

**AGREEMENT WITH CLIFTONLARSONALLEN LLP TO PROVIDE  
PROFESSIONAL AUDITING SERVICES**

THIS AGREEMENT is made and entered into on this 4th day of May, 2021, by and between CliftonLarsonAllen, LLP, a Minnesota limited liability partnership ("Auditor"), and the City of Santa Ana, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California ("City").

**RECITALS**

- A. On February 22, 2021, the City issued Request for Proposal No. 21-024 ("RFP"), by which it sought an Auditor to perform Annual Independent Audits of the City's financial statements and records.
- B. Auditor submitted a timely and responsive proposal that was selected by the City. Auditor represents that it is recognized as a competent and qualified certified public accountant ("CPA"), licensed by the California State Board of Accountancy, and is able and willing to provide the services described in the scope of work that was included in the RFP, which shall be incorporated by reference as though attached hereto.
- C. In undertaking the performance of this Agreement, Auditor represents that it is knowledgeable in its field and that any services performed by Auditor under this Agreement will be performed in compliance with such standards as may reasonably be expected from a professional consulting firm in the field.

**NOW THEREFORE**, in consideration of the mutual and respective promises, and subject to the terms and conditions hereinafter set forth, the parties agree as follows:

**1. SCOPE OF SERVICES**

AUDITOR shall perform its Annual Independent Audit for the two fiscal years ending June 30, 2021 through June 30, 2022 fiscal years, as detailed in Exhibit A, and as set forth in City's RFP, and Auditor's proposal, incorporated by reference as though fully attached hereto. Said services shall be performed in accordance with the process set forth in Auditor's Proposal. The Executive Director of Finance and Management for the City can request that Auditor provide other auditing services upon request in lieu of the two agreed upon procedure reviews identified in Exhibit B.

**2. REPRESENTATIVES**

For purposes of implementing this Agreement, the representative of City shall be the Executive Director of the Finance and Management Services Agency, or her or his designated representative, and the representative of the Auditor shall be Daphnie Munoz, CPA Engagement Partner. Except as may be otherwise stated herein, such representatives shall have the authority to act on behalf of their respective parties in carrying out the terms of this Agreement.

### **3. DELIVERY OF WORK PRODUCT – OWNERSHIP**

Auditor warrants and represents that it has the absolute right to enter into and perform this Agreement and will perform its obligations hereunder in accordance with standards and practices prevailing in the industry. Auditor's contribution to the Project, including works to be produced by Auditor hereunder, will not infringe or misappropriate the proprietary or personal rights of any third person or party. Auditor shall deliver to City any work product which results from the services provided. Said work product shall be submitted in hard copy and produced in a form compatible with City's information systems, as agreed between the Project Manager and Auditor.

In regard to all material produced as a deliverable under this Agreement, including but not limited to records, papers, drawings, specifications, programs, systems and other materials prepared by Auditor, Auditor agrees, for itself and its affected officers, employees, agents, contractors, and volunteer workers, that (a) other such material shall be the property of the City, and may not be copyrighted without prior review from the City, and (b) the authors of all such material, whether copyrighted or not, award to the City, and to its officers, agents and employees acting within the scope of their official duties, as a condition of payment to the Auditor, a royalty-free, nonexclusive, irrevocable license throughout the world for governmental purposes to disclose, publish, translate, reproduce, and use such materials.

### **4. COMPENSATION**

- a. City agrees to pay, and Auditor agrees to accept as total payment for its services for City, the rates and charges identified in Exhibit B. The total amount to be expended under this Agreement shall not exceed \$759,245 during the term of this Agreement, including any extension periods.
- b. Payments to Auditor shall be made within forty-five (45) days after receipt by City of invoices from Auditor, which shall be rendered not more often than monthly. Special examinations, surveys, or detailed reports of any nature outside the scope of this Agreement shall be billed separately by Auditor and must be specifically authorized in writing by City in advance of such additional services proposed to be provided. Payment need not be made for work which fails to meet the standards of performance set forth in the Recitals which may reasonably be expected by City.

### **5. TERM**

The term of this Agreement shall be for a period of two (2) consecutive years, beginning with the fiscal year ending June 30, 2021 and June 30, 2022. CITY shall retain an option in its sole discretion to extend auditing services for one additional two-year period, exercisable by the City Manager, for the fiscal year ending June 30, 2023 and June 30, 2024, subject to nonsubstantive changes approved by the City Manager and City Attorney.

## **6. INDEPENDENT CONTRACTOR**

Auditor shall, during the entire term of this Agreement, be construed to be an independent contractor and not an employee of the City. This Agreement is not intended nor shall it be construed to create an employer-employee relationship, a joint venture relationship, or to allow the City to exercise discretion or control over the professional manner in which Auditor performs the services which are the subject matter of this Agreement; however, the services to be provided by Auditor shall be provided in a manner consistent with all applicable standards and regulations governing such services. Auditor shall pay all salaries and wages, employer's social security taxes, unemployment insurance and similar taxes relating to employees and shall be responsible for all applicable withholding taxes.

## **7. INSURANCE**

Prior to undertaking performance of work under this Agreement, Auditor shall maintain and shall require its subcontractors, if any, to obtain and maintain insurance as described below:

- a. **Commercial General Liability Insurance.** Auditor shall maintain commercial general liability insurance naming the City, its officers, employees, agents, volunteers and representatives as additional insured(s) and shall include, but not be limited to protection against claims arising from bodily and personal injury, including death resulting therefrom and damage to property, resulting from any act or occurrence arising out of Auditor's operations in the performance of this Agreement, including, without limitation, acts involving vehicles. The amounts of insurance shall be not less than the following: single limit coverage applying to bodily and personal injury, including death resulting therefrom, and property damage, in the total amount of \$1,000,000 per occurrence, with \$2,000,000 in the aggregate. Such insurance shall (a) name the City, its officers, employees, agents, and representatives as additional insured(s); (b) be primary and not contributory with respect to insurance or self-insurance programs maintained by the City; and (c) contain standard separation of insureds provisions.
- b. **Business automobile liability insurance,** or equivalent form, with a combined single limit of not less than \$1,000,000 per occurrence. Such insurance shall include coverage for owned, hired and non-owned automobiles.
- c. **Worker's Compensation Insurance.** In accordance with the provisions of Section 3700 of the Labor Code, Auditor, if Auditor has any employees, is required to be insured against liability for worker's compensation or to undertake self-insurance. Prior to commencing the performance of the work under this Agreement, Auditor agrees to obtain and maintain any employer's liability insurance with limits not less than \$1,000,000 per accident.
- d. If Auditor is or employs a licensed professional such as an architect or engineer: Professional liability (errors and omissions) insurance, with a combined single limit of not less than \$1,000,000 per claim with \$2,000,000 in the aggregate.
- e. The following requirements apply to the insurance to be provided by Auditor pursuant to this section:

