



## **CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR**

# 8

February 11, 2008

**Honorable City Council  
Palo Alto, California**

### **Approval of Amendment No. One to Contract No. C05110846 with Maze and Associates in an Amount Not to Exceed \$426,052 for External Audit Services for Fiscal Years Ending June 30, 2008 through June 30, 2010**

#### **RECOMMENDATION**

The City Auditor recommends that the City Council approve a three-year contract extension with the accounting firm of Maze and Associates for external audit services for the fiscal years ending June 30, 2008, June 30, 2009, and June 30, 2010 at a total cost not to exceed \$426,052.

#### **BACKGROUND**

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual external financial audit, and report the results of the audit in writing to the City Council.

In 1998, the City engaged in a formal Request for Proposal (RFP) process for external audit services. The contract was awarded to the firm of Maze and Associates, and was subsequently extended for a total of seven years providing continuity through the GASB 34 implementation and SAP accounting system implementation processes.

In January 2005, the City engaged in a formal RFP process that encouraged competition from all qualified firms, including Maze and Associates. The RFP was sent to 19 audit firms, and the City received proposals from four audit firms. In April 2005, the City Council approved a contract with Maze and Associates for external audit services for fiscal years ending June 30, 2005 through June 30, 2007 with an option to continue such services for three subsequent fiscal years contingent on satisfactory performance.

Because of the excellent performance of Maze and Associates, I am recommending that the City exercise the option, and retain Maze and Associates for the audits as of June 30, 2008, 2009, and 2010. The Administrative Services Director and Accounting Manager concur.

Total proposed audit fees of \$426,052 are based on 2007 fees of \$132,007 adjusted for an annual 3.7 percent increase as follows: \$136,890 for the fiscal year ending June 30 2008; \$141,955 for the fiscal year ending June 30, 2009; and \$147,207 for the fiscal year ending June 30, 2010.

Respectfully submitted,

*Sharon W. Erickson*

Sharon W. Erickson  
City Auditor

Attachments:

- Amendment No. One to Contract No. C05110846 Between the City of Palo Alto and Maze & Associates for External Audit Services
- Exhibit A Scope of Services for External Audit Services
- Exhibit B City of Palo Alto Engagement Letter Fees Attachment

**AMENDMENT NO. ONE TO CONTRACT NO. C05110846  
BETWEEN THE CITY OF PALO ALTO AND  
MAZE & ASSOCIATES FOR EXTERNAL AUDIT SERVICES**

This Amendment No. One to Contract No. C05110846 ("Contract") is entered into \_\_\_\_\_, 2008, by and between the CITY OF PALO ALTO, a California chartered municipal corporation ("CITY"), and MAZE & ASSOCIATES, a California corporation, located at 1931 San Miguel Drive, Suite 100, Walnut Creek, California ("AUDITOR").

**R E C I T A L S :**

WHEREAS, the Agreement was entered into between the parties for the provision of external audit services; and

WHEREAS, the parties wish to amend the Agreement;

NOW, THEREFORE, in consideration of the covenants, terms, conditions, and provisions of this Amendment, the parties agree:

SECTION 1. The section entitled "TERM" is hereby amended to read as follows:

"TERM". The services and/or materials furnished under this Agreement shall be from the date of its full execution through the audits for the fiscal years ending June 30, 2008 through June 30, 2010.

SECTION 2. The section entitled "NOT TO EXCEED COMPENSATION" is hereby amended, to read as follows:

The compensation to be paid to AUDITOR for performance of Services, including both payment for professional services and reimbursable expenses, shall not exceed Four Hundred Twenty-six thousand Fifty-two Dollars (\$426,052) as follows: \$136,890 for the fiscal year ending June 30, 2008; \$141,955 for the fiscal year ending June 30, 2009; and \$147,207 for the fiscal year ending June 20, 2010.

SECTION 3 The following exhibit to the agreement is hereby amended to read as set forth in the attachment to this Amendment, which is incorporated in full by this reference:

- a. Exhibit "A" entitled "Scope of Services".
- b. Exhibit "B" entitled "Compensation".

SECTION 4. Except as herein modified, all other provisions of the Agreement, including any exhibits and subsequent amendments thereto, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have by their duly authorized representatives executed this Amendment on the date first above written.

APPROVED AS TO FORM:

CITY OF PALO ALTO

\_\_\_\_\_  
Senior Asst. City Attorney

\_\_\_\_\_  
Assistant City Manager

APPROVED:

Maze & Associates

\_\_\_\_\_  
City Auditor

By: Cory Biggs

Name: CORY BIGGS

Title: CEO

# CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of CONTRA COSTA

} ss.

On 5 FEB 2008, before me, DONALD E. HESTER, NOTARY PUBLIC

Date

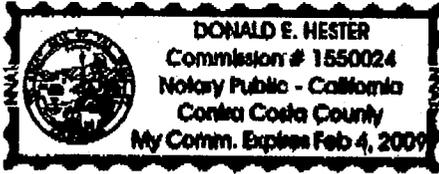
Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared CORY BIGGS

Name(s) of Signer(s)

personally known to me

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



Place Notary Seal Above

WITNESS my hand and official seal.

Donald E. Hester  
Signature of Notary Public

### OPTIONAL

*Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.*

#### Description of Attached Document

Title or Type of Document: AMENDMENT NO. ONE TO CONTRACT NO.

Document Date: 5 FEB 2008 Number of Pages: 2

Signer(s) Other Than Named Above: N/A

#### Capacity(ies) Claimed by Signer(s)

Signer's Name: \_\_\_\_\_

- Individual
- Corporate Officer — Title(s): \_\_\_\_\_
- Partner —  Limited  General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: \_\_\_\_\_

RIGHT THUMBPRINT OF SIGNER  
Top of thumb here

Signer Is Representing: \_\_\_\_\_

Signer's Name: \_\_\_\_\_

- Individual
- Corporate Officer — Title(s): ceo
- Partner —  Limited  General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: \_\_\_\_\_

RIGHT THUMBPRINT OF SIGNER  
Top of thumb here

Signer Is Representing: \_\_\_\_\_

## EXHIBIT A

### SCOPE OF SERVICES for External Audit Services

#### PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2008 through June 30, 2010, with the option to continue such services for each of the three subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards (2003 revision), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations.

#### Basic Audit Services Required

Auditor shall audit the City's financial statements and prepare the City's federal and state tax returns for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2008 through June 30, 2010. In providing these services, Auditor shall:

- A. audit the basic financial statements and supplementary entity-wide combining and individual fund financial statements included in the City's Comprehensive Annual Financial Report (CAFR), including all funds under the jurisdiction and control of the City, and render a professional opinion thereon.

Prior to year-end and preferably during March and April, Auditor shall perform interim work to test internal controls of accounting processes. The auditor shall provide the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work;

- B. prepare a management letter to the City Council which will include observations and recommendations noted and identified during the audit. This may include:
- (1) issues regarding internal control structure (e.g., information systems, functions, and procedures);
  - (2) items concerning compliance with laws, rules, and regulations;
  - (3) opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the City; and/or
  - (4) other matters of interest to the City Council and management;
- C. audit the financial statements of the Regional Water Quality Control Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the cities of Palo Alto, Mountain View and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System", and all addenda thereto;
- D. audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the City has created to finance the construction of specific facilities and prepare their applicable Federal and State informational and tax returns.

- E. audit the City's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract;
- F. audit the City's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable State requirements;
- G. perform agreed upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required;
- H. audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, the County of San Mateo, and the County of Santa Clara;
- I. audit and issue a report on the financial statements of the Redevelopment Agency, created on October 9, 2001 under the provisions of the Redevelopment Law (California Health and Safety Code);
- J. prepare the Annual Financial Transactions Report, Annual Street Report, and Redevelopment Agency