

Council Meeting of
April 25, 2006

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

**SUBJECT: Recommendation to consent to an assignment of
Contract #2005-109 from Conrad and Associates, L.L.P.
to Mayer Hoffman McCann P.C.**

Expenditure: Not Applicable

RECOMMENDATION

The Finance Director recommends that City Council consent to an assignment of Contract #2005-109 from Conrad and Associates, L.L.P. to Mayer Hoffman McCann P.C.

FUNDING

Not Applicable

BACKGROUND AND ANALYSIS

The Charter requires that the City's financial statements be audited by an independent auditing firm. On June 14, 2005, Council approved a contract with Conrad and Associates, L.L.P. as the City's external auditors. The contract awarded is for the audit services for the fiscal years 2005-06, 2006-07 and 2007-08.

On January 1, 2006, Conrad and Associates, L.L.P. merged with the CPA firm of Mayer Hoffman McCann P.C. (MHM). Conrad is now the Conrad Government Services Division of MHM. MHM is a fifty year old CPA firm specializing in quality attest services, such as audits, reviews and compilations to middle market companies, not for profit organizations, and governmental entities. MHM is licensed in 49 states. There are more than 400 professionals in the California offices and more than 1700 professionals performing accounting and auditing services firm wide. Conrad Government Services Division office will continue to remain in Irvine California.

Auditing services that were previously performed by Conrad and Associates, L.L.P. will still be performed by the same experienced professionals that provided these services to the City in its' fiscal year 2004-05 audit.

Respectfully submitted,

Eric E. Tsao
Finance Director

By 
Kenneth A. Flewellyn
Assistant Finance Director

CONCUR:



Eric E. Tsao
Finance Director



LeRoy J. Jackson
City Manager

Attachments:

- A. Consulting Services Agreement C2005-109
- B. April 6, 2006 letter from consulting firm
- C. Assignment of Agreement

CONSULTING SERVICES AGREEMENT

This CONSULTING SERVICES AGREEMENT ("Agreement") is made and entered into as of July 1, 2005 (the "Effective Date"), by and between the CITY OF TORRANCE, a municipal corporation ("CITY"), and Conrad and Associates, L.L.P., ("CONSULTANT").

RECITALS:

- A. CITY wishes to retain the services of an experienced and qualified CONSULTANT to provide auditing services.
- B. CONSULTANT represents that it is qualified to perform those services.

AGREEMENT:

1. SERVICES TO BE PERFORMED BY CONSULTANT

CONSULTANT will provide the services listed in the Proposal attached as Exhibit A. CONSULTANT warrants that all work and services set forth in the Proposal will be performed in a competent, professional and satisfactory manner.

2. TERM

Unless earlier terminated in accordance with Paragraph 4 below, this Agreement will continue in full force and effect from the Effective Date through December 31, 2008.

3. COMPENSATION

- A. CONSULTANT's Fee.

For services rendered pursuant to this Agreement, CONSULTANT will be paid in accordance with the Proposal, provided, however, that in no event will the total amount of money paid the CONSULTANT, for services initially contemplated by this Agreement, exceed the sum of \$199,063.00 ("Agreement Sum"), unless otherwise first approved in writing by CITY.

- B. Schedule of Payment.

Provided that the CONSULTANT is not in default under the terms of this Agreement, upon presentation of an invoice, CONSULTANT will be paid monthly the fees described in Paragraph 3.A. above, according to the Proposal. Payment will be due within 30 days after the date of the monthly invoice.

4. TERMINATION OF AGREEMENT

- A. Termination by CITY for Convenience.

- 1. CITY may, at any time, terminate the Agreement for CITY's convenience and without cause.
- 2. Upon receipt of written notice from CITY of such termination for CITY's convenience, CONSULTANT will:

C2005-109

- a. cease operations as directed by CITY in the notice;
 - b. take actions necessary, or that CITY may direct, for the protection and preservation of the work; and
 - c. except for work directed to be performed prior to the effective date of termination stated in the notice, terminate all existing subcontracts and purchase orders and enter into no further subcontracts and purchase orders.
3. In case of such termination for CITY's convenience, CONSULTANT will be entitled to receive payment for work executed; and costs incurred by reason of such termination, along with reasonable overhead and profit on the work not executed.