- i. Auditor shall maintain all insurance required above in full force and effect for the entire period covered by this Agreement.
  - ii. Certificates of insurance shall be furnished to the City upon execution of this Agreement and shall be approved by the City.
  - iii. Certificates and policies shall state that the policies shall not be canceled or reduced in coverage or changed in any other material aspect without thirty (30) days prior written notice to the City.
  - iv. Where the amounts or coverage provided by the certificates of insurance provides coverage greater than those listed by this Agreement, the amounts provided by the certificates of insurance shall be incorporated by reference into the Agreement.
  - v. Auditor shall supply City with a fully executed additional insured endorsement.
- f. If Auditor fails or refuses to produce or maintain the insurance required by this section or fails or refuses to furnish the City with required proof that insurance has been procured and is in force and paid for, the City shall have the right, at the City's election, to forthwith terminate this Agreement. Such termination shall not affect Auditor's right to be paid for its time and materials expended prior to notification of termination. Auditor waives the right to receive compensation and agrees to indemnify the City for any work performed prior to approval of insurance by the City.

## **8. INDEMNIFICATION**

Auditor agrees to defend, and shall indemnify and hold harmless the City, and its officers and employees from liability: (1) for personal injury, damages, just compensation, restitution, judicial or equitable relief arising out of claims for personal injury, including death, and claims for property damage, which may arise from the negligent operations of the Auditor, its subcontractors, agents, employees, or other persons acting on its behalf which relates to the services described in section 1 of this Agreement; and (2) from any claim that personal injury, damages, just compensation, restitution, judicial or equitable relief is due by reason of any breach of the terms of this Agreement. This indemnity and hold harmless agreement applies to all claims for damages, just compensation, restitution, judicial or equitable relief suffered, or alleged to have been suffered, by reason of the negligent acts referred to in this Section or by reason of the breach of the terms of this Agreement. The Auditor further agrees to indemnify, hold harmless, and pay all costs for the defense of the City, including fees and costs for special counsel to be selected by the City, regarding any action by a third party challenging the validity of this Agreement, or asserting that personal injury, damages, just compensation, restitution, judicial or equitable relief due to personal or property rights arises by reason of the terms of, or effects arising from this Agreement. City may make all reasonable decisions with respect to its representation in any legal proceeding. Notwithstanding the foregoing, to the extent Auditor's services are subject to Civil Code Section 2782.8, the above indemnity and defense obligation shall be limited to the extent provided by Civil Code Section 2782.8, and to claims that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of the Auditor.

## **9. CONFIDENTIALITY**

All information gained by Auditor in performance of this Agreement shall be considered confidential and shall not be released by Auditor without City's prior written authorization excepting that information which is a public record and subject to disclosure pursuant to the California Public Records Act, government Code Section 6250 et seq. Auditor, its officers, employees, agents, or subcontractors, shall not voluntarily provide declarations, letters of support, testimony at depositions, response to interrogatories or other information concerning the project or cooperate in any way with a party who may be adverse to City or whom Auditor reasonably should know may be adverse in any subsequent litigation. Auditor shall incur no liability under this Agreement for materials submitted by it, which are later released by City, its officers, employees, or agents. Auditor shall also incur no liability for statements made by it at any public meeting, or for any document released by it for which prior written City authorization was obtained.

If Auditor or any of its officers, employees, consultants, or subcontractors does voluntarily provide information in violation of this Agreement, City has the right to reimbursement and indemnity from Auditor for any damages caused by Auditor's conduct -- including attorney's fees.

Auditor shall promptly notify City should Auditor, its officers, employees, agents or subcontractors be served with any Summons, Complaint, Subpoena, Notice of Deposition, Request for Documents, Interrogatories, Request for Admissions or other discovery requests from any party regarding this agreement and the work performed hereunder. City retains the right, but not the obligation, to represent Auditor and /or to be present at any deposition, hearing, or similar proceeding. Auditor agrees to cooperate fully with City and to provide City with the opportunity to review any response to discovery requests provided by Auditor. However, City's right to review any such response does not imply or mean the right by City to control, direct, or rewrite said response.

City warrants that Auditor will have fully met the requirements of this provision by obtaining City's written approval prior to providing documents, testimony, or declarations; Consulting with City before responding to a Subpoena or court order; in the case of depositions upon providing Notice to City of same; or providing City opportunity to review discovery responses prior submission. For purposes of this section, a written authorization from City shall include a "faxed" letter

## **10. CONFLICT OF INTEREST CLAUSE**

AUDITOR covenants that neither it nor any officer or principal of their firm have any interests, nor shall they acquire any interest, directly or indirectly which will conflict in any manner or degree with the performance of their services hereunder. AUDITOR further covenants that in the performance of this Agreement, no person having such interest shall be employed by them as an officer, employee, agent, or subcontractor.

## **11. NON-DISCRIMINATION**

Auditor shall not discriminate because of race, color, creed, religion, sex, marital status, sexual orientation, gender identity, gender expression, gender, medical conditions, genetic information, or military and veteran status, age, national origin, ancestry, or disability, as defined and prohibited by applicable law, in the recruitment, selection, teaching, training, utilization, promotion, termination or other employment related activities or any services provided under this Agreement. Auditor affirms that it is an equal opportunity employer and shall comply with all applicable federal, state and local laws and regulations.

## **12. EXCLUSIVITY AND AMENDMENT**

This Agreement represents the complete and exclusive statement between the City and Auditor, and supersedes any and all other agreements, oral or written, between the parties. In the event of a conflict between the terms of this Agreement and any attachments hereto, the terms of this Agreement shall prevail. This Agreement may not be modified except by written instrument signed by the City and by an authorized representative of Auditor. The parties agree that any terms or conditions of any purchase order or other instrument that are inconsistent with, or in addition to, the terms and conditions hereof, shall not bind or obligate Auditor or the City. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which is not embodied herein.

## **13. ASSIGNMENT**

Inasmuch as this Agreement is intended to secure the specialized services of Auditor, Auditor may not assign, transfer, delegate, or subcontract any interest herein without the prior written consent of the City and any such assignment, transfer, delegation or subcontract without the City's prior written consent shall be considered null and void. Nothing in this Agreement shall be construed to limit the City's ability to have any of the services which are the subject to this Agreement performed by City personnel or by other Auditors retained by City.

