



NEWPORT BEACH

City Council Staff Report

June 23, 2026
Agenda Item No.14

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Approval of Professional Services Agreement with Davis Farr LLP for Professional Audit Services

ABSTRACT:

Per Council Policy F-15, External Financial and Compliance Reporting, Disclosure and Annual Audits, staff issued a Request for Proposals (RFP) to audit its financial statements for the fiscal years ending June 30, 2026, through June 30, 2028, with options to extend for two additional one-year renewals through June 30, 2030.

By the RFP due date of April 10, 2026, six proposals were received by the City of Newport Beach (City). Following the reviews, the Audit Selection Committee unanimously selected Davis Farr LLP (Davis Farr).

RECOMMENDATIONS:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Authorize the Mayor and City Clerk to execute a three-year Professional Services Agreement with Davis Farr LLP for Professional Audit Services for a not-to-exceed amount of \$401,674 to perform the City's annual financial statement audit.

DISCUSSION:

The City is required to be audited annually by an independent auditing firm. The audit process typically begins after the books close in September and concludes several months later once the financial statements have been prepared. City Council Policy F-15 governs external financial and compliance reporting, disclosure and annual audits, and mandates a competitive RFP process for the selection of the City's independent auditor to be conducted at least every five years. With the prior audit contract term concluding in May 2026, a new competitive procurement process was conducted in accordance with City Council Policy F-15.

Administrative Services Department staff developed a formal RFP containing a detailed scope of services for professional audit services. The solicitation was posted on the City's electronic bidding platform, PlanetBids, and distributed directly to known auditing firms. The RFP yielded six proposals, which were then evaluated by a panel consisting of the accounting manager, revenue manager, and a senior accountant. Proposals were submitted in two parts, including a written technical proposal and a separate, sealed dollar cost bid. The six proposals were evaluated by the panel based on the following criteria:

- Experience in providing services related to auditing, with an emphasis on government accounting and auditing of entities with at least the size and complexity of Newport Beach. Quality, background, reputation, credibility and experience of the firm.
- Quality of key personnel assigned to the audit team with emphasis placed on educational background, time spent in the field, valid certifications possessed by the project team members, and active participation in industry groups.
- Practices and procedures used to carry out the requested services and provide deliverables according to the City's expectations.

Although all six proposals were compliant with the minimum qualifications and demonstrated the ability to perform the requested audit services to varying degrees, the panel identified the three highest ranked proposers (Davis Farr LLP, LSL and Eide Bailly) as the best suited for this project. All other proposals were removed from further consideration.

Next, sealed costs from the three finalists were opened and distributed to the panel. Costs were provided on the basis of an annual price for the provision of a Financial Statement Audit, Annual Comprehensive Financial Report (ACFR) preparation, a Single Audit, as well as a GANN Limit Report. The City's Purchasing staff analyzed these costs over a five-year term, commensurate with the proposed contract length with the selected auditor.

After reviewing the technical scores and pricing, staff selected Davis Farr because it had the highest technical score and the lowest cost proposal. Additionally, Davis Farr has provided these services to the City for the past five years and has demonstrated a robust understanding of the City and its operations. Consistency can enhance the quality of the audit as the firm will be able to identify and focus on specific risk areas while reducing audit costs. Staff will not have to spend as much time training the firm on the operations of the City as is typically required when switching to a new audit firm.

Since this contract would represent a second five-year period with Davis Farr, which is permissible under Council Policy F-15, Davis Farr proposed to rotate the audit partner to maintain audit quality and auditor independence. While the City will continue to benefit from the firm's existing knowledge of City operations, accounting systems and internal controls, the assignment of a new engagement partner will provide fresh professional judgment and independent oversight of the audit process. This approach combines the efficiencies and institutional knowledge gained through continuity with the enhanced

objectivity and perspective that comes from new audit leadership. The new audit partner overseeing this engagement is the current chair of the CalCPA Government Audit and Accounting Committee, demonstrating a leadership role within the industry. After the term of this contract, switching audit firms is mandatory according to Council Policy F-15.

The Government Finance Officers' Association (GFOA) best practices recommend governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multi-year agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year. Therefore, staff recommends a contract structure that has a three-year initial term with two optional one-year extensions with the expectation that the options will be exercised.

FISCAL IMPACT:

The total not-to-exceed cost for the full term of the contract, including the two optional years, is \$401,674. A detailed breakdown of the costs by fiscal year is displayed below.

Item	Fiscal Year Ended					TOTAL
	June 30, 2026	June 30, 2027	June 30, 2028	June 30, 2029	June 30, 2030	
Financial Statement Audit	\$58,250.00	\$58,250.00	\$58,250.00	\$59,998.00	\$61,798.00	\$296,546.00
ACFR Preparation	\$12,500.00	\$12,500.00	\$12,500.00	\$12,875.00	\$13,261.00	\$63,636.00
Single Audit	\$7,500.00	\$7,500.00	\$7,500.00	\$7,725.00	\$7,957.00	\$38,182.00
Gann Limit Report	\$650.00	\$650.00	\$650.00	\$670.00	\$690.00	\$3,310.00
Grand Total	\$78,900.00	\$78,900.00	\$78,900.00	\$81,268.00	\$83,706.00	\$401,674.00

The adopted budget includes sufficient funding for the first year of this contract in the Accounting – Audit Services account (01030302-811007) and the Accounting – Accounting Services account (01030302-811008). Funds will be included in subsequent year’s budgets to fund the costs associated with the future years of this contract, including the two optional years if exercised.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENT:

Attachment A – Professional Services Agreement with Davis Farr LLP for Professional Audit Services