses and approvals shall be maintained throughout the term of this Letter Agreement.

Consultant has represented to the Commission that certain key personnel will perform and coordinate the Services under this Letter Agreement. Should one or more of such personnel become unavailable, Consultant may substitute other personnel of equal competence upon written approval of the Commission. In the event that the Commission and Consultant cannot agree as to the substitution of key personnel, the Commission shall be entitled to terminate this Letter Agreement for cause. The key personnel for performance of this Letter Agreement are as follows:

- Michael A. O’Connor, CPS, Director
- June Nguyen, CPA, Auditor
- Ian McGraw, CPA, Auditor
- Matt Mingram, Auditor
- Ralph J. Ricciardi, CPA

Compensation shall be based on the actual amount of time spent in adequately performing the Services and shall be billed at the hourly rate(s) described in the Consultant’s cost proposal, attached hereto as **Exhibit B** and incorporated herein by reference. The total compensation shall not exceed \$12,500 without written approval of the Executive Officer. Consultant’s invoices shall include a detailed description of the Services performed. Invoices shall be submitted to the Commission on a monthly basis as performance of the Services progresses. The Executive Officer shall review and pay the approved charges on such invoices in a timely manner.

Insurance Requirements

Consultant shall provide proof of:

- A. Commercial General Liability Insurance, of at least \$1,000,000 per occurrence/ \$2,000,000 aggregate for bodily injury, personal injury and property damage, at least as broad as Insurance Services Office Commercial General Liability most recent Occurrence Form CG 00 01;
- B. Automobile Liability Insurance for bodily injury and property damage including coverage for owned, non-owned and hired vehicles, of at least \$1,000,000 per occurrence for bodily injury and property damage,

at least as broad as most recent Insurance Services Office Form Number CA 00 01 covering automobile liability, Code 1 (any auto);

- C. Workers' Compensation in compliance with applicable statutory requirements and Employer's Liability Coverage of at least \$1,000,000 per occurrence; and
- D. Professional Liability (Errors and Omissions) Insurance of at least \$1,000,000. Insurance carriers shall be licensed to do business in California and maintain an agent for process within the state.

Such insurance carriers shall have not less than an "A-:VII" rating according to the latest Best Key Rating unless otherwise approved by the Commission. The Commission, its officials, officers, employees, agents, and authorized volunteers shall be named as Additional Insureds on Consultant's policies of Commercial General Liability and Automobile Liability insurance and such coverage provided to the Commission as an Additional Insured shall apply on a primary and non-contributory basis. Waiver of subrogation endorsements in favor of the Commission shall be provided on Consultant's policies of Commercial General Liability, Automobile Liability and Workers' Compensation/Employer's Liability insurance.

#### Termination of Agreement

The Commission may terminate this Letter Agreement at any time with or without cause. If the Commission finds it necessary to terminate this Letter Agreement without cause before Project completion, Consultant shall be entitled to be paid in full for those Services adequately completed prior to the notification of termination. Consultant may terminate this Letter Agreement only upon 30 calendar days' written notice to the Commission and only in the event of the Commission's failure to perform in accordance with the terms of this Letter Agreement through no fault of Consultant.

#### Indemnification

To the fullest extent permitted by law, Consultant shall defend (with counsel of Commission's choosing), indemnify and hold the Commission, its officials, officers, employees, volunteers, and agents free and harmless from any and all claims, demands, causes of action, costs, expenses, liability, loss, damage or injury of any kind, in law or equity, to property or persons, including wrongful death, in any manner arising out of, pertaining to, or incident to any acts, errors or omissions, or willful misconduct of Consultant, its officials, officers, employees, subcontractors, consultants or agents in connection with the performance of the Consultant's services, the Project or this Letter Agreement, including without limitation the payment of all damages, expert witness fees and attorney's fees and other related costs and expenses. Consultant's obligation to indemnify shall not be restricted to insurance proceeds, if any, received by Consultant, the Commission, its officials, officers, employees, agents, or volunteers.

#### State and Federal Employment Laws

By executing this Letter Agreement, Consultant verifies that it fully complies with all requirements and restrictions of state and federal law respecting the employment of undocumented aliens, including, but not limited to, the Immigration Reform and Control Act of 1986, as may be amended from time to time. Consultant shall maintain records of its compliance, including its verification of each employee, and shall make them available to the Commission or its representatives for inspection and copy at any time during normal business hours. The Commission shall not be responsible for any costs or expenses related to Consultant's compliance with the requirements. To the same extent and under the same conditions as Consultant, Consultant shall require all of its subcontractors, sub-subcontractors and consultants performing any work relating to the Project or this Letter Agreement to make the same verifications and comply with all requirements and restrictions provided herein. Consultant's failure to comply or any material misrepresentations or omissions relating thereto shall be grounds for terminating this Letter Agreement for cause.