## **14. TERMINATION**

This Agreement may be terminated by the City upon thirty (30) days written notice of termination. In such event, Auditor shall be entitled to receive and the City shall pay Auditor compensation for all services performed by Auditor prior to receipt of such notice of termination, subject to the following conditions:

- a. As a condition of such payment, the Executive Director may require Auditor to deliver to the City all work product(s) completed as of such date, and in such case such work product shall be the property of the City unless prohibited by law, and Auditor consents to the City's use thereof for such purposes as the City deems appropriate.
- b. Payment need not be made for work which fails to meet the standard of performance specified in the Recitals of this Agreement.

## **15. WAIVER**

No waiver of breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement shall be effective unless it is in writing and signed by the party waiving the breach, failure, right or remedy. No waiver of any breach, failure or right, or remedy shall be deemed a waiver of any other breach, failure, right or remedy, whether or not similar, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

## **16. JURISDICTION - VENUE**

This Agreement has been executed and delivered in the State of California and the validity, interpretation, performance, and enforcement of any of the clauses of this Agreement shall be determined and governed by the laws of the State of California. Both parties further agree that Orange County, California, shall be the venue for any action or proceeding that may be brought or arise out of, in connection with or by reason of this Agreement.

## **17. PROFESSIONAL LICENSES**

Auditor shall, throughout the term of this Agreement, maintain all necessary licenses, permits, approvals, waivers, and exemptions necessary for the provision of the services hereunder and required by the laws and regulations of the United States, the State of California, the City of Santa Ana and all other governmental agencies. Auditor shall notify the City immediately and in writing of its inability to obtain or maintain such permits, licenses, approvals, waivers, and exemptions. Said inability shall be cause for termination of this Agreement.

## **18. MISCELLANEOUS PROVISIONS**

- a. Each undersigned represents and warrants that its signature herein below has the power, authority and right to bind their respective parties to each of the terms of this Agreement, and shall indemnify City fully, including reasonable costs and attorney's fees, for any injuries or damages to City in the event that such authority or power is not, in fact, held by the signatory or is withdrawn.
- b. All Exhibits referenced herein and attached hereto shall be incorporated as if fully set forth in the body of this Agreement.

## **19. NOTICE**

Any notice, tender, demand, delivery, or other communication pursuant to this Agreement shall be in writing and shall be deemed to be properly given if delivered in person or mailed by first class or certified mail, postage prepaid, or sent by fax or other telegraphic communication in the manner provided in this Section, to the following persons:

To City:

Clerk of the City Council  
City of Santa Ana  
20 Civic Center Plaza (M-30)

P.O. Box 1988  
Santa Ana, CA 92702-1988  
Fax: 714- 647-6956

With courtesy copies to:

Executive Director, Finance and Management Services Agency  
City of Santa Ana  
20 Civic Center Plaza (M-17)  
P.O. Box 1988  
Santa Ana, California 92702  
Fax: 714-647-5414

To Auditor:

CliftonLarsonAllen, LLP  
2875 Michelle Drive, Ste. 300  
Irvine, CA 92606  
Fax: 714-978-7893

A party may change its address by giving notice in writing to the other party. Thereafter, any communication shall be addressed and transmitted to the new address. If sent by mail, communication shall be effective or deemed to have been given three (3) days after it has been deposited in the United States mail, duly registered or certified, with postage prepaid, and addressed as set forth above. If sent by fax, communication shall be effective or deemed to have been given twenty-four (24) hours after the time set forth on the transmission report issued by the transmitting facsimile machine, addressed as set forth above. For purposes of calculating these time frames, weekends, federal, state, County or City holidays shall be excluded.

[signature page to follow]



IN WITNESS WHEREOF, the parties hereto have executed this Agreement the date and year first above written.

**ATTEST:**

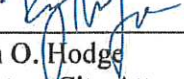
**CITY OF SANTA ANA**

\_\_\_\_\_  
Daisy Gomez  
Clerk of the Council


\_\_\_\_\_  
Kristine Ridge  
City Manager

**APPROVED AS TO FORM:**

SONIA R. CARVALHO  
City Attorney

By:   
\_\_\_\_\_  
Ryan O. Hodge  
Assistant City Attorney

**AUDITOR:**

  
\_\_\_\_\_  
By: Daphne Munoz  
Title: Principal

**RECOMMENDED FOR APPROVAL:**

  
\_\_\_\_\_  
Kathryn Downs (Apr 20, 2021 15:05 PDT)

\_\_\_\_\_  
Kathryn Downs, CPA  
Executive Director  
Finance and Management Services Agency

**Methodology.** *Our audit is performed based on a risk-based approach. We conduct our audits under the concept of “understanding the entity.” This concept is based fundamentally on the fact that the City is unique. By understanding the City, we gain the necessary perspective for performing an effective audit. Our audit approach places particular emphasis on the planning phase to determine maximum efficiency and effectiveness.*

When performing an audit, we are sensitive and understanding of the fact that we report to those charged with governance. We maintain objectivity and independence in order to be able to issue our audit opinions. We will act within our philosophy of total client service, maintain the professional relationship refined with management, and fulfill our responsibilities with the utmost professionalism.

**Yearlong support:** We encourage your staff to take advantage of our accessibility throughout the year for questions that may arise. Our people, working with you and your staff, can provide proactive advice on new accounting or GAAP pronouncements and their potential impact; help with immediate problems including answers to brief routine questions, and share insights and best practices to assist you in planning for your future success.

### Phase I: Assessment

The assessment phase of an engagement starts when an engagement letter is issued.

Upon notice of contract award, we will prepare a contract and engagement letter. We will communicate our plan to start the work and to discuss the audit process.

These discussions are intended to accomplish the following:

- Identify key management and staff involved in the audit
- Identify primary audit liaisons
- Introduce our audit team and identify key CLA contact personnel
- Discuss the timetable
- Explain our means and ways of communication
- Inquire about any issues, which we may need to be aware of
- Discuss logistics and administrative matters
- Complete a preliminary assessment of risk based on a review of prior year workpapers and knowledge of your organization

Through all phases of the audit, we think it is important to have regular communications with the City’s management to discuss the status of the engagement. We will provide timely communication of any critical issues, concerns, and potential findings with the person primarily responsible for the area and our audit liaisons.

We will be available to meet with key management prior to issuance of the final audit report. This meeting will highlight some of the results of the audit, any outstanding items, and reporting and issuing processes.

