



TO: Port Commission

FROM: Marian Olin, Port Director

DATE: July 26, 2019

SUBJECT: Award of Contract for FY19 Audit Services (NTE \$27,000)

Recommendation: *Authorize the Port Director to execute a contract with Hutchinson and Bloodgood LLP for FY19 audit services in the amount of \$23,500, plus additional services for GASB 75 compliance not-to-exceed \$3,500, for a total authorized amount not-to-exceed \$27,000.*

BACKGROUND

Hutchinson and Bloodgood LLP (H&B) has conducted independent annual audits of the Port District's financial statements for a number of years. Various auditors with the firm have been assigned to field work each year. H&B's audit team is led by CPA Karen Semington, who is a partner with H&B.

This year's audit field work is scheduled to begin the second week of August. In preparation for the audit, staff is beginning the process of file sharing, which includes entering into a services agreement.

ANALYSIS

H&B's base proposal of \$23,500 is within the Port Director's \$25,000 contracting authority level; however, there are additional services anticipated for implementation of Government Accounting Standards Board (GASB) 75. GASB 75 changes audit reporting requirements for other post-employment benefits or OPEB liability. The additional services estimate by H&B is \$3,500, potentially bringing the total contract amount to \$27,000.

Pursuant to Public Contract Code Section 22032, staff recommends award of this negotiated professional services contract with H&B in an amount not to exceed \$27,000.

IMPACT ON PORT DISTRICT RESOURCES

There is adequate funding for auditing services in the FY20 budget to cover the cost of this contract.

ATTACHMENT: A. Agreement Between Santa Cruz Port District and Hutchinson and Bloodgood LLP

**SANTA CRUZ PORT DISTRICT
AGREEMENT WITH INDEPENDENT CONTRACTOR**

No. C19-

Contractor:

Hutchinson and Bloodgood LLP
579 Auto Center Drive
Watsonville, CA 95076

Contractor: Upon completion of work or agreed-upon work periods, mail invoice with above Agreement Number to:

Santa Cruz Port District
Attention: Marian Olin
135 5th Avenue
Santa Cruz, CA 95062
(831) 475-6161

Project Name:

FY19 Audit Services

It is agreed between the Santa Cruz Port District, Santa Cruz, California, and Contractor as follows:

1. Services to be performed by Contractor. In consideration of the payments hereinafter set forth, Contractor shall perform services for Port District in accordance with terms, conditions and specifications set forth herein and in Exhibit A and B attached hereto for the Santa Cruz Port District.

2. Contract Term. The term of this agreement shall be from July 30, 2019, to December 31, 2019, unless terminated earlier by the Port District.

3. Payments. In consideration of the services rendered in accordance with all terms, conditions and specifications set forth herein and in Exhibit "A." Port District shall make payment to Contractor in the manner specified herein. In the event that the Port District makes any advance payments, Contractor agrees to refund any amounts in excess of the amount owed by the Port District at the time of contract termination. The Port District reserves the right to withhold payment if the Port District determines that the quantity or quality of the work performed is unacceptable. In no event shall total payment for all services under this agreement exceed **\$27,000, including reimbursable expenses.**

4. Relationship of the Parties. Contractor agrees and understands that the work/services performed under this agreement are performed as an Independent Contractor and not as an employee of the Port District and that Contractor acquires none of the rights, privileges, powers or advantages of Port District employees.

5. Insurance and Indemnity. Contractor, at its own expense, shall provide and keep in force, commercial liability insurance insuring against liability for bodily injury and property damage arising out of its work in an amount of not less than One Million Dollars (\$1,000,000.00) for injury to, or death of one person in any one accident or occurrence, and in an amount of not less than One Million Dollars (\$1,000,000.00) for injury to, or death of more than one person in any one accident or occurrence, and in the amount of not less than One Million Dollars (\$1,000,000.00) per occurrence in respect to damage to property. Port District shall be named as an additional insured on Contractor's insurance policy Contractor shall provide Port District with a certificate of insurance coverage evidencing said coverage, including a copy of all declarations of exclusions, prior to commencing work. The Contractor shall maintain Automobile Liability Insurance pursuant to this Contract in an amount of not less than One Million Dollars (\$1,000,000) for each occurrence combined single limit or not less than One Million Dollars (\$1,000,000) for any one (1) person, and one million dollars (\$1,000,000) for any one (1) accident, and three hundred thousand dollars, (\$300,000) property damage. To the full extent permitted by law Contractor agrees to defend, indemnify and hold Port District, its employees, agents, and officers, harmless from any and all claims, damages, and liability in any way occasioned by or arising out of the contractor's negligent performance of services under this agreement, breach of contract or construction defects arising out of Contractor's work.