By its signature hereunder, Consultant certifies that it is aware of the provisions of Section 3700 of the California Labor Code which require every employer to be insured against liability for Workers' Compensation or to

undertake self-insurance in accordance with the provisions of that Code, and agrees to comply with such provisions before commencing the performance of the Services. Finally, Consultant represents that it is an equal opportunity employer and it shall not discriminate against any subcontractor, employee or applicant for employment in violation of state or federal law. As provided for in the indemnity obligations of this Letter Agreement, Consultant shall indemnify Commission against any alleged violations of this paragraph, including, but not limited to, any fines or penalties imposed by any governmental agency.

#### Process for Dispute

This Letter Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Letter Agreement, the action shall be brought in a state or federal court situated in Shasta County, State of California. In addition to any and all contract requirements pertaining to notices of and requests for compensation or payment for extra work, disputed work, claims and/or changed conditions, Consultant must comply with the claim procedures set forth in Government Code sections 900 et seq. prior to filing any lawsuit against the Commission. Such Government Code claims and any subsequent lawsuit based upon the Government Code claims shall be limited to those matters that remain unresolved after all procedures pertaining to extra work, disputed work, claims, and/or changed conditions have been followed by Consultant. If no such Government Code claim is submitted, or if any prerequisite contractual requirements are not otherwise satisfied as specified herein, Consultant shall be barred from bringing and maintaining a valid lawsuit against the Commission.

#### Modification of Agreement

Consultant shall not assign, sublet, or transfer this Letter Agreement or any rights under or interest in this Letter Agreement without the written consent of the Commission, which may be withheld for any reason. This Letter Agreement may not be modified or altered except in writing signed by both parties. Except to the extent expressly provided for in the termination paragraph, there are no intended third party beneficiaries of any right or obligation of the Parties.

This is an integrated Letter Agreement representing the entire understanding of the parties as to those matters contained herein, and supersedes and cancels any prior oral or written understanding or representations with respect to matters covered hereunder. Since the Parties or their agents have participated fully in the preparation of this Letter Agreement, the language of this Letter Agreement shall be construed simply, according to its fair meaning, and not strictly for or against any Party. The captions of the various paragraphs are for convenience and ease of reference only, and do not define, limit, augment, or describe the scope, content or intent of this Letter Agreement.

Consultant warrants that the individual who has signed this Letter Agreement has the legal power, right and authority to make this Letter Agreement and bind the Consultant hereto. If you agree with the terms of this Letter Agreement, please indicate by signing and dating where indicated below.

**Shasta LAFCO**

*Approved By:*

\_\_\_\_\_  
Krystle Heaney, AICP  
Executive Officer

Date:

\_\_\_\_\_

*Attested By:*

\_\_\_\_\_  
James Underwood, General Counsel  
Shasta LAFCO

**O'Connor & Company**

*Approved By:*

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name and Title

Date:

\_\_\_\_\_

## Approach to the Examination

### Audit Objective

The objective of the work to be performed under the agreement will be the examination and expression of an opinion on Shasta Local Agency Formation Commission's financial statements for the year ending June 30, 2023.

We will also assist in preparation and review of year-end closing entries and adjustments. Such an examination is subject to the inherent risk that errors or irregularities may not be detected. If conditions are discovered which lead to the belief that material errors, defalcations, or other irregularities may exist, or if any other circumstances are encountered which require extended services, we will promptly advise the requester. Finally, no extended services will be performed unless they are authorized in the contractual agreement or in an amendment to the agreement. The examination will be performed in accordance with U.S. generally accepted auditing standards and will include auditing procedures to ensure that all laws and regulations have been complied with during the fiscal year. In addition, the examination will be performed in accordance with the provisions of: (1) *Standards for Audits of Governmental Organizations, Programs, Activities, and Functions* promulgated by the Comptroller General of the United States, which pertain to financial and compliance audits; and (2) *State of California Controller's Minimum Audit Requirements and Reporting Guidelines for Special Districts*.