### Phase 2: Planning & Strategy

The main objective of the planning phase is to identify significant areas and design efficient audit procedures. We will accomplish our planning by following the methodology below:

- Conduct an entrance meeting with the City’s personnel to mutually agree on an outline of responsibilities and timeframes. The agenda will include but not be limited to the following:
  - Establish audit approach and timing schedule
  - Assistance to be provided by the City’s personnel
  - Application of generally accepted accounting principles





- Initial audit concerns
  - Concerns of the City's management
  - Establishment of report parameters and timetables
  - Progress reporting process
  - Establish principal contacts
- Gain an understanding of the operations of the City, including any changes in its organization, management style, and internal and external factors influencing the operating environment. We will utilize reference materials such as the budget and related materials, organizational charts, manuals and programs, financial, and other management information systems
  - Identify significant accounts and accounting applications, critical audit areas, significant provisions of laws and regulations, and relevant controls over operations
  - Determine the likelihood of effective Information Systems (IS) - related controls
  - Perform a preliminary overall risk assessment
  - Confirm protocol for meeting with and requesting information from relevant staff
  - Establish a timetable for the fieldwork phase of the audit
  - Determine a protocol for using TeamMate Analytics and Expert Analyzer (TeamMate), our data extraction and analysis software, to facilitate timely receipt and analysis of reports from management
  - Compile an initial comprehensive list of items to be prepared by the City, and establish mutually agreed upon deadlines

We will document our planning through preparation of the following:

- **Entity Profile.** This profile will help us gain an understanding of the City's activities, organizational structure, services, management, key employees, and regulatory requirements
- **Preliminary Analytical Procedures.** These procedures will assist in planning the nature, timing and extent of auditing procedures that will be used to obtain evidential matter. They will focus on enhancing our understanding of the financial results, and will be used to identify any significant transactions and events that have occurred since the last audit date, as well as to identify any areas that may represent specific risks relevant to the audit
- **General Risk Analysis.** This will contain our overall audit plan, including materiality calculations, fraud risk assessments, overall audit risk assessments, effects of our IS assessment, timing, staffing, client assistance, a listing of significant provisions of laws and regulations and other key planning considerations
- **Account Risk Analysis.** This document will contain the audit plan for the financial statements, including risk assessment and the extent and nature of testing by assertion
- **Prepared by Client Listing.** This document will contain a listing of schedules and reports to be prepared by the City's personnel with due dates for each item

One of the key elements in the planning of this audit engagement will be the heavy involvement of principals and managers. We will clearly communicate any issues in a timely manner and will be in constant contact with the City as to what we are finding and where we expect it will lead.

We will develop our audit programs during this phase. Utilizing the information, we have gathered, and the risks identified, we will produce an audit program specifically tailored to the City. This program will detail by major section the nature and types of tests to be performed. We view our programs as living documents, subject to change as conditions warrant.





### Phase 3: Systems Evaluation

During the systems evaluation phase, we will gain an understanding of the internal control structure of the City for financial accounting and relevant operations. Next, we will identify control objectives for each type of control that is material to the financial statements, and then identify and gain an understanding of the relevant control policies and procedures that effectively achieve the control objectives. Finally, we will determine the nature, timing, and extent of our control testing and perform tests of controls. This phase of the audit will include testing of certain key internal controls:

- Electronic data, including general and application controls reviews and various user controls
- Financial reporting and compliance with laws and regulations

We will test controls over certain key cycles. One audit efficiency initiative is to rely heavily on internal controls when appropriate, and to creatively look at internal control testing to make it as efficient as possible. This means not routinely performing detailed tests of transactions using large samples. We first seek to identify key controls, and then identify possible testing through alternative methods, such as observation, interviews, and re-performance. These tests serve not only to gather evidence about the existence and effectiveness of internal control for purposes of assessing control risk, but also to gather evidence about the reasonableness of an account balance.

We will also develop our internal control tests to assess the compliance with certain provisions of laws, regulations, contracts, and grants for which noncompliance could have a direct and material effect on the determination of financial statement amounts. Our use of multi-purpose tests allows us to provide a more efficient audit without sacrificing quality.

Our assessment of internal controls will determine whether the City has established and maintained internal controls to provide reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability over assets
- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition
- Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements

We will finalize our audit programs during this phase. We will also provide an updated Prepared by Client Listing based on our test results and our anticipated substantive testing.

During the internal control phase, we will also perform a review of general and application Information Systems (IS) controls for the applications that are significant to financial statements to conclude whether IS general controls are properly designed and operating effectively, and consider application controls as part of the internal control assessment in the financial statement audit. Our strategy for the IS review of the applications will involve reviewing all the general control activities, including the computerized and manual processes. We will determine the scope of work by applying the concepts of materiality and risk assessment to effectively reduce examination inefficiencies. When planning this examination, we will gain an understanding of the City's operations by reviewing its current controls and control objectives as documented and will also review prior years' audit work and the status of corrective actions.

Based on our preliminary review, we will perform an initial risk assessment of each critical element in each general control category, as well as an overall assessment of each control category. We will then proceed to assess the significant computer-related controls.





For IS-related controls that we deem to be ineffectively designed or not operating as intended, we will gather sufficient evidence to support appropriate findings and will provide recommendations to improve internal controls. For those IS controls that we deem to be effectively designed, we will perform testing to determine if they are operating as intended through a combination of procedures, including observation, inquiry, inspection, and re-performance.

#### **Phase 4: Testing & Analysis**

The extent of our substantive testing will be based on results of our internal control tests. It has been our experience that governmental entities, like the City, often have a system of internal controls that, with appropriately designed tests and correlation to account balances, can be used to limit the extent of account balance substantiation testing.

Audit sampling will be used only in those situations where it is the most effective method of testing. Before deciding to sample, we will consider all possible approaches and audit techniques. Items where, in our judgment, acceptance of some sampling risk is not justified will be examined 100 percent. These may include unusual items or items for which potential misstatements could individually equal or exceed tolerable error.

After identifying individually significant or unusual items, we will decide on the audit approach for the remaining balance of items by considering tolerable error and audit risk. This may include (1) testing a sample of the remaining balance; (2) lowering the previously determined threshold for individually significant items to increase the percent of coverage of the account balance; or (3) applying analytical procedures to the remaining balance. When we elect to sample balances, we will use IDEA to efficiently control and select our samples.

Our work papers during this phase will clearly document our work as outlined in our audit programs. We will also provide the City with status reports during the audit fieldwork. As in all phases of the audit, we will be in communication with the City to determine that all identified issues are resolved in a timely manner. We will also hold a final exit conference with the City to summarize the results of our fieldwork and review significant findings.

#### **Phase 5: Reporting & Follow-Up**

Reports to management will include oral and/or written reports regarding:

- Independent auditors' report
- Management letter
- Written communication to those charged with governance, which includes the following areas:
  - Our responsibility under auditing standards generally accepted in the United States of America
  - Changes in significant accounting policies or their application
  - Unusual transactions
  - Management judgments and accounting estimates
  - Significant audit adjustments
  - Other information in documents containing the audited financial statements
  - Disagreements with the City
  - The City's consultations with other accountants
  - Major issues discussed with management prior to retention
  - Difficulties encountered in performing the audit
  - Fraud or illegal acts

Once the final review of working papers and financial statements are completed – a process that actually starts while the fieldwork is in process – our opinion, the financial statements, and management letter will be issued.