6. Non-assignability. Contractor shall not assign this Agreement or any portion thereof to a third party without the prior written consent of Port District, and any attempted assignment

without such prior written consent in violation of this Section shall automatically terminate this Agreement.

7. Termination of Agreement. The Port District may, at any time, terminate this Agreement, in whole or in part, for the convenience of Port District, by giving written notice specifying the effective date and scope of such termination. In the event of termination, all finished or unfinished documents, data, studies, maps, photographs, reports, and materials (hereinafter referred to as materials) prepared by Contractor under this Agreement shall become the property of the Port District and shall be promptly delivered to the Port District. Upon termination, the Contractor may make and retain a copy of such materials. Contractor shall be entitled to receive payment for work/services provided prior to termination of the Agreement. Such payment shall be that portion of the full payment which is determined by comparing the work/services completed to the work/services required by the Agreement.

8. General Prevailing Wage Rates. The Port Commission has ascertained the general prevailing rate of wages applicable to the work to be done. A tabulation of the various classifications of work persons to be employed and the prevailing wages of applicable thereto is on file in the Office of Port Director.

9. Workers' Compensation Insurance. Contractor agrees and understands that the Port District does not provide Worker's Compensation Insurance to, or on behalf of, the Contractor for the work/services performed, but that said insurance is the sole responsibility of the undersigned.

10. Payment of Permits/Licenses. Contractor shall obtain any license, permit, or approval if necessary from any agency whatsoever for the work/services to be performed, at his/her own expense, prior to commencement of said work/services or forfeit any right to compensation under this Agreement.

11. Non-Discrimination. No person shall illegally be excluded from participation in, denied the benefits of, or be subjected to discrimination under this Agreement on account of their race, sex, color, national origin, religion, age, or disability. Contractor shall ensure full equal employment opportunity for all employees under this Agreement.

12. Retention of Records. Contractor shall maintain all required records for three years after the Port District makes final payment and all other pending matters are closed, and shall be subject to the examination and /or audit of the Port District, a federal agency, and the state of California.

13. Merger Clause. This Agreement, including Exhibit "A" attached hereto and incorporated herein by reference, constitutes the sole Agreement of the parties hereto and correctly states the rights, duties, and obligations of each party as of this document's date. Any prior agreement, promises, negotiations, or representations between the parties not expressly stated in this document are not binding. All subsequent modifications shall be in writing and signed by the Port District. In the event of a conflict between the terms, conditions, or specifications set forth herein and those in Exhibit "A" attached hereto, the terms, conditions, or specifications set forth herein shall prevail.

THIS CONTRACT IS NOT VALID UNTIL SIGNED BY BOTH PARTIES

Marian Olin, Port Director

Date

Contractor's Signature

Date

Contractor's Tax I.D. Number or Social Security Number

Attachments: Exhibit A – Scope of Work & Payment Schedule
 Exhibit B – Hutchinson and Bloodgood Engagement Letter dated July 23,
 2019

EXHIBIT 'A'
SCOPE OF WORK & PAYMENT SCHEDULE

Scope of Work

Scope

Independent audit of the financial statements of the Santa Cruz Port District for fiscal year 19, April 1, 2018, to March 31, 2019.

Fees and Payment Schedule

Fees for services rendered in connection with this project will be based Hutchinson and Bloodgood's standard hourly rates plus out-of-pocket costs, for gross fee not-to-exceed \$27,000.

Payments shall be remitted on a net 30 basis to:

Hutchinson and Bloodgood, LLP
579 Auto Center Drive
Watsonville, CA 95076

EXHIBIT 'B'
ENGAGEMENT LETTER BY HUTCHINSON AND BLOODGOOD, LLP

Hutchinson and Bloodgood proposal dated July 23, 2019, attached.



HUTCHINSON and

BLOODGOOD LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

579 Auto Center Drive
Watsonville, CA 95076
t 831.724.2441 f 831.761.2136
www.hbllp.com

July 23, 2019

Ms. Marian Olin
Port Director
Santa Cruz Port District
135 Fifth Avenue
Santa Cruz, California 95062

We are pleased to confirm our understanding of the services we are to provide to Santa Cruz Port District (the "District") for the year ended March 31, 2019. We will audit the financial statements of the District, including the related notes to the financial statements. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the first paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records of the District and other procedures we consider necessary to enable us to express such opinion. We will issue a written report upon completion of our audit of the District's financial statements. Our report will be addressed to The Commission of the Santa Cruz Port District. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is

necessary for us to modify our opinion or add emphasis-of-matter or other-matter paragraphs. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws,

regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Other Services

We will also assist in preparing the financial statements of the District in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the District from whom we determine it necessary to obtain audit evidence.