### Work Plan

Advance planning is the key to any successful engagement. In relation to other firms involved in audits, we believe we provide for a higher proportion of director's time in planning the engagement. With careful and extensive planning, we tailor our audit program to fit the unique aspects of each client. Through this means, we are able to better target our audit work, get to the core of accounting issues and systems, and thus provide more meaningful information to our clients.

The first step in the planning process is the preparation of a time line and work plan by significant segments. This schedule appears subsequently, encompassing the time period from November through March. Upon award of the engagement, we solicit additional input from the client and preliminarily evaluate and become familiar with their accounting system. We then revise the work plan to include details and specifics to "map out" our approach to the audit. The refinement of the work plan is, however, a continual process which occurs throughout the audit.

An integral part of preliminary planning is the assignment of staff best qualified to work on the particular engagement. We foresee, in the course of the audit, a substantial amount of director's time spent on on-site supervision. These factors, combined with communication with Shasta Local Agency Formation Commission, will facilitate the inclusion of new ideas and experience into the initial work plan.

Ultimately, this process leads to a quality audit that is performed in a timely and efficient manner.

# Proposed Segmentation of the Audit Engagement

## 1. Planning

- Gain an understanding of Shasta Local Agency Formation Commission's controls
- Test controls noted above
- Inquire about fraud and related risks
- Assess fraud risk
- Review and obtain risk management policies
- Discuss with management and document control environment
- Send confirmations
- Document other inquiries (contingencies and related party and subsequent events)
- Discuss observations with management

## 2. Year-End Testing

- Perform analytical review and inquire about fluctuations
- Perform year-end audit tests on Shasta Local Agency Formation Commission's accounts
- Exit conference and communicate audit adjustments

## 3. Presentation and Disclosure

- Review Financial Statements and complete GFOA checklist
- Communicate changes to Management
- Prepare Management report and send draft
- Final Management/Director review Report issuance

# Shasta Local Agency Formation Commission

Year Ending June 30, 2023

## Work Plan by Significant Segments

	Nov	Dec-Jan	Feb-Mar	Hours
<b>Planning</b>				
Meet with client to discuss current year issues and audit work plan	x			2
Consult with management regarding internal control, computer and financial reporting. Review Shasta Local Agency Formation Commission's organizational chart, current year audit objectives of Shasta Local Agency Formation Commission, current litigation regarding Shasta Local Agency Formation Commission, new Federal, State and local legislation affecting Shasta Local Agency Formation Commission, material subsequent events, and review of prior year reports and findings.	x			8
Conduct Fraud Risk Assessment.	x			1
<b>Compliance</b>				
Document and evaluate significant accounting systems.	x			2
Perform all necessary compliance testing of Shasta Local Agency Formation Commission using various checklists to cover the following areas: Petty cash, investments, cash, minutes, contracts, ordinances, revenue, receivables, service revenue, expenditures, accounts payable, payroll and related liabilities, inventories, property, equipment and capital expenditures, grants, single audit compliance and other pertinent areas.	x			8
Discuss interim findings with management.	x			1
<b>Financial</b>				
Perform year-end substantive testing including using tailored audit programs to test year end account balances, third party confirmations, verify material balances, Shasta Local Agency Formation Commission compliance with its budget and additional compliance testing as needed.		x		40
Exit conference and discuss findings with management.		x		1
Prepare Draft Audit Reports and Financial Statements for Shasta Local Agency Formation Commission.		x	x	25
Complete/issue Financial Reports and Management Letter.		x	x	2
<b>Total Estimated Hours</b>				<b>90</b>



### **Computer Assisted Auditing Techniques**

We use Prosystems Fx Engagement auditing software, Microsoft Excel and Word, and Adobe Acrobat to prepare reports and to assist us with managing the trial balances, audits and creating reports. We use judgmental sampling not software to choose audit samples. Audit samples will be chosen judgmentally and haphazardly. The purpose of the test of compliance will be to meet single audit compliance requirements. Also to detect any weaknesses in the internal control system, risk of fraud, and material differences with account balances. We prefer to receive as much information as possible in an electronic format and provide a secure FTP site, if the client prefers not to use email.