B. Termination for Cause.

1. If either party fails to perform any term, covenant or condition in this Agreement and that failure continues for 15 calendar days after the nondefaulting party gives the defaulting party written notice of the failure to perform, this Agreement may be terminated for cause; provided, however, that if during the notice period the defaulting party has promptly commenced and continues diligent efforts to remedy the default, the defaulting party will have such additional time as is reasonably necessary to remedy the default.
2. In the event this Agreement is terminated for cause by the default of the CONSULTANT, the CITY may, at the expense of the CONSULTANT and its surety, complete this Agreement or cause it to be completed. Any check or bond delivered to the CITY in connection with this Agreement, and the money payable thereon, will be forfeited to and remain the property of the CITY. All moneys due the CONSULTANT under the terms of this Agreement will be retained by the CITY, but the retention will not release the CONSULTANT and its surety from liability for the default. Under these circumstances, however, the CONSULTANT and its surety will be credited with the amount of money retained, toward any amount by which the cost of completion exceeds the Agreement Sum and any amount authorized for extra services.
3. Termination for cause will not affect or terminate any of the rights of the CITY as against the CONSULTANT or its surety then existing, or which may thereafter accrue because of the default; this provision is in addition to all other rights and remedies available to the CITY under law.

C. Termination for Breach of Law.

In the event the CONSULTANT or any of its officers, directors, shareholders, employees, agents, subsidiaries or affiliates is convicted (i) of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or

subcontract, or in the performance of a contract or subcontract; (ii) under state or federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or any other offense indicating a lack of business integrity or business honesty which currently, seriously, and directly affects responsibility as a public consultant or contractor; (iii) under state or federal antitrust statutes arising out of the submission of bids or proposals; or (iv) of violation of Paragraph 19 of this Agreement; or for any other cause the CITY determines to be so serious and compelling as to affect CONSULTANT's responsibility as a public consultant or contractor, including but not limited to, debarment by another governmental agency, then the CITY reserves the unilateral right to terminate this Agreement or to impose such other sanctions (which may include financial sanctions, temporary suspensions or any other condition deemed appropriate short of termination) as it deems proper. The CITY will not take action until CONSULTANT has been given notice and an opportunity to present evidence in mitigation.

5. **FORCE MAJEURE**

If any party fails to perform its obligations because of strikes, lockouts, labor disputes, embargoes, acts of God, inability to obtain labor or materials or reasonable substitutes for labor or materials, governmental restrictions, governmental regulations, governmental control, judicial orders, enemy or hostile governmental action, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform, then that party's performance shall be excused for a period equal to the period of such cause for failure to perform.

6. **RETENTION OF FUNDS**

CONSULTANT authorizes CITY to deduct from any amount payable to CONSULTANT (whether or not arising out of this Agreement) any amounts the payment of which may be in dispute or that are necessary to compensate CITY for any losses, costs, liabilities, or damages suffered by CITY, and all amounts for which CITY may be liable to third parties, by reason of CONSULTANT's negligent acts or omissions or willful misconduct in performing or failing to perform CONSULTANT's obligations under this Agreement. In the event that any claim is made by a third party, the amount or validity of which is disputed by CONSULTANT, or any indebtedness exists that appears to be the basis for a claim of lien, CITY may withhold from any payment due, without liability for interest because of the withholding, an amount sufficient to cover the claim. The failure of CITY to exercise the right to deduct or to withhold will not, however, affect the obligations of CONSULTANT to insure, indemnify, and protect CITY as elsewhere provided in this Agreement.

7. **CITY REPRESENTATIVE**

Eric E. Tsao, Finance Director, is designated as the "City Representative," authorized to act in its behalf with respect to the work and services specified in this Agreement and to make all decisions in connection with this Agreement. Whenever approval, directions, or other actions are required by CITY under this Agreement, those actions will be taken by the City Representative, unless otherwise stated. The City Manager has the right to designate another City Representative at any time, by providing notice to CONSULTANT.

8. **CONSULTANT REPRESENTATIVE(S)**

The following principal(s) of CONSULTANT are designated as being the principal(s) and representative(s) of CONSULTANT authorized to act in its behalf with respect to the work specified in this Agreement and make all decisions in connection with this Agreement:

Ken Al-Imam, C. P. A.