The City will be provided a draft of any comments that we propose to include in the management letter, enabling you to review the comments for accuracy prior to final release. Any items that come to our attention that are not what we consider major items may be discussed verbally with management and not included in the management letter. Our management letter will include items noted during our analysis of your operations.

We will also make a formal presentation of the results of the audit to those charged with governance of the City, if requested.

### *Sample size and statistical sampling*

We follow the guidance of AU-C Section 530, Audit Sampling, in using statistical and nonstatistical approach. We use quality control material in all our audit engagements. These AU-C Section 530 – “Audit Sampling” forms guide our staff through a logical process of assessing inherent risk, control risk, and combined audit risk, followed by an assessment of appropriate sample size for testing.

Sample sizes will vary depending on the nature of the testing (compliance versus substantive) and the size of the population being sampled. Sampling techniques are utilized in compliance and internal control testing, as well as substantive testing of certain asset and liability account balances. Sample sizes used for internal control testing depend on a number of factors, namely the number of expected or actual control deviations, size of population, and level of control assurance anticipated. Sample sizes can range from 20 to 90 possible selections.

To illustrate, if no internal control deviations are anticipated and the frequency of the population (i.e., the number of times the control is performed in a given year) is less than 100, then we will test 20 transactions in order to obtain moderate control assurance. If 2 internal control deviations are anticipated, and the frequency of the population is greater than 200, then we will test 90 transactions in order to obtain low control assurance. We are usually able to cover a substantial portion of the compliance and controls testing with one sample, resulting in a very efficient approach.

### *Data analytics*

In addition to standard auditing methodology, a distinguishing aspect of CLA’s audit services incorporates the power of data analytics to multiply the value of the analyses and the results we produce for clients. CLA’s data methodology is a six-phase, systematic approach to examining an organization’s known risks and identifying unknown risks. Successful data analysis is a dynamic process that continuously evolves throughout the duration of an engagement and requires collaboration of the engagement team.

Data analytics are utilized throughout our audit process, our *Risk Assessment, Data Analytics and Review* (“RADAR”) is a specific application of general ledger data analytics that has been implemented on all audit engagements. RADAR is an innovative approach created and used only by CLA that aims to improve and replace traditional preliminary analytics that were being performed.

The phases in our data analytics process are as follows:

#### **1. Planning**

In the planning stage of the engagement, the use of data analysis is considered and discussed to determine that analytics are directed and focused on accomplishing objectives within the risk assessment. Areas of focus, such as journal entries, cash disbursements, inventory, and accounts receivable are common.

#### **2. Expectations**

We consider the risks facing our client and design analytics to address these risks. Through preliminary discussions with management and governance, we develop and document expectations of financial transactions





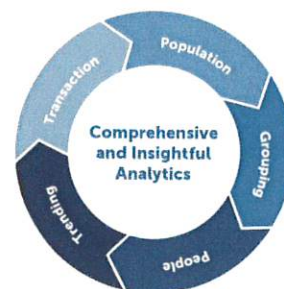
and results for the year. These expectations will assist in identifying anomalies and significant audit areas in order to appropriately assess risk.

### **3. Data Acquisition**

Sufficient planning, a strong initial risk assessment, and an adequate understanding of your systems will serve as the foundation necessary to prepare our draft data request list. We will initially request information in written format and conduct follow-up conversations helping CLA practitioners our staff share a mutual understanding of the type of data requested and the format required. If there are going to be any challenges/obstacles related to obtaining data, or obtaining data in the preferred format, they will generally be discovered at this point.

### **4. Technical Data Analysis**

Technical analysis of the data *requires* the skillful blend of knowledge and technical capability. Meaningful technical analysis provides the engagement team with a better understanding of the organization. The additional clarity assists the engagement team to better assess what is “normal” and, in turn, be better suited to spot anomalies, red-flags and other indications of risk. Analytics generally fall into five categories, each looking into the data set in a different way and deployed with a different purpose.



### **5. Interpret Results and Subsequent Risk Assessment**

Trends and anomalies will be identified through the performance of the above referenced analytics. Comments regarding the interpretation of those trends and anomalies will be captured. When trends are identified they are reconciled against expectations. For anomalies identified, the approach to further audit procedures will be considered.

### **6. Response and Document**

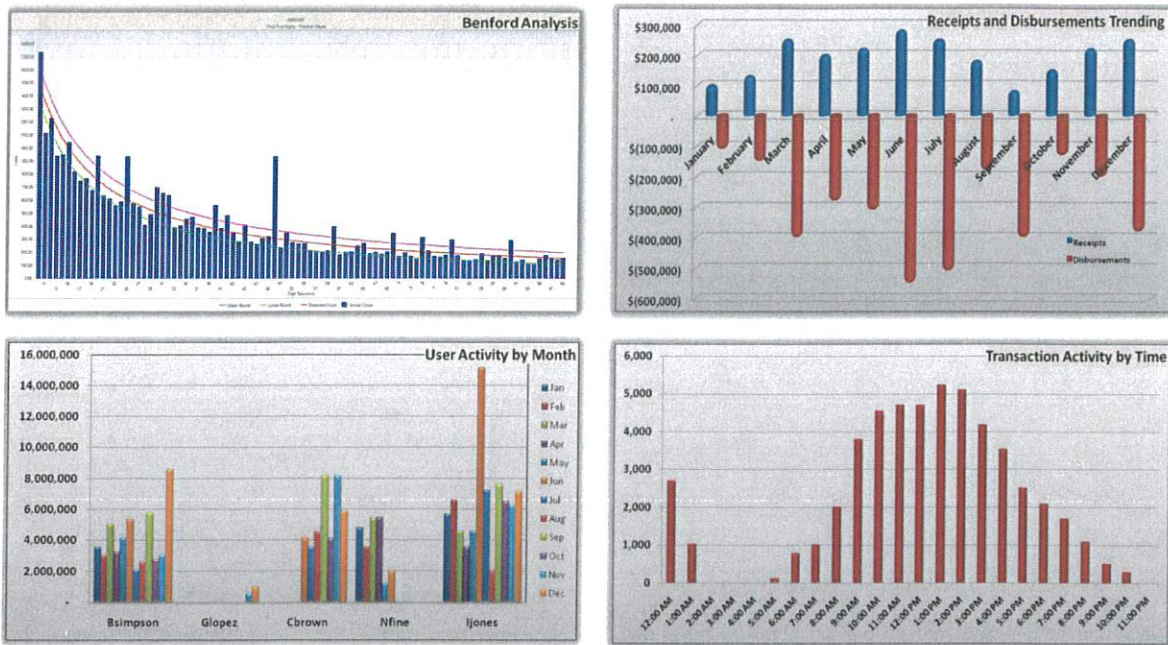
The last process is to capture responses and determine that our procedures are properly documented. Abstracts, charts or summaries of both trends and anomalies are retained in the audit documentation to support our identification of risks. Our analysis can be tailored and customized to help analyze an array of information, including client specific and proprietary data. Key benefits of data analytics include:

