



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL AND
REDEVELOPMENT AGENCY BOARD

FROM: Gerald A. Silva
Harry S. Mavrogenes

SUBJECT: AGREEMENTS WITH MACIAS GINI AND COMPANY, LLP TO PROVIDE ANNUAL FINANCIAL AND COMPLIANCE AUDITS **DATE:** April 18, 2005

RECOMMENDATION

- (a) Adoption of a resolution by the City Council authorizing the City Auditor to negotiate and execute an agreement with Macias Gini and Company, LLP to perform Annual Financial and Compliance Audit Services for Fiscal Years 2004-05, 2005-06, and 2006-07, and with two (2) one-year extension options for Fiscal Years ended June 30, 2008 and 2009, for a fee not to exceed \$440,780 for Fiscal Year 2004-05 and with annual increases adjusted by the CPI for each subsequent fiscal year, subject to annual appropriation of funds by the City Council.
- (b) Adoption of a resolution by the Redevelopment Agency Board authorizing the Executive Director of the Redevelopment Agency, to negotiate and execute an agreement with Macias Gini and Company, LLP to perform Annual Financial and Compliance Audit Services for Fiscal Years 2004-05, 2005-06, and 2006-07, and with two (2) one-year extension options for Fiscal Years ended June 30, 2008 and 2009, for a fee not to exceed \$84,540 for Fiscal Year 2004-05 and with annual increases adjusted by the CPI for each subsequent fiscal year, subject to annual appropriation of funds by the Redevelopment Agency Board.

BACKGROUND

Section 805 of the San Jose City Charter requires the City Auditor to conduct or cause to be conducted annual post audits of all the fiscal transactions and accounts kept by or for the City. Charter Section 805 specifies a number of requirements related to the annual audits. Such audits shall include but not be limited to the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures. The audits shall be conducted in accordance with generally accepted auditing standards and accordingly shall include tests of the accounting records and other auditing procedures as may be considered necessary under the circumstances. The audits shall include the issuance of audit reports for the Council and the public.

In addition to the above requirements set forth in the City Charter, as a recipient of Federal, State, and Local government financial assistance, the City is required to undergo a compliance audit in conformity with the provisions of the Single Audit Act of 1984, as amended in 1996, the United States Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations and Government Auditing Standards issued by the Comptroller General of the United States. The Redevelopment Agency has similar requirements imposed by State law and bond covenants.

Macias Gini and Company, LLP (MGC) has conducted the financial and compliance audits for the City and the Agency for Fiscal Years 1999-00 through 2003-04. However, their engagements with the City and the Agency for audit services concluded with the completion of the City and Agency audits for Fiscal Year 2003-04. Accordingly, the City Auditor initiated a Request for Qualifications (RFQ) process to select a firm to provide financial and compliance audit services.

ANALYSIS

To develop the RFQ, the City Auditor's Office formed an interdepartmental team (RFQ team) consisting of staff from the City Auditor's Office, Finance, Airport, Retirement Services, SJRA, and General Services/Purchasing with advice from the City Attorney's Office. The RFQ team segmented the work into three sections or groups: 1) the City; 2) the SJRA; and 3) the Retirement Plans. Interested firms were allowed to submit proposals for one, all/or any combination of the three groups. The work was grouped in this manner to allow smaller firms to submit proposals for a portion of the work and to provide flexibility in the selection process if a firm demonstrated superior expertise and experience in one of the three areas.

The RFQ team conducted extensive outreach efforts to encourage firms to respond. In fact, the RFQ team directly notified over 100 firms of the RFQ. Specifically, General Services/Purchasing posted advance notice of the RFQ on the City's Bid Line, as well as the DemandStar, an online tool that enables public agencies to notify registered firms of an upcoming procurement. Furthermore, the City Auditor mailed announcements of the upcoming RFQ to the 31 largest accounting firms in the Bay Area. This same process was used to notify the firms when the RFQ was issued on February 17, 2005.

