



# REPORT TO COUNCIL **23**

## City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org

Consent  
December 12, 2006

Honorable Mayor and  
Members of the City Council

**Title: Supplemental Agreements for Two-Year Extension of Consultant and Professional Services Agreements for Audit Services**

**Location/Council District:** Citywide

**Recommendation:** Adopt a **Resolution** authorizing the City Manager to execute two Supplemental Agreements for \$382,043 and \$132,329 with Macias, Gini & O'Connell, LLP to conduct the City's independent financial and compliance audits for two additional fiscal years.

**Contact:** Dennis Kauffman, Accounting Division Manager, 808-5843; Janet Riley, Principal Accountant, 808-1170

**Presenters:** Not Applicable

**Department:** Finance

**Division:** Accounting

**Organization No:** 1131

### **Description/Analysis**

**Issue:** In 2002, Macias, Gini & Company, LLP was selected and awarded a five-year agreement to perform independent financial and compliance audits of the City's financial records. Audits for Fiscal Year 2005/2006 comprise the fifth and final year of the agreements. Macias, Gini & Company, LLP became Macias, Gini & O'Connell, LLP in 2006. This report requests authorization for the City Manager to execute supplemental agreements with Macias, Gini & O'Connell, LLP to perform audit services for two additional fiscal years as part of the accommodation of, and implementation strategy for the electronic Citywide Accounting and Personnel System (e-CAPS) project. In light of the expected staff impacts of the e-CAPS project, extension of the current agreements allows the City to maximize the efficiency and timeliness of the external audits and ensures compliance with the continuing disclosure requirements of the City's bond covenants.

**Policy Considerations:** This action is consistent with City Charter Section 117, which requires an annual independent audit of the City's financial records. Independent audits are also required by the Federal Single Audit Act, specific



grant agreements, and certain bond covenants. This action is also consistent with the requirements for supplemental agreements and procuring contracts for professional services, as detailed in Chapter 3.64 of the Sacramento City Code.

**Environmental Considerations:** Not applicable

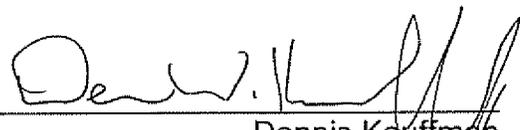
**Commission/Committee Action:** Not applicable

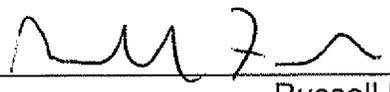
**Rationale for Recommendation:** In 2002, the City conducted a competitive RFP selection process for auditing services for a five-year period, beginning with fiscal year 2001-02. Macias, Gini & Company, LLP was selected as the best qualified firm to conduct the audits. Macias, Gini & Company, LLP became Macias, Gini & O'Connell, LLP in 2006. This is the fifth and final year of the contract for services.

To minimize the potentially significant impact of the e-CAPS project implementation process upon the audits, it is recommended that the City extend the agreements (via supplemental agreements) with the current service provider for an additional two years. The extension will help maximize the efficiency and timely delivery of the audits so that the City remains in compliance with its bond covenants.

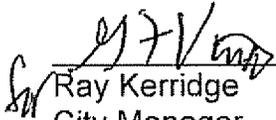
**Financial Considerations:** Extension of the two agreements will increase the total cost of the audit agreements from \$1,135,208 to an amount not to exceed \$1,649,580. Certain audit costs are passed through directly to external entities. The remaining costs are included in the Finance Department operating and carryover budgets in the General Fund. No additional funding is being requested.

**Emerging Small Business Development (ESBD):** Macias, Gini & Company, LLP, now Macias, Gini & O'Connell, LLP, was ESBD certified at the time of the original award.

Respectfully Submitted by:   
Dennis Kauffman  
Accounting Manager

Approved by:   
Russell Fehr  
Director of Finance

Recommendation Approved:

  
\_\_\_\_\_  
Ray Kerridge  
City Manager

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**Background Information**

Annual audits are scheduled to occur during the implementation of e-CAPS. To remain consistent with the Sustainable Budget Concept of continuous evaluation for efficiencies and effectiveness, staff developed a strategy to minimize disruption to key business processes. That strategy included the establishment of limited-term staff positions, approved by City Council in March 2006. In keeping with that strategy, it is also in the best interest of the City to authorize the City Manager to execute Supplemental Agreements with Macias, Gini & O'Connell, LLP to conduct the City independent financial and compliance audits through Fiscal Year 2007/2008 for the following reasons:

- Audit cost savings for the City: Macias understands the internal controls in place in the present system. New auditors would have to spend time to learn both the current and new systems.
- Efficiency for City staff: Macias' experience with City audits will help reduce e-CAPS implementation risks by minimizing the impact of the audits on staff assigned to the e-CAPS project.
- Audit deadline: Macias, Gini & O'Connell, LLP is in the best position to deliver timely audits in compliance with the City's bond covenants, despite any potential interruptions or challenges related to e-CAPS.

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**SUPPLEMENTAL AGREEMENTS FOR TWO-YEAR EXTENSION OF CONSULTANT AND PROFESSIONAL SERVICES AGREEMENTS FOR AUDIT SERVICES**

**BACKGROUND**

- A. The City Charter requires an annual independent audit of the City's financial records. Independent audits are also required by the Federal Single Audit Act, specific grants and certain bond covenants.
- B. In 2002, the City conducted a competitive RFP selection process for auditing services for a five-year period, beginning with fiscal year 2001-02. Macias, Gini & Company, LLP was selected as the best qualified firm to conduct the audits. Macias, Gini & Company, LLP became Macias, Gini & O'Connell, LLP in 2006.
- C. To minimize the potentially significant impact of the electronic Citywide Accounting and Personnel System project (e-CAPS) implementation upon the audits, staff recommends that the City extend the current agreements for an additional two years. The extensions will be accomplished via supplemental agreements. The general scope of work identified in the original agreements remains the same, and the same terms and conditions will apply. The extension will help maximize the efficiency and timely delivery of the audits so that the City remains in compliance with its bond covenants.
- D. The expenditures for the supplemental agreements for the two year extensions will total \$514,372. Thus, extension of the two agreements (Agreement numbers 2005-0046 and 2005-0047) will increase the total cost of the audit agreements from \$1,135,208 to an amount not to exceed \$1,649,580.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Manager is authorized to execute Supplemental Agreement No. 2 to Agreement 2005-0046 for \$382,043 with Macias, Gini & O'Connell, LLP to conduct the City's annual independent financial and compliance audits for the fiscal years ending June 30, 2007 and June 30, 2008.
- Section 2. The City Manager is authorized to execute Supplemental Agreement No. 2 to Agreement 2005-0047 for \$132,329 with Macias, Gini & O'Connell, LLP to conduct the City's annual independent financial and compliance audits for the fiscal years ending June 30, 2007 and June 30, 2008.

Section 3. Supplemental Agreements No. 2 to Agreement 2005-0046 and Agreement 2005-0047 issued pursuant to the authority of the City Manager are ratified and the City Manager's supplemental agreement authority is restored.