9. **INDEPENDENT CONTRACTOR**

The CONSULTANT is, and at all times will remain as to CITY, a wholly independent contractor. Neither CITY nor any of its agents will have control over the conduct of the CONSULTANT or any of the CONSULTANT's employees, except as otherwise set forth in this Agreement. The CONSULTANT may not, at any time or in any manner, represent that it or any of its agents or employees are in any manner agents or employees of CITY.

10. **BUSINESS LICENSE**

The CONSULTANT must obtain a City business license prior to the start of work under this Agreement, unless CONSULTANT is qualified for an exemption.

11. **OTHER LICENSES AND PERMITS**

CONSULTANT warrants that it has all professional, contracting and other permits and licenses required to undertake the work contemplated by this Agreement.

12. **FAMILIARITY WITH WORK**

By executing this Agreement, CONSULTANT warrants that CONSULTANT (a) has thoroughly investigated and considered the scope of services to be performed, (b) has carefully considered how the services should be performed, and (c) fully understands the facilities, difficulties and restrictions attending performance of the services under this Agreement. If the services involve work upon any site, CONSULTANT warrants that CONSULTANT has or will investigate the site and is or will be fully acquainted with the conditions there existing, prior to commencement of services set forth in this Agreement. Should CONSULTANT discover any latent or unknown conditions that will materially affect the performance of the services set forth in this Agreement, CONSULTANT must immediately inform CITY of that fact and may not proceed except at CONSULTANT's risk until written instructions are received from CITY.

13. **CARE OF WORK**

CONSULTANT must adopt reasonable methods during the term of the Agreement to furnish continuous protection to the work, and the equipment, materials, papers, documents, plans, studies and other components to prevent losses or damages, and will be responsible for all damages, to persons or property, until acceptance of the work by CITY, except those losses or damages as may be caused by CITY's own negligence.

14. **CONSULTANT'S ACCOUNTING RECORDS; OTHER PROJECT RECORDS**

Records of the CONSULTANT's time pertaining to the project, and records of accounts between CITY and the CONSULTANT, will be kept on a generally recognized accounting basis. CONSULTANT will also maintain all other records, including without limitation specifications, drawings, progress reports and the like, relating to the project. All records will be available to CITY during normal working hours. CONSULTANT will maintain these records for three years after final payment.

15. **INDEMNIFICATION**

CONSULTANT will indemnify, defend, and hold harmless CITY, the City Council, each member thereof, present and future, its officers, agents and employees from and against any and all liability, expenses, including defense costs and legal fees, and claims for damages whatsoever, including, but not limited to, those arising from breach of contract, bodily injury, death, personal injury, property damage, loss of use, or property loss however the same may be caused and regardless of the responsibility for negligence. The obligation to indemnify, defend and hold harmless includes, but is not limited to, any liability or expense, including defense costs and legal fees, arising from the negligent acts or omissions, or willful misconduct of CONSULTANT, its officers, employees, agents, subcontractors or vendors. It is further agreed, CONSULTANT's obligations to indemnify, defend and hold harmless will apply even in the event of concurrent negligence on the part of CITY, the City Council, each member thereof, present and future, or its officers, agents and employees, except for liability resulting solely from the negligence or willful misconduct of CITY, its officers, employees or agents. Payment by CITY is not a condition precedent to enforcement of this indemnity. In the event of any dispute between CONSULTANT and CITY, as to whether liability arises from the sole negligence of the CITY or its officers, employees, agents, subcontractors or vendors, CONSULTANT will be obligated to pay for CITY's defense until such time as a final judgment has been entered adjudicating the CITY as solely negligent. CONSULTANT will not be entitled in the event of such a determination to any reimbursement of defense costs including but not limited to attorney's fees, expert fees and costs of litigation.

16. **NON-LIABILITY OF CITY OFFICERS AND EMPLOYEES**

No officer or employee of CITY will be personally liable to CONSULTANT, in the event of any default or breach by the CITY or for any amount that may become due to CONSULTANT.