Despite these outreach efforts, MGC was the only firm to submit a proposal by the March 8, 2005 deadline. MGC is a statewide certified public accounting firm headquartered in Sacramento, with offices in Los Angeles, Fresno, and Walnut Creek. Besides San Jose, MGC currently provides independent financial audit services to three of the other nine largest cities in California, including Oakland, Sacramento, and San Francisco (City and County). MGC is ranked as one of the Top 100 Fastest-Growing Companies in the Greater Sacramento Region and is also recognized as one of the 500 Largest Hispanic-Owned Companies in the United States.

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The RFQ team reviewed the MGC's proposed services and costs and checked their references. The team concurred that the MGC proposal was complete and that the firm was highly-qualified to provide the requested services. In addition, MGC's cost proposal was fair. MGC's costs are fixed in the first year at \$610,124 for all three groups. This represents a modest increase of approximately 3% more than last year's contract with MGC for the City and a modest 1% decrease for SJRA. The contract limits future annual cost increases to the Consumer Price Index but shall not exceed 5% from year to year.

The RFQ team recommended the selection of MGC to provide financial and compliance audit services and to enter into agreements with the firm for Fiscal Years 2004-05, 2005-06, and 2006-07, and with two (2) one-year extension options for Fiscal Years ended June 30, 2008 and 2009. This means that MGC will perform the audit services described below for fiscal years 2004-05, 2005-06, and 2006-07, and if both options are exercised, for fiscal years 2007-08, and 2008-09. It is anticipated that these agreements will commence in May or June of 2005 in order for MGC to perform the preparation work necessary for the audits for fiscal year 2004-05.

In total, the services specified in the RFQ will be addressed in six separate agreements with first-year compensation totaling \$610,124. The six agreements with the respective services and first-year compensation are shown below.

1. Agreement 1 is for the City's general audit services with a total first-year compensation not to exceed \$440,780, and a total contract amount not to exceed \$2,435,588 for the three-year term and two option years of the contract. Staff recommends that the City Council authorize the City Auditor to negotiate and execute an agreement with MGC to provide the following services:
 - Comprehensive Annual Financial Report (CAFR)
 - Single Audit
 - Norman Y. Mineta San Jose International Airport Financial Audit
 - San Jose-Santa Clara Clean Water Financing Authority Compliance Audit
 - Dolce-Hayes Mansion Financial Audit
 - Bicycle Pedestrian Grant Audit per State law requirements
2. Agreement 2 is for Deferred Compensation audit services with a total first-year compensation not to exceed \$6,604, and a total contract amount not to exceed \$36,491 for the three-year term and two-year options of the contract. The Deferred Compensation Committee will authorize this agreement.
3. Agreement 3 is for the financial audit of the San Jose-Santa Clara Clean Water Authority ("Authority"), with a total first-year compensation of \$15,440, and a total contract amount not to exceed \$85,316 for the three-year term and two-year options of the contract. This agreement is by and among the City, Authority and MGC. The Director of Finance, as Treasurer of the Authority, will execute the agreement on behalf of the Authority and the Auditor will execute the agreement on behalf of the City. This agreement is within the City Auditor's contract authority.

4. Agreement 4 is for financial audit services for the Redevelopment Agency with a total first-year compensation not to exceed \$84,540, and a total contract amount not to exceed \$467,137 for the three-year term and two-year options of the contract. Staff recommends that the Redevelopment Agency Board authorize the Agency's Executive Director to negotiate and execute an agreement with MGC to provide the following services:
 - CAFR
 - Compliance Audit
5. Agreement 5 is for the financial audit of the Federated City Employees' Retirement System, with first-year compensation not to exceed \$31,380, and a total contract amount not to exceed \$173,394 for the three-year term and two-year options of the contract. On April 14, 2005, the Federated City Employees' Retirement System Board of Administration authorized the Director of Retirement Services to execute an agreement with Macias & Gini for outside audit services through June 30, 2007 with two (2) one-year options for fiscal years 2007-08 and 2008-09.
6. Agreement 6 is for the financial audit of the Police and Fire Department Retirement Plan, with first-year compensation of \$31,380, and a total contract amount not to exceed \$173,394 for the three-year term and two-year options of the contract. On April 7, 2005, the Police and Fire Department Plan Board of Administration authorized the Director of Retirement Services to execute an agreement with Macias & Gini for outside audit services through June 30, 2007 with two (2) one-year options for fiscal years 2007-08 and 2008-09.