### **Approach to Internal Control Structure**

Audit staff will send Shasta Local Agency Formation Commission an internal control questionnaire. The Audit Director will discuss with Shasta Local Agency Formation Commission's staff the answers to the internal control questionnaire. The Director will type up the narrative on the various Shasta Local Agency Formation Commission internal control cycles. Shasta Local Agency Formation Commission's staff will review and make any changes to the narrative. The audit staff will then test the internal controls of the Shasta Local Agency Formation Commission as noted in the narrative. Any findings or weaknesses will be discussed immediately with Shasta Local Agency Formation Commission's staff and Alameda LAFCO will have an opportunity to respond.

### **Approach to Determining Laws and Regulations Subject to Audit Test Work**

Review of government grant contracts and related laws and regulations, transportation development act Shasta Local Agency Formation Commission, other laws and regulations and other areas of human resources GAAP, state and local government code, and any other applicable laws and regulations. Legal confirmations will be sent to attorneys Shasta Local Agency Formation Commission does business with during the fiscal year.

### **Identification of Anticipated Potential Audit Problems**

We do not foresee any at this time. However, we are happy to assist Shasta Local Agency Formation Commission should any arise during the course of the audit.

### **New Accounting Laws and Principles**

We will notify Shasta Local Agency Formation Commission of any impending changes that will affect the audit, and assist them with implementation if necessary.

### **IT Controls Audit Procedures**

- 1) Inquire about system controls;
- 2) Walk through system controls;
- 3) Review data input and reports generated;
- 4) Review approval of transactions and related reports; and
- 5) Observe Shasta Local Agency Formation Commission staff's use of hardware and software.

October 27, 2023

George Williamson, Executive Officer  
Shasta Local Agency Formation Commission  
999 Mission Del Oro Drive, Suite 106  
Redding, CA 96003  
Email: [eo@shastalaftco.org](mailto:eo@shastalaftco.org)

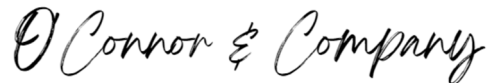
Dear George Williamson:

We understand the importance of price in the decision you are now making, and have based our fee on our best estimates of time and out-of-pocket expenses.

Our estimate assumes that Shasta Local Agency Formation Commission's personnel will provide us with all information we request in our Client Participation List, in the format requested, and send it to us 30 days prior to scheduling the audit field work. If you have insufficient personnel or time to prepare these items, we can assist you in this area and we will discuss with you the additional time required and estimated fee for these services.

We believe that our proposal fee is both reasonable and fair. We are prepared to discuss it further with you should you have any concern in this area.

Sincerely,



O'Connor & Company

**Attachments (2)**

- Attachment A: Audit Work Cost Proposal
- Attachment B: Hourly Rates and Maximum Fee

Shasta Local Agency Formation Commission  
RFP for Auditing Services – Proposed Fees

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## ATTACHMENT A

**Audit Cost Proposal**

	<u>Hours</u>	<u>Rates</u>	<u>Estimated amount</u>
Director	20	\$ 200	\$ 4,000
Audit Director/Reviewer	2	150	300
Audit Supervisor	44	120	5,280
Senior Accountant	16	100	1,600
Admin	<u>8</u>	<u>100</u>	<u>800</u>
	90		11,980
Travel, out-of-pocket expenses, etc.			<u>520</u>
			<u>Estimated Audit Fees for June 30, 2023</u> <u>\$ 12,500</u>

*\*Expenses and incidentals, such as mileage and travel are charged each month with billing that includes the total for all services and expenses. These costs are included in the total audit fees.*

ATTACHMENT B

**Our Hourly Rates and Maximum  
Fee to Perform this Engagement**

The audit fees assume reasonable access to O'Connor & Company professional staff at no additional cost throughout the fiscal year. This includes time that we may spend answering technical questions related to the audit. The fees contemplate that the books will be closed and ready for audit, that substantially all adjusting entries will be made by Shasta Local Agency Formation Commission staff prior to the start of final fieldwork, which Shasta Local Agency Formation Commission staff will provide supporting schedules and reconciliations for all significant asset and liability balances.

If additional time is needed for us to assist Shasta Local Agency Formation Commission in the resolution or investigation of accounting errors, discrepancies, or reconciliation issues, assistance in the preparation of year end schedules, to research accounting questions unrelated to the audit, or to reflect in our work papers entries made after the start of the audit, we will perform such additional work at our standard hourly rates.

If there is a matter that is outside the scope of the audit which takes up more than an hour of time or possibly requires research on our part, we will inform Shasta Local Agency Formation Commission and come to an agreement about additional costs, prior to billing outside the scope of the audit for special accounting work we may perform.