Your responsibilities include 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.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws, regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period; and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Revenue Recognition Implementation Services

We will assist in implementation of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC 606), Revenue from Contracts with Customers, including, but not limited to the following procedures:

- We will read the completed ASC 606 questionnaires and identify inconsistencies and points of misunderstanding.
- We will read the prior period financial statements for issues relevant to adoption of ASC 606.
- We will read the process narratives and accounting policies and identify potential gaps in addressing ASC 606 requirements.
- We will read a sample of contracts to identify provisions relevant to adoption of ASC 606.

Through our revenue recognition implementation services, we will assist in the preparation of the District's financial statements, and we may advise the District about appropriate accounting principles and their application, but the responsibility for the financial statements remains with the District. As part of our engagement, we may also propose adjusting or correcting journal entries to the District's financial statements. However, management has the final responsibility for reviewing the proposed entries to the financial statements. It is our understanding management has designated an individual to oversee such services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities.

Claim Resolution

The District and Hutchinson and Bloodgood LLP agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by Hutchinson and Bloodgood LLP or the date of this engagement letter if no report has been issued. The District waives any claim for punitive services. Hutchinson and Bloodgood LLP's liability for all claims, damages and costs of the District arising from this engagement is limited to the amount of fees paid by the District to Hutchinson and Bloodgood LLP for the services rendered under this engagement letter.

Mediation

You agree that any dispute that may arise regarding the meaning, performance or enforcement of this engagement will, prior to resorting to litigation, be submitted to mediation, and that the parties will engage in the mediation process in good faith once a written request to mediate has been given by any party to the engagement. Any mediation initiated as a result of this engagement shall be administered within the county of Santa Cruz, California, by a member of the American Arbitration Association or the American Bar Association Section of Dispute Resolution, according to its mediation rules, and any ensuing litigation shall be conducted within said county, according to California law. The results of any such mediation shall be binding only upon agreement of each party to be bound. The costs of any mediation proceeding shall be shared equally by the participating parties.

Record Retention

It is our policy to keep records related to this engagement for seven years. However, the Firm does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain

and protect your records for possible future use, including potential examination by any government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the seven-year period Hutchinson and Bloodgood LLP shall be free to destroy our records related to this engagement. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

PKF International

Hutchinson and Bloodgood LLP is a member firm of the PKF International Limited family of legally independent firms. Neither the other member firms nor the correspondent firms of the network nor PKF International Limited is responsible or accept liability for the work or advice which Hutchinson and Bloodgood LLP provides to its clients and in signing and returning to us the enclosed copy of this Engagement Letter you acknowledge and accept that such other member and correspondent firms and PKF International Limited do not owe you any duty in relation to the work or advice which we will from time to time provide to you or are required to provide to you

Engagement Administration

We may from time to time and depending upon the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these services providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

In the event we are requested or authorized by the District or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the District, the District will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The audit documentation for this engagement is the property of Hutchinson and Bloodgood LLP and constitutes confidential information. However, subject to applicable you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of Hutchinson and Bloodgood LLP audit personnel and at a location designated by our Firm.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed, for your information.

Fees

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate and completion of our work is based upon the following criteria:

- a. Anticipated cooperation from District personnel.
- b. Timely responses to our inquiries.
- c. Timely completion and delivery of client assistance requests.
- d. Timely communication of all significant accounting and financial reporting matters.
- e. The assumption that unexpected circumstances will not be encountered during the engagement.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs, except that we agree that our gross fee, including expenses, will not exceed \$23,500 for the financial statement audit. We expect extra time associated with the implementation of GASB 75, which is difficult to quantify at this point, but we do not expect those fees to exceed \$3,500. We will keep you updated on activities directly related to the implementation. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel SCPD assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

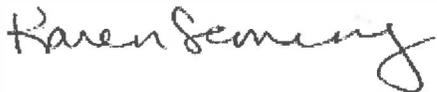
Electronic Signatures

Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (Including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature.

We appreciate the opportunity to be of service to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign a copy and return it to us.

Very truly yours,

HUTCHINSON AND BLOODGOOD LLP



Karen Semingson, CPA
Partner

Accepted:

By: _____
Marian Olin, Port Director

Date: _____

Report on the Firm's System of Quality Control

February 2, 2018

To the Partners of
Hutchinson and Bloodgood LLP
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Hutchinson and Bloodgood LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended September 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act, and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Hutchinson and Bloodgood LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended September 30, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Hutchinson and Bloodgood LLP has received a peer review rating of pass.

Weaver and Tidwell, LLP
WEAVER AND TIDWELL, L.L.P.
Dallas, Texas