- Built-in audit functionality including powerful, audit specific commands and a self-documenting audit trail
- 100 percent data coverage, which means that certain audit procedures can be performed on entire populations, and not just samples
- Unlimited data access allows us to access and analyze data from virtually any computing environment
- Eliminates the need to extrapolate information from errors (a common effort when manually auditing data) and allows for more precise conclusions

The below figure illustrates typical data analytics scenarios.





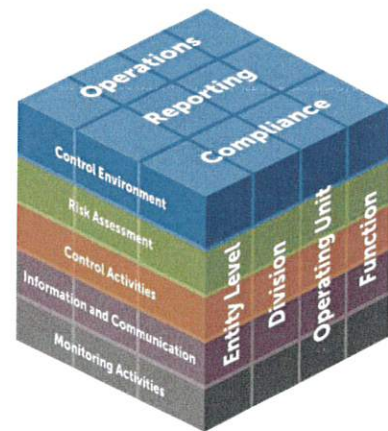


**Data Analytics.** At the end of a series of pre-determined analytics (often retrieved from multiple proprietary accounting systems) that are customized to the project at hand, we identify anomalies and potential errors in transactions. In every case, we review what appears to be inappropriate activity, including supporting documentation evidencing the transactions.

### *Procedures used to understand internal processes and controls*

We understand with a change in the engagement principal and a different approach with CLA would require a new to develop an understanding of the City and its internal control and operating structure. We also strive to develop our understanding in the least intrusive manner possible, while still maintaining our professional responsibilities. We would utilize a combination of internal control forms and interviews with key accounting personnel to gain and document our understanding of the City. We will also use as a baseline any existing internal control processes, policies, organizational charts, etc. the City may have already documented. Tests of design and operating effectiveness would then be performed to confirm our understanding.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has established a framework for internal control systems. Under the COSO framework, internal control is a process to provide reasonable assurance that those internal objectives, including effectiveness and efficiency of business operations, reliability of financial reporting, and compliance with applicable laws and regulations, will be met.



*COSO Internal Control:  
Integrated Framework*

Our audit approach is designed to evaluate and test the departmental internal controls in accordance with COSO concepts. Our procedures include a review of the overall control environment, determination of the internal controls which are determined to be direct and material to the federal program under review, determination of the adequacy of those procedures, and testing of the procedures to determine if they are functioning as designed.



During the planning and internal control phases of our audit, we will develop our understanding of the City's business operations and internal control structure for financial accounting and relevant operations through observation, discussion, and inquiries with management and appropriate personnel. During this phase of the audit, we will review budgets and related materials, organization charts, accounting and purchase manuals, and other systems documentation that may be available.

Once we understand your operations, we will then identify control objectives for each type of control that is material to the financial statements. The next step will be to identify and gain an understanding of the relevant control policies and procedures that effectively achieve the control objectives. We will then determine the nature, timing, and extent of our control testing, and perform tests of controls.

This phase of the audit will include extensive testing of controls over transactions, financial reporting, and compliance with laws and regulations. Whenever possible, we will use dual-purpose tests to reduce the need to select multiple samples for internal control and compliance testing. We will be as efficient as possible, thereby reducing the disruption to your operations while achieving our audit objectives.

Our assessment of internal controls will determine whether the City has established and maintained internal controls to provide reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability over assets
- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition
- Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements

Our workpapers during this phase will clearly document our work through the preparation of the following for each significant transaction cycle or accounting application:

- Audit program
- Cycle memo and supporting documentation
- Account risk analysis (ARA)
- Specific control evaluation (SCE)

### *Approach to be taken in determining laws and regulations that will be subject to audit test work*

We will obtain an understanding of the laws and regulations that have an impact on the City's operations by reviewing council minutes to identify any ordinances or resolutions that might have an impact to operations and reporting by the City, as well as interview key personnel and management of the City. Additionally, the staff assigned to the engagement attend regular trainings and are well versed in upcoming legislation, federal and state laws (i.e. Uniform Grant Guidance) and proactively discuss these upcoming changes with our clients.

We will also review current operations, contracts and IGA's that may have an impact on current operations.

### *Identification of anticipated potential audit problems*

In situations where authoritative guidance on a particular transaction or accounting issue is unclear or subject to interpretation, our approach is to proactively meet with management to discuss the issue and reach a conclusion that is hopefully agreed upon by both parties. We do not have specific "firm policies" that dictate our conclusions to be reached on all complex accounting issues. Rather, each issue must be evaluated independently by our engagement team. As discussed above, we will not only meet internally, but also facilitate discussion with the City's management team in order to obtain a mutual understanding of the particular accounting issue, determine the applicable authoritative guidance that most closely relates to the issue, and strive to reach an

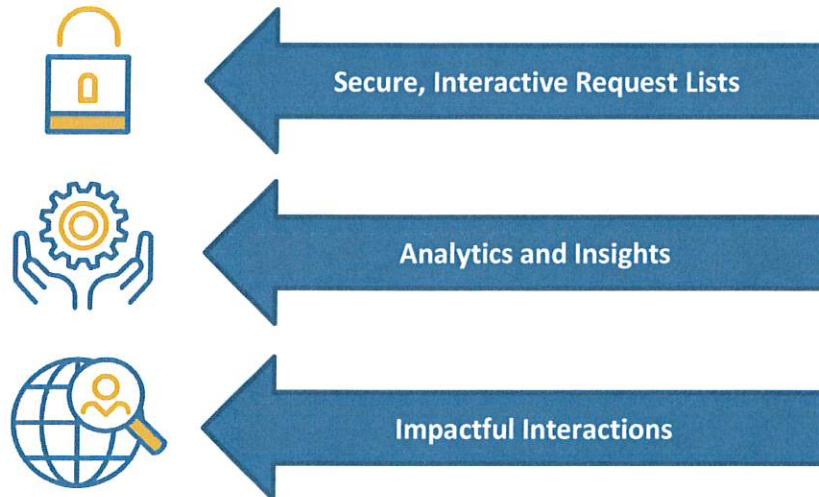




approach agreed upon by both parties. If there still remains any ambiguity or disagreement, we can explore other resources that could possibly assist, such as subject matter professionals within the Government Accounting Standards Board staff or the Government Finance Officers Association (GFOA) or perhaps other municipalities who may have dealt with similar issues.