17. INSURANCE

- A. CONSULTANT must maintain at its sole expense the following insurance, which will be full coverage not subject to self insurance provisions:
1. Automobile Liability, including owned, non-owned and hired vehicles, with at least the following limits of liability:
 - a. Primary Bodily Injury with limits of at least \$500,000 per person, \$1,000,000 per occurrence; and
 - b. Primary Property Damage of at least \$250,000 per occurrence; or
 - c. Combined single limits of \$1,000,000 per occurrence.
 2. General Liability including coverage for premises, products and completed operations, independent contractors/vendors, personal injury and contractual obligations with combined single limits of coverage of at least \$1,000,000 per occurrence.
 3. Professional liability insurance with limits of at least \$1,000,000 per occurrence.
 4. Workers' Compensation with limits as required by the State of California and Employers Liability with limits of at least \$1,000,000.
- B. The insurance provided by CONSULTANT will be primary and non-contributory
- C. CITY, the City Council and each member thereof, members of boards and commissions, every officer, agent, official, employee and volunteer must be named as additional insured under the automobile and general liability policies.
- D. CONSULTANT must provide certificates of insurance and/or endorsements to the City Clerk of the City of Torrance before the commencement of work.
- E. Each insurance policy required by this Paragraph must contain a provision that no termination, cancellation or change of coverage can be made without thirty days notice to CITY.

18. SUFFICIENCY OF INSURERS AND SURETIES

Insurance or bonds required by this Agreement will be satisfactory only if issued by companies admitted to do business in California, rated "B+" or better in the most recent edition of Best's Key Rating Guide, and only if they are of a financial category Class VII or better, unless these requirements are waived by the Risk Manager of CITY ("Risk Manager") due to unique circumstances. In the event the Risk Manager determines that the work or services to be performed under this Agreement creates an increased or decreased risk of loss to CITY, the CONSULTANT agrees that the minimum limits of any insurance policies or performance bonds required by this Agreement may be changed

accordingly upon receipt of written notice from the Risk Manager; provided that CONSULTANT will have the right to appeal a determination of increased coverage by the Risk Manager to the City Council of CITY within 10 days of receipt of notice from the Risk Manager.

19. **CONFLICT OF INTEREST**

- A. No officer or employee of the CITY may have any financial interest, direct or indirect, in this Agreement, nor may any officer or employee participate in any decision relating to the Agreement that effects the officer or employee's financial interest or the financial interest of any corporation, partnership or association in which the officer or employee is, directly or indirectly interested, in violation of any law, rule or regulation.
- B. No person may offer, give, or agree to give any officer or employee or former officer or employee, nor may any officer or employee solicit, demand, accept, or agree to accept from another person, a gratuity or an offer of employment in connection with any decision, approval, disapproval, recommendation, preparation or any part of a program requirement or a purchase request, influencing the content of any specification or procurement standard, rendering of advice, investigation, auditing, or in any other advisory capacity in any way pertaining to any program requirement, contract or subcontract, or to any solicitation or proposal.

20. **NOTICE**

- A. All notices, requests, demands, or other communications under this Agreement will be in writing. Notice will be sufficiently given for all purposes as follows:
1. Personal delivery. When personally delivered to the recipient: notice is effective on delivery.
 2. First Class mail. When mailed first class to the last address of the recipient known to the party giving notice: notice is effective three mail delivery days after deposit in an United States Postal Service office or mailbox.
 3. Certified mail. When mailed certified mail, return receipt requested: notice is effective on receipt, if delivery is confirmed by a return receipt.
 4. Overnight delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account: notice is effective on delivery, if delivery is confirmed by the delivery service.
 5. Facsimile transmission. When sent by fax to the last fax number of the recipient known to the party giving notice: notice is effective on receipt. Any notice given by fax will be deemed received on the next business day if it is received after 5:00 p.m. (recipient's time) or on a non-business day.

6. Addresses for purpose of giving notice are as follows:

CONSULTANT: 2301 Dupont Drive, Suite 200
Irvine, CA 92612

Fax: (949) 263-5520

CITY: City Clerk
City of Torrance
3031 Torrance Boulevard
Torrance, CA 90509-2970
Fax: (310) 618-2931

B. Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified, will be deemed effective as of the first date the notice was refused, unclaimed or deemed undeliverable by the postal authorities, messenger or overnight delivery service.

C. Either party may change its address or fax number by giving the other party notice of the change in any manner permitted by this Agreement.