SUMMARY

Macias Gini and Company, LLP (MGC) has conducted the financial and compliance audits for the past five years. However, their engagements with the City and Agency for audit services concluded with the completion of the City and Agency audits for Fiscal Year 2003-04. Accordingly, the City Auditor initiated a Request for Qualifications (RFQ) process to select a firm to provide financial and compliance audit services. Despite extensive outreach efforts, MGC was the only firm to submit a proposal. The RFQ team found the MGC proposal to be complete and the firm highly qualified to perform the work. Moreover, the MGC cost proposal of \$610,124 for fiscal year 2004-05 represents a modest increase of approximately 3% above the last year of their current contract for the City and a modest 1% decrease for SJRA. Accordingly, the RFQ team recommends that MGC be awarded the contracts to perform annual financial and compliance audits for Fiscal Years 2004-05, 2005-06, and 2006-07, with two (2) one-year extension options for Fiscal Years ended June 30, 2008 and 2009.

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COORDINATION

This memorandum has been coordinated with the City Attorney’s Office, General Services/ Purchasing, Finance, the Airport, Retirement Services and the City Manager’s Budget Office.

CITY’S FISCAL IMPACT

The following budget information addresses the compensation to be paid to MGC for the first year of the agreements involving the City, including the audits of the retirement plans, the Deferred Compensation Plan and the San Jose-Santa Clara Clean Water Financing Authority. The costs of future years’ audit services are subject to annual appropriation of funds by the City Council.

Fund #	Appn.#	Appn. Name	Total Appn.	Amount of Contract	2004-2005 Adopted Budget Page	Last Budget Action (Date, Ord.No.)
001	2029	Annual Audit (CAFR)	\$270,471	\$226,400	Operating Budget Page IX - 13	10/12/2004 Ord. No. 27267
001	2042	Grant Compliance Single Audit	\$105,811	\$89,280	Operating Budget Page IX – 13	10/12/2004 Ord. No. 27267
523	2029	Annual Audit (Airport)	\$75,190	\$61,100	Operating Budget Page XI - 3	10/12/2004 Ord. No. 27267
541	0047	Clean Water Financing Authority Compliance Audit	\$30,000	\$22,940	Operating Budget Page XI – 68	10/12/2004 Ord. No. 27267
422	3196	Hayes Mansion Line of Credit	\$1,000,000	\$32,080	Operating Budget Page XI – 18	10/12/2004 Ord. No. 27267
465	4292	Bicycle and Pedestrian Facilities	\$750,000	\$8,980	Capital Budget Page V – 1038	10/12/2004 Ord. No. 27267
		Total	\$1,152,282	\$440,780		

The proposed first-year fee of \$15,440 for the San Jose-Santa Clara Clean Water Financing Authority financial audit will be paid out of the Sewer Service and Use Charge Fund. The cost of future years’ audit services are subject to annual appropriation of funds by the City Council.

The proposed first-year fee of \$6,604 for the Deferred Compensation Plan financial audit will be paid from funds overseen by the Deferred Compensation Committee. The cost of future years’ audit services are subject to approval of the annual budget by the Deferred Compensation Committee.

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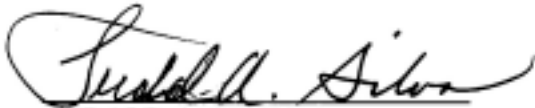
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The proposed first-year fee of \$31,380 for the City Employees' Retirement System financial audit will be paid out of the Federated Retirement Fund 2004-05 Budget. The proposed first year fee of \$31,380 for the Police and Fire Department Retirement Plan financial audit will be paid out of the Police and Fire Retirement Fund 2004-05 Budget. The costs of future years' audit services are subject to approval of each Plan's annual budget by the respective Retirement Boards.

REDEVELOPMENT AGENCY FISCAL IMPACT

The proposed first-year fee of \$84,540 is included in the Agency's current annual operating budget. The costs of future years' audit services are subject to annual appropriation of funds by the Redevelopment Agency Board.



GERALD A. SILVA
City Auditor



HARRY S. MAVROGENES
Executive Director