### *Use of technology in the audit*

We're reimagining the audit process through technology to elevate your experience!



**Assurance Information Exchange (AIE)** – To make working with CLA a seamless experience, our team utilizes a proprietary, secure web-based application to request and obtain documents necessary to complete client engagements. This application allows CLA and our clients to view a live client assistance letter client, which provides detailed information, including due dates for all the open items CLA is requesting. Additionally, clients can attach electronic files and add commentary related to the document requests directly on the application. Follow the link to view a brief tutorial of the [Assurance Information Exchange](#).

**Microsoft® Teams** – Our services approach focuses on impactful interactions. We've said goodbye to the days of setting up camp in our clients' conference rooms for weeks on end. We know our clients have organizations to run, so our interactions have purpose. To assist with communications when we are not onsite, we utilize tools such as Microsoft Teams, which allow for two-way screen sharing and video. We've found this helps minimize disruptions in our clients' environments while continuing to effectively communication with each other.

**TeamMate Analytics and Expert Analyzer (TeamMate)** – To analyze and understand large data sets, we use TeamMate Analytics and Expert Analyzer. We customize the application by industry in order to perform the most applicable procedures. This allows us to go beyond sampling and instead analyze the entire general ledger for targeted anomalies. Far beyond the audit application, our six-phase process of Risk Assessment, Data Analytics and Review (RADAR) can also provide actionable insights to help you understand your entity better.





### *Commitment to Communication with Management*

As you will see, we are committed to ongoing communication throughout the engagement. Continual communication starts when an engagement letter is issued, continues until the completion or closeout of an engagement, and throughout the remainder of the year. We believe effective communication is critical to a successful engagement. This communication includes the exchange of ideas and advice as changes are considered or implemented by the entity or the accounting profession.

During the engagement we will hold regular status meetings with the City to enhance day-to-day operations, to communicate results, and to ensure that any issues are commonly understood and addressed. The objectives of tracking and formally reporting the engagement status are to:

- Provide a consistent technique for monitoring progress against plan
- Identify any issues quickly to allow for timely corrective action
- Provide an objective rather than subjective evaluation of status
- Provide timely information on a regular basis
- Assist with obtaining buy-in of any audit recommendations on a timely basis

### *Working remotely under special circumstances*

CLA exists to create opportunities for our clients, our people, and our communities. For several years now we have fostered a remote culture throughout the firm understanding that flexibility to work remotely enables us to better serve our clients under a variety of circumstances. In fact, we had already implemented a number of tools, *before* the Covid-19 pandemic developed, such as **Assurance Information Exchange (AIE)** and **Microsoft® Teams**, which we utilize to provide seamless service to our clients.

As we continue to navigate these uncertain times, CLA will work with the District to determine the correct balance of in-person and remote field work to best meet the District's needs. If onsite work is performed, a senior supervising auditor will be on site for 100% of the time when procedures are performed, and the principals will be available throughout field work. Whether we are working with the District remotely or in person, CLA is committed to performing your audit services and meeting your deadlines.

### **c. Segmentation, timeline, and completion dates**

An important distinction between CLA and other firms is the amount of principal and manager involvement in the engagement. Because our principals and managers are directly involved in the engagement during fieldwork, we can proactively identify significant issues immediately and resolve them with management so that the engagement is essentially complete when fieldwork ends.

We expect that the majority of our audit hours will be concentrated in the high-risk audit areas. Our approach is not to overwork every account with extensive substantive testing. While substantive testing remains part of the process, we think out-of-the-box analytically, identify relationships and truly learn about your operations.

Assuming that the interim fieldwork commences in late May or early June and final fieldwork commencing in October, the following is an abbreviated suggested timeline and milestones to meet the deadlines listed in the RFP:





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Audit Segment	Staff Level Responsible	Completed By
<b>Phase 1 and 2</b>		
Entrance conference	Principal / Manager	May 31
Preliminary risk assessment and initial audit plan	Principals / Manager	June 30
SEFA review & major program determination	Manager / Senior	December 15
<b>Phase 3 (Interim Fieldwork)</b>		
Understanding of the City's internal controls	Manager / Senior	June 30
Perform walkthroughs and internal control testing	Senior / Staff	June 30
Evaluate information system controls	Manager / Senior	June 30
Final risk assessment and comprehensive audit plan	Principal / Manager	June 30
Exit Conference to discuss interim fieldwork results	Principal/Manager	June 30
Single Audit major program internal control and compliance testing	Senior / Staff	January 31
<b>Phase 4</b>		
Financial Statement substantive testing and analytical procedures	Senior / Staff	November 15
Exit Conference to discuss final fieldwork results	Principal / Manager	November 15
<b>Phase 5</b>		
Drafting reports (, Management Letter, Single Audit, other deliverables) and required communications	Manager / Senior	November 30
Detailed review of work	Principal / Manager	November 15
Communications with management	Principal / Manager	November 15
Finalization of reports and required communications	Principal / Manager	December 10





### *Reports to be issued and due dates*

We make a commitment to issue the reports by the due dates specified below with interim fieldwork in May/June and final fieldwork completed by November 15 for the June 30 year end audits

Reports for City of Santa Ana	Draft Report Due Date	Final Report Due Date
Independent Auditor's Report on City of Santa Ana Financial Audit	n/a	December 10
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	November 30	December 10
Communication to those in charge of governance (Audit Committee Letter)	November 30	December 10
Single Audit Report: Independent Auditors' Report on compliance for each major program and internal control over compliance required by Uniform Guidance, formerly OMB Circular A-133	February 15	February 28
Air Quality Improvement Fund (AQMD)	November 30	December 10
GANN Limit computation	November 30	December 10
Investment Policy Compliance Review	November 30	December 10
U.S. Department of Housing of Urban Development (HUD) Real Estate Assessment Center (REAC) submission attestation and review of HUD Financial Data Schedule (FDS) for the Housing Authority	n/a	February 28
Annual State Controller's Report	n/a	January 31
Measure X (Sales Tax) Compliance Report	November 30	December 10
Agreed-Upon-Procedures Report	TBD	TBD





## d. Segmentation of hours

Proposed staffing plan and segmentation of the audit hours by principal and staff level are as follows:

Description of Services	Principal	Manager	Senior/ Associates	Admin	Total
City audit, including management and audit committee letters	50	100	610	10	770
Single Audit of Federal Grants	12	40	220	3	275
AQMD Audit of the Air Quality Improvement Fund	1	4	24	--	29
GANN Limit Review	--	1	8	--	9
Compliance Review of the City's Investment Policy	2	12	16	--	30
Preparation of the Santa Ana Housing Authority's Financial Data Schedule	2	4	--	--	6
Measure X – Agreed-Upon Procedures	4	8	36	2	50
Preparation of the City's State Controller's Report	--	8	40	--	48
<b>Total Hours</b>	<b>71</b>	<b>177</b>	<b>954</b>	<b>15</b>	<b>1,217</b>
<b>Two Agreed-Upon Procedures Reviews, Annually (1)</b>	<b>8</b>	<b>18</b>	<b>108</b>	<b>4</b>	<b>138</b>

(1) The hours for agreed-upon procedures are estimated and subject to negotiation once the scope of each agree-upon procedures are determined.

