

BOARD OF DIRECTORS MEETING

October 8, 2020

ITEM 3

CONSIDER APPROVAL OF A PAYMENT TO LAMORENA & CHANG IN THE AMOUNT OF \$10,495 FOR PREVIOUSLY UNBILLED AUDIT SERVICES

SUMMARY OF RECOMMENDATION

Consider approval of a payment to Lamorena & Chang in the amount of \$10,495 for previously unbilled audit services necessary for compliance with Governmental Accounting Standards Board (GASB) 68 and 75 related to determining the value of expected post-retirement benefits (OPEB).

BACKGROUND

Steven Chang, of the accounting firm Lamorena & Chang, has provided financial auditing services to the District for a number of years, including for the fiscal years ending June 30, 2016, 2017, 2018, and 2019. In preparing his final billing for FY 2018-19 audit services, Mr. Chang discovered that he had inadvertently neglected to bill the District for subcontracted work that was necessary to render an opinion on the city's financial statements. Specifically, he neglected to bill the District for services provided by Macias, Gini, and O'Connell LLP (MGO), an outside accounting firm, that were necessary to prepare a report in compliance with Governmental Accounting Standards Board (GASB) 68 and 75. These GASB disclosures in government financial statements relate to valuation of post-employment benefit obligations.

As documentation for these expenses, Mr. Chang has provided both the engagement letters (attached) and the invoices from MGO for these services. The cost of services for the four "measurement" years are as follows (it should be noted that the "measurement year" for services is the year prior to the year-end audit service year):

- Fiscal year ending June 30, 2015: \$1,900
- Fiscal year ending June 30, 2016: \$1,900
- Fiscal year ending June 30, 2017: \$3,300
- Fiscal year ending June 30, 2018: \$3,395

The total cost of services provided by Lamorena & Chang over the four years that were inadvertently unbilled to the District is \$10,495.

Mr. Chang has provided a copy of an email sent to District staff (attached) indicating that there would be an extra fee required for GASB 68 and 75 compliance work. Although adequate documentation for the District's formal approval in advance of these services does not exist, staff is recommending that the Board of Directors authorize payment of these services. The reasoning is as follows:

- The services were necessary to complete the audit during each of the four years;
- The cost of the services for which Lamorena & Chang is requesting reimbursement is reasonable for the services that were provided;

- Lamorena & Chang incurred the cost for this work on behalf of the District;
- Staff believes that, had Mr. Chang sought formal approval for the cost of additional services, it is quite likely that staff would have approved it and initiated the formal procedures required to do so.

In sum, a “fair” analysis of the circumstances would suggest that the District should reimburse Lamorena & Chang for the costs of the services that they paid benefitting the District. Because the amount that is being requested to be paid is higher than the approval authority of the General Manager, staff is recommending Board approval of this payment.

RECOMMENDATION

Approve a payment to Lamorena & Chang in the amount of \$10,495 for previously unbilled audit services necessary for compliance with Governmental Accounting Standards Board (GASB) 68 and 75 related to determining the value of expected post-retirement benefits (OPEB)

FISCAL IMPACT

The cost for the recommended payment can be accommodated in the FY 2020-21 budget.

ATTACHMENTS

- Engagement letters from Macias, Gini, and O’Connell LLP (MGO) for financial services related to GASB 68 and 75
- Copy of email to Tony Constantouros, former General Manager, KPPCSD, and Lynn Wolter, regarding additional audit service fees

SUBMITTED BY:

Bill Lindsay
General Manager



Certified
Public
Accountants

July 30, 2019

Steven Chang
Lamorena & Chang CPA
22 Battery Street, Suite 412
San Francisco, CA 94111

Dear Mr. Chang,

We are pleased to confirm the support services MGO will provide pertaining to the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68) and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). We will provide GASB 68 and 75 support services, including the preparation of a consolidated report with the required information to close your books, to assist with financial statement disclosures and required supplementary information, and to be ready for your annual audit.

To assist the Kensington Police Protection and Community Services District (the District) with its GASB 68 accounting valuation of the safety risk pool for the June 30, 2018 measurement date, and GASB 75 journal entry support for Other Postemployment Benefits (OPEB), we will prepare and provide a report which will include the following deliverables:

- Journal entries necessary to record the proportionate share of collective pension amounts;
- The District’s proportionate share of the net pension liability (NPL), NPL sensitivity, and deferral amounts based on percentages obtained from CalPERS;
- All employer-specific deferrals and associated amortization schedules;
- The adjustment to pension expense for the difference in proportions due to CalPERS’ methodologies;
- Pension expense, with the employer-specific amounts; and
- Other amounts required for the District’s financial statement note disclosures and required supplementary information.