21. PROHIBITION AGAINST ASSIGNMENT AND SUBCONTRACTING

This Agreement and all exhibits are binding on the heirs, successors, and assigns of the parties. The Agreement may not be assigned or subcontracted by either CITY or CONSULTANT without the prior written consent of the other.

22. INTEGRATION; AMENDMENT

This Agreement represents the entire understanding of CITY and CONSULTANT as to those matters contained in it. No prior oral or written understanding will be of any force or effect with respect to the terms of this Agreement. The Agreement may not be modified or altered except in writing signed by both parties.

23. INTERPRETATION

The terms of this Agreement should be construed in accordance with the meaning of the language used and should not be construed for or against either party by reason of the authorship of this Agreement or any other rule of construction that might otherwise apply.

24. SEVERABILITY

If any part of this Agreement is found to be in conflict with applicable laws, that part will be inoperative, null and void insofar as it is in conflict with any applicable laws, but the remainder of the Agreement will remain in full force and effect.

25. TIME OF ESSENCE

Time is of the essence in the performance of this Agreement.

26. **GOVERNING LAW; JURISDICTION**
This Agreement will be administered and interpreted under the laws of the State of California. Jurisdiction of any litigation arising from the Agreement will be in Los Angeles County, California.
27. **COMPLIANCE WITH STATUTES AND REGULATIONS**
CONSULTANT will be knowledgeable of and will comply with all applicable federal, state, county and city statutes, rules, regulations, ordinances and orders.
28. **WAIVER OF BREACH**
No delay or omission in the exercise of any right or remedy by a nondefaulting party on any default will impair the right or remedy or be construed as a waiver. A party's consent or approval of any act by the other party requiring the party's consent or approval will not be deemed to waive or render unnecessary the other party's consent to or approval of any subsequent act. Any waiver by either party of any default must be in writing and will not be a waiver of any other default concerning the same or any other provision of this Agreement.
29. **ATTORNEY'S FEES**
Except as provided for in Paragraph 15, in any dispute, litigation, arbitration, or other proceeding by which one party either seeks to enforce its rights under this Agreement (whether in contract, tort or both) or seeks a declaration of any rights or obligations under this Agreement, the prevailing party will be awarded reasonable attorney's fees, together with any costs and expenses, to resolve the dispute and to enforce any judgment.
30. **EXHIBITS**
All exhibits identified in this Agreement are incorporated into the Agreement by this reference.
31. **CONSULTANT'S AUTHORITY TO EXECUTE**
The person(s) executing this Agreement on behalf of the CONSULTANT warrant that (i) the CONSULTANT is duly organized and existing; (ii) they are duly authorized to execute this Agreement on behalf of the CONSULTANT; (iii) by so executing this

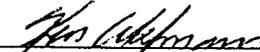
Agreement, the CONSULTANT is formally bound to the provisions of this Agreement; and (iv) the entering into this Agreement does not violate any provision of any other Agreement to which the CONSULTANT is bound.

CITY OF TORRANCE
a Municipal Corporation

Conrad and Associates, L.L.P.
Certified Public Accountants

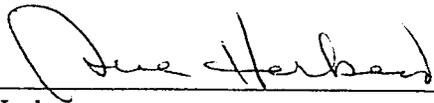


Dan Walker, Mayor

By: 

Ken Al-Imam, Partner

ATTEST:



Sue Herbers
City Clerk

APPROVED AS TO FORM:
JOHN L. FELLOWS III
City Attorney

By: 

Heather K. Whitham
Deputy City Attorney

Attachments: Exhibit A Proposal

Revised: 1/30/01

CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

2301 DUPONT DRIVE, SUITE 200
 IRVINE, CALIFORNIA 92612
 (949) 474-2020
 Fax (949) 263-5520

June 1, 2005

Eric E. Tsao
 Director of Finance
 City of Torrance
 3031 Torrance Boulevard
 Torrance, California 90503

Dear Mr. Tsao:

The purpose of this letter is to set forth the nature, terms, and objectives of our engagement to audit the financial statements of the City of Torrance and related entities for the fiscal years ending June 30, 2006, 2007, and 2008.

ABOUT CONRAD AND ASSOCIATES, L.L.P.

Our firm is on the forefront of financial reporting for local governments. We currently serve as the auditor for over 40 cities throughout southern California. Mr. Al-Imam of our office assisted GASB in the preparation and editing of GASB's 2004 **Comprehensive Implementation Guide**. Mr. Al-Imam is also a member of CCMA and has authored a number of CCMA white papers, including the recent CCMA white paper on the classification of revenues under GASB No. 34 and GASB No. 40.

SCOPE OF OUR ENGAGEMENT

The objectives and scope of the work to be performed are as follows:

1. We will perform an audit examination of the *comprehensive annual financial report* (CAFR) of the **City of Torrance** for the fiscal years ending June 30, 2006, 2007, and 2008. Our examination will be conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States of America. The auditors will review the financial statements for conformity with generally accepted accounting principles for local governments as well as the reporting standards of the GFOA and CSMFO CAFR award programs. The City will prepare the financial statements and make all of the necessary copies. Should the City so elect, the auditors will make up to 150 copies of the City-prepared report.
2. We will perform a **Single Audit** of the City of Torrance in accordance with the *Single Audit Act Amendments of 1996* (Public Law 104-156) and OMB Circular A-133 entitled *Audits of States, Local Governments, and Non-Profits Organizations* for the fiscal years ending June 30, 2006, 2007, and 2008. This would be required when Federal expenditures are greater than \$500,000 in any given year. Our single audit will cover all federal grants received by the City of Torrance either as a primary or secondary recipient. The City will provide to the auditors the Schedule of Federal Financial Assistance encompassing all direct and pass-through federal funds received by the City. We will render our reports on the single audit in accordance with the single audit requirements. We will also prepare the data collection form required by OMB Circular A-133.
3. We will perform a financial and compliance audit of the **Torrance Redevelopment Agency** for the fiscal years ending June 30, 2006, 2007, and 2008. Our compliance procedures will meet the State Controller's guidelines for compliance audits of the redevelopment agencies. We will issue our separate auditors' reports on the Torrance Redevelopment Agency. The City will prepare the financial statements and make all of the necessary copies. The auditors will issue their report on compliance (addressing the provisions contained in the guidelines for compliance audits of

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Eric E. Tsao
Director of Finance
City of Torrance
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- redevelopment agencies) and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
4. We will perform an audit of the **Airport Fund** and **Water Fund** financial statements for the fiscal years ending June 30, 2006, 2007, and 2008. We will perform our audits in accordance with generally accepted auditing standards. The City will prepare the financial statements and make all of the necessary copies.
 5. We will perform an audit of the **Torrance Public Financing Authority** component unit financial statements for the fiscal years ending June 30, 2006, 2007, and 2008. We will perform our audits in accordance with generally accepted auditing standards. The City will prepare the financial statements and make all of the necessary copies.
 6. We will test the City's **appropriation limit** and provide a letter of Agreed-Upon Procedures for the fiscal years ending June 30, 2006, 2007, and 2008.
 7. We will perform financial and compliance audits of the **Air Quality Management District Fund** for the fiscal years ending June 30, 2006, 2007, and 2008. The City will prepare the financial statements and make all of the necessary copies.
 8. We will submit to HUD the required **REAC submission** relating to the Housing Authority of the City of Torrance for the fiscal years ending June 30, 2006, 2007, and 2008.
 9. When requested, we will provide a "consent letter" for the inclusion of the audited financial statements within official statements associated with the sale of debt securities. In those cases when a consent letter is desired, the City agrees to inform us in advance when this is required so that we can schedule time to review the *preliminary official statement* as required by the auditing standards.
 10. For each year of our engagement, we will prepare a letter to the City Council reporting matters dealing with internal control that meet the threshold of being *reportable conditions*, as defined by professional auditing standards.
 11. We will immediately report in writing any irregularities or illegal acts that come to our attention to the Finance Director, City Council, City Attorney, and City Manager as required by governmental auditing standards.
 12. We will ensure that the Finance Director or his designee is informed of: the auditor's responsibility under generally accepted auditing standards, significant accounting policies, management judgments and accounting estimates, significant audit adjustments, other information in documents containing audited financial statements, disagreements with management, management consultation with other accountants, major issues discussed with management prior to retention, and difficulties in performing the audit.
 13. For each year of our engagement, we will also prepare a letter to City management that will provide other recommendations to the City ensuing from our review of the City's *internal control* procedures. This letter will address nonreportable conditions (those constructive comments not

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Eric E. Tsao
Director of Finance
City of Torrance
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required to be included in the letter of reportable conditions to City Council or in the single audit report). We will discuss those comments with Finance personnel of the City prior to its finalization.

14. We will provide the required communications to the Finance Committee of the City of Torrance.
15. During the planning phase of the audit, we will also advise City's staff of new accounting developments and their particular application to the City of Torrance. **Each year in April**, we provide training to our clients in our *client training conference* with respect to new accounting pronouncements.
16. We will provide **unlimited** telephone consultations to the City of Torrance regarding accounting and other technical matters. Throughout the year, Mr. Eric E. Tsao, Finance Director and other Finance personnel of the City will have access to senior firm personnel to seek advice in the application of generally accepted accounting principles, the establishment and segregation of funds, advise regarding debt issuance, financial statement preparation and content and other accounting and financial reporting matters relating to the City, including matters of taxation and policy relating to City fringe benefits.

With respect to the City of Torrance, Conrad and Associates, L.L.P. meets the independence requirements of generally accepted accounting standards and the *Government Auditing Standards* (1994 revision) published by the U.S. General Accounting Office. Our firm has never had a record of substandard audit work. Conrad and Associates, L.L.P. does not intend to use subcontractors for this engagement. We are independent with respect to the City of Torrance. No conflicts of interest exists relative to our firm performing the audit.

We certify that we have \$1 million of coverage in the following forms of insurance: general liability insurance, automobile liability insurance, workers compensation insurance, and professional liability insurance. Proof of insurance and valid insurance certificates in the name of Conrad and Associates, L.L.P. and CBIZ Accounting, Tax & Advisory of Orange County, Inc will be provided upon acceptance.

We hereby certify under penalty of perjury that neither the firm, nor any of its partners or employees have any financial interests involving any employees or officials of the City.

We will conduct our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We will report to you in writing any material weaknesses in internal control or other reportable conditions detected by our procedures, as well as recommendations for improvement in City policies and procedures revealed by our procedures.

We agree to conduct our audits for the fiscal years ending June 30, 2006, 2007, and 2008. Our pricing reflects a nominal 2.5% annual fee increase.

June 1, 2005
 Eric E. Tsao
 Director of Finance
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	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
General Audit/Single Audit	\$ 40,257	41,263	42,295
Airport	2,718	2,786	2,856
Water	2,718	2,786	2,856
Cultural Arts Center	1,631	1,672	1,713
Gann limit	543	557	571
Redevelopment Agency	8,699	8,917	9,140
AQMD fund	2,175	2,229	2,285
Financing Authority	1,631	1,672	1,713
REAC Submission	1,088	1,115	1,143
Typing and printing reports (if elected)	<u>3,263</u>	<u>3,344</u>	<u>3,428</u>
Totals	<u>\$ 64,723</u>	<u>66,341</u>	<u>67,999</u>

Should the City request additional services beyond the scope of the annual audit, we will bill you for such additional services at the following rates:

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Partner	\$163	167	171
Senior Manager	136	140	143
Manager	120	123	126
Supervisor	97	100	102
Senior Accountant	92	95	97
Staff Accountant	82	84	86

We will progress bill the City for the above services as the engagement hours are expended. Final billing will be made upon delivery of the final audit reports. Any special projects, extra work, accounting assistance, or additional assignments will be performed at the hourly rates indicated above.

Our fees contemplate conditions satisfactory for the performance of the audit, including the City providing at the start of the audit, trial balances reflecting year end adjustments, necessary subsidiary schedules supporting asset and liability balances, all necessary reconciliations in agreement with general ledger balances, and customary supporting analyses and schedules normally maintained by the Finance Department. Should the City desire assistance in reconciliations, analysis, or journal entry preparation, we would assist the City at the hourly rates set forth above. The City will type confirmation requests and pull supporting documentation. If there are changes in the scope of the audit (additional

June 1, 2005
 Eric E. Tsao
 Director of Finance
 City of Torrance
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redevelopment compliance requirements, added project areas, added enterprise activity, additional component units, etc.), we would discuss these changes with the Director of Finance and the effect of these changes on the professional audit hours and costs of the engagement. The pricing for the single audit includes up to three major programs. For each additional major program audited, a price adjustment of \$2,500 will be made.

The auditing standards require that we disclose to you the following: We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. You acknowledge that management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Other management responsibilities include maintaining adequate records and related internal control policies and procedures, selecting and applying accounting principles, and safeguarding assets. As part of our engagement, we may also propose standard, adjusting, or correcting journal entries to your financial statements. Management, however, has final responsibility for reviewing the proposed entries and understanding the nature and impact of the proposed entries to the financial statements. It is our understanding that management has designated qualified individuals with the necessary expertise to be responsible and accountable for overseeing the services performed as part of this engagement. Because an audit is performed on a limited test basis, it cannot be relied upon to disclose instances of noncompliance, fraud or irregularity. However, we will report to you any such matters that come to our attention.

We are looking forward to continuing our service to the City of Torrance. If you are in agreement with the foregoing arrangements, please sign and return a copy of this letter for our files.

Sincerely,

CONRAD AND ASSOCIATES, L.L.P.



Ken Al-Imam, C.P.A.
 Partner

Accepted:

CITY OF TORRANCE

By: _____

June 1, 2005
Eric E. Tsao
Director of Finance
City of Torrance
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Title: _____

Date: _____

CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

2301 DUPONT DRIVE, SUITE 200
IRVINE, CALIFORNIA 92612
(949) 474-2020
Fax (949) 263-5520

April 6, 2006

Eric E. Tsao
Director of Finance
City of Torrance
3031 Torrance Boulevard
Torrance, California 90503

Dear Mr. Tsao:

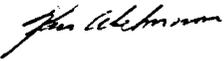
Effective January 1, 2006, Conrad and Associates, LLP merged with the CPA firm of Mayer Hoffman McCann P.C. Our merger will have no impact on our ability to effectively serve you, as we have done in the past. You will still be working with the same experienced team of professionals that have brought to the City audit process the high degree of client service and local government expertise that you have enjoyed in the past.

The purpose of this letter is to formally request that our interest in our contract with the City be formally transferred to the successor firm.

Please give me a call if you have any questions.

Sincerely,

CONRAD AND ASSOCIATES, L.L.P.



Ken Al-Imam, C.P.A.
Partner

CITY OF TORRANCE
06 APR 10 PM 2:37
FINANCE DEPT.

ASSIGNMENT OF AGREEMENT

The undersigned, Conrad and Associates, L.L.P. ("Conrad"), a party to that certain Agreement dated July 1, 2005 by and between the City of Torrance ("Torrance") and Conrad and Associates, L.L. P. (the "Agreement"), concerning services as provided for in the Agreement hereby assign all of its right, title and interest in and to said Agreement to Mayer Hoffman McCann P.C.
Conrad and Associates, L.L.P.

Dated: _____


By: Ken Al-Imam, C.P.A.
Partner

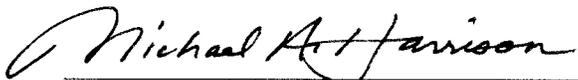
ASSUMPTION OF AGREEMENT

In consideration of the above assignment, and written consent of the City of Torrance thereto, Mayer Hoffman McCann P. C. hereby assumes and agrees to perform all of the services as set forth in the Agreement and to perform all of the covenants and conditions of the foregoing Agreement Conrad therein agreed to be made and performed with the following changes and/or additions to the lease:

1. Assignee's mailing address:
Ken Al-Imam, Shareholder
Mayer Hoffman McCann P.C.
2301 Dupont Drive, Suite 200
Irvine, California 92612

Dated: _____

Mayer Hoffman McCann P.C. (Assignee)



By:
Michael A. Harrison, Shareholder

CONSENT TO ASSIGNMENT

The undersigned City of Torrance hereby consents to the above assignment. Pursuant to the provisions of Paragraph 21 of the Agreement, the City of Torrance consents to the above-described assignment of the Agreement to Mayer Hoffman McCann P.C.

Date: _____

City of Torrance

By: _____
Dan Walker, Mayor