Proposed staffing plan and segmentation of audit hours by principal and staff level by phases are as follows:

Phases	Principal	Manager	Senior/ Associates	Admin	Total
City audit and related reports					
Phases 1 and 2	3	8	8	1	20
Phase 3	12	24	130	--	166
Phase 4	12	32	440	--	484
Phase 5	28	65	120	9	222
Measure X	4	8	36	2	50
Single Audit	12	40	220	3	275
<b>Total Hours</b>	<b>71</b>	<b>177</b>	<b>954</b>	<b>15</b>	<b>1,217</b>





## 5 Cost Proposal

### a. Cost breakdown by contract year

#### City of Santa Ana

#### EXHIBIT B

#### SCHEDULE OF PROFESSIONAL FEES AND EXPENSES

The compensation for financial auditing and report preparation services to be provided in each fiscal year, in accordance with this agreement, is shown below:

Description of Services	FY 2020-21	FY 2021-22	Option Years	
			FY 2022-23	FY 2023-24
City audit, including management and audit committee letters	\$100,850	\$104,025	\$107,295	\$110,665
Single Audit of Federal Grants	38,480	39,635	40,825	42,050
AQMD Audit of the Air Quality Improvement Fund	3,475	3,580	3,690	3,800
GANN Limit Review	895	920	950	980
Compliance Review of the City's Investment Policy	4,550	4,685	4,825	4,970
Preparation of the Santa Ana Housing Authority's Financial Data Schedule	1,350	1,390	1,430	1,475
Measure X -Agreed-Upon Procedures	7,020	7,230	7,445	7,670
Preparation of the City's State Controller's Report	5,600	5,770	5,945	6,120
Two Agreed-Upon Procedures Reviews, Annually (1)	19,040	19,610	20,200	20,805
<b>Maximum Not-to-Exceed Total Fee</b>	<b>\$181,260</b>	<b>\$186,845</b>	<b>\$192,605</b>	<b>\$198,535</b>

(1) The hours and fees for the agreed-upon procedures are estimated and subject to negotiation once the scope of each agreed-upon procedures are determined.

The City, during the term of this agreement, may request that Consultant provide special services in accordance with the provisions of this agreement. If Consultant agrees to perform the special services, the Consultant's hourly fees to perform these services for the term of the agreement are as follows unless a lesser fee is agreed to in a separate agreement between the City and Consultant.

Title	FY 2020-21	FY 2021-22	Option Years	
			FY 2022-23	FY 2023-24
Partners	\$275	\$283	\$292	\$300
Managers	200	206	212	219
Supervisory Staff	150	155	159	164
Staff Auditor	100	103	106	109
Clerical	60	62	64	66

Expenses: All expenses incurred by the Consultant in performing the services in accordance with this agreement are included in the above annual fee quotes. These expenses include, but are not limited to: meals and lodging, transportation, communications, report preparation, word processing, and printing, and postage.

**THIS FORM MUST BE COMPLETED AND INCLUDED WITH THE PROPOSAL.  
PROPOSALS THAT DO NOT CONTAIN THIS FORM WILL BE CONSIDERED NONRESPONSIVE.**



Our fees are based on the timely delivery of services provided, the experience of personnel assigned to the engagement, and our commitment to meeting your deadlines.

CLA understands the importance of providing our clients with value-added strategies. We propose to provide routine, proactive quarterly meetings — as part of our fee — that will allow us to review and discuss with you the impact of new accounting issues, as well as any other business issues you are facing and how they should be handled. This level and frequency of interaction will no doubt enable CLA to help you tackle challenges as they come up and take full advantage of every opportunity that presents itself.

We have found over the years that our clients don't like fee surprises. Neither do we. We commit to you, as we do all of our clients, that:

- We will be available for brief routine questions at no additional charge, a welcome investment in an on-going relationship.
- Like most firms, we are investing heavily in technology to enhance the client experience, protect our data environment, and deliver quality services. We believe our clients deserve clarity around our technology and client support fee, and we will continue to be transparent with our fee structure.
- Any additional charges not discussed in this proposal will be mutually agreed upon up front.
- We will always be candid and fair in our fee discussions, and we will avoid surprises.

## **b. Billing for supplemental services**

It is not our policy or practice to bill our clients every time we receive a phone call. In the course of providing our services to you, we will regularly consult with you regarding accounting, financial reporting, and significant business issues. If a specific project is complex or requires significant time or resources, we will discuss the scope of the project and its fee with you first to make sure there are no surprises. While it is difficult to establish an exact policy for billing in these situations, we commit to discussing the request with you in advance of performing our services if we believe the time requirement to provide you the desired assistance is other than routine. We will discuss the scope of the project and our estimate to complete it prior to commencing work.

We have a 24 to 48-hour response policy to return calls and emails from our clients to provide effective and timely communication. If the person you need to talk to is not available at the time you call, we will contact him/her and have him/her get back to you. We have a number of qualified professionals on our staff who can provide you with timely and competent assistance.

Our last word on fees — we are committed to serving you. Therefore, if fees are a deciding factor in your selection of an accounting firm, we would appreciate the opportunity to discuss our audit plan. At CLA, it's more than just getting the job done.










# CliftonLarsonAllen - Auditing Services(122774.1)

Final Audit Report

2021-04-20

Created:	2021-04-20
By:	Kristin Andrade (kandrade@santa-ana.org)
Status:	Signed
Transaction ID:	CBJCHBCAABAA3_bXKBqwUcWiy01hgmXP-ZVxzdFYsUGw

## "CliftonLarsonAllen - Auditing Services(122774.1)" History

-  Document created by Kristin Andrade (kandrade@santa-ana.org)  
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-  Document emailed to Kathryn Downs (kdowns@santa-ana.org) for signature  
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-  Document e-signed by Kathryn Downs (kdowns@santa-ana.org)  
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