Our fee estimate, outlined in the schedule below, is based on anticipated cooperation from the District and the assumption that unexpected circumstances or requirements will not be encountered during the engagement. If sufficient additional time is needed, we will discuss it with management and arrive at a new fee estimate before we incur additional costs.

	<u>Hours</u>	<u>Rates</u>	<u>Fees</u>
Partner and technical reviewers	6.0	\$ 400	\$ 2,400
Senior associates	5.0	175	875
Administrative staff	1.0	120	120
			<u><u>\$ 3,395</u></u>

We appreciate this opportunity to be of assistance to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please contact me directly at 925.395.2808. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

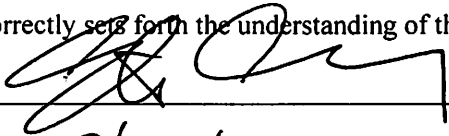


David Bullock, CPA
MGO Partner

RESPONSE:

This letter correctly sets forth the understanding of the Lamorena & Chang CPA.

By: _____



Title: _____

8/22/2019

Date: _____

over



Certified
Public
Accountants

October 30, 2018

Steven Chang
Lamorenna & Chang CPA
22 Battery Street, Suite 412
San Francisco, CA 94111

Dear Mr. Chang,

We are pleased to confirm the support services MGO will provide pertaining to the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68) and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). We will provide GASB 68 and 75 support services, including the preparation of a consolidated report with the required information to close your books, to assist with financial statement disclosures and required supplementary information, and to be ready for your annual audit.

To assist the Kensington Police Protection and Community Services District (District) with its GASB 68 accounting valuation of the safety risk pool for the June 30, 2017 measurement date, and GASB 75 journal entry support for Other Postemployment Benefits (OPEB), we will prepare and provide a report which will include the following deliverables:

- Journal entries necessary to record the proportionate share of collective pension and OPEB amounts;
- The District’s proportionate share of the net pension liability (NPL), NPL sensitivity, and deferral amounts based on percentages obtained from CalPERS;
- All employer-specific deferrals and associated amortization schedules;
- The adjustment to pension expense for the difference in proportions due to CalPERS’ methodologies;
- Pension expense, with the employer-specific amounts; and
- Other amounts required for the District’s financial statement note disclosures and required supplementary information.

Our fee estimate, outlined in the schedule below, is based on anticipated cooperation from the District during the engagement. If sufficient additional time is needed, we will discuss it with management and arrive at a new fee estimate before we incur additional costs.

	<u>Hours</u>	<u>Rates</u>	<u>Fees</u>
Partner and technical reviewers	6.0	\$ 380	\$ 2,280
Senior associates	5.0	160	800
Administrative assistance	1.0	120	120
			<u>\$ 3,200</u>

We appreciate this opportunity to be of assistance to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please contact me directly at 925.395.2808. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

David Bullock

David Bullock, CPA
MGO Partner

RESPONSE:

This letter correctly sets forth the understanding of the Lamorena & Chang CPA.

By:

Title:

Date:

[Signature]
[Signature]
10/30/18



Certified
Public
Accountants

January 17, 2018

Steven Chang
Lamorena & Chang CPA
22 Battery Street, Suite 412
San Francisco, CA 94111

Dear Mr. Chang,

We are pleased to confirm the support services MGO will provide pertaining to the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (GASB 68)*. We will provide GASB 68 support services, including the preparation of a consolidated report with the required information to close your books, to assist with financial statement disclosures and required supplementary information, and to be ready for your annual audit.

To assist the Kensington Police Protection and Community Services District (the District) with its GASB 68 accounting valuation of the safety risk pool for the June 30, 2016 measurement date, we will prepare and provide a report which will include the following deliverables:

- Journal entries necessary to record the proportionate share of collective pension amounts;
- The District’s proportionate share of the net pension liability (NPL), NPL sensitivity, and deferral amounts based on percentages obtained from CalPERS;
- All employer-specific deferrals and associated amortization schedules;
- The adjustment to pension expense for the difference in proportions due to CalPERS’ methodologies;
- Pension expense, with the employer-specific amounts; and
- Other amounts required for the District’s financial statement note disclosures and required supplementary information.

Our fee estimate, outlined in the schedule below, is based on anticipated cooperation from the District and the assumption that unexpected circumstances or requirements will not be encountered during the engagement. If sufficient additional time is needed, we will discuss it with management and arrive at a new fee estimate before we incur additional costs.

	<u>Hours</u>	<u>Rates</u>	<u>Fees</u>
Partner and technical reviewers	4.0	\$ 375	\$ 1,500
Senior associates	2.0	150	300
Associates	1.0	100	100
			<u>\$ 1,900</u>

We appreciate this opportunity to be of assistance to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please contact me directly at 925.395.2808. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

David Bullock

David Bullock, CPA
MGO Partner

RESPONSE:

This letter correctly sets forth the understanding of Lamorena & Chang CPA.

By: _____

[Handwritten signature]

Title: _____

owner

Date: _____

1/17/18



Certified
Public
Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

February 3, 2017

Steven Chang
Lamorena & Chang CPA
22 Battery Street, Suite 412
San Francisco, CA 94111

Dear Mr. Chang

We are pleased to confirm the support services MGO will provide pertaining to the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68).

Effective for the measurement date of June 30, 2015, CalPERS will no longer be providing individual GASB 68 Accounting Valuation Reports by rate plan within the miscellaneous and safety risk pools of the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. As a result, the proportionate share calculation requirement has shifted directly to employers. As such, MGO will provide GASB 68 support services, including the preparation of a consolidated report with the required information to close your books, to assist with financial statement disclosures and required supplementary information, and to be ready for your annual audit.

To assist the ~~Kensington Police Protection and Community Services District (the District)~~ ^{LAMORENA & CHANG, CPA SL} with its GASB 68 accounting valuation of the safety risk pool for the June 30, 2015 measurement date, we will prepare ^{SL} and provide a report which will include the following deliverables: ^{for KPPCSD}

- Journal entries necessary to record the proportionate share of collective pension amounts;
- The Entity’s proportionate share of the net pension liability (NPL), NPL sensitivity, and deferral amounts based on percentages obtained from CalPERS;
- All employer-specific deferrals and associated amortization schedules;
- The adjustment to pension expense for the difference in proportions due to CalPERS’ methodologies;
- Pension expense, with the employer-specific amounts; and
- Other amounts required for the Entity’s financial statement note disclosures and required supplementary information.

Our fee estimate, outlined in the schedule below, is based on anticipated cooperation ^{with your firm} ~~from the District~~ and the assumption that unexpected circumstances or requirements will not be encountered during the engagement. If sufficient additional time is needed, we will discuss it with management and arrive at a new fee estimate before we incur additional costs.

	<u>Hours</u>	<u>Rates</u>	<u>Fees</u>
Partner and technical reviewers	4.0	\$ 375	\$ 1,500
Senior associates	2.0	150	300
Associates	1.0	100	100
			<u>\$ 1,900</u>

We appreciate this opportunity to be of assistance to ~~the District~~ ^{LAMORENA & CHANG, CRA} and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please contact me directly at 925.395.2808. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

David Bullock

David Bullock, CPA
MGO Partner

RESPONSE:

This letter correctly sets forth the understanding of the ~~Kensington Police Protection and Community Services District~~ ^{LAMORENA & CHANG, CRA}

By: *[Signature]*
Title: owner
Date: 2/3/2017

From: [Bill Lindsay](#)
To: [Bill Lindsay](#)
Subject: FW: GASB 75 implementation
Date: Sunday, October 4, 2020 9:10:21 PM
Importance: High

From: SChang@lnccpa.com [<mailto:SChang@lnccpa.com>]
Sent: Thursday, October 25, 2018 10:13 AM
To: Lynn Wolter <lwolter@kppcsd.org>; Tony Constantouros <TConstantouros@kppcsd.org>
Cc: Deborah Russell <russcpa@comcast.net>
Subject: GASB 75 implementation
Importance: High

Tony and Lynn, FY 2018 for KPPCSD is GASB 75 OPEB implementation. Do you have information from the actuary and from the trust that you can send me? Tony, you understand that GASB 75 implementation required additional fee for implementation.. and you are looking at approx 2k to 3K (depends on how much work involve)additional from the flat fee.

Steven Chang

Lamorena & Chang CPA
22 Battery Street, Suite 412
San Francisco, CA 94111
Email: schang@lnccpa.com
Office: 415-781-8441 ext.108
FAX: 415-800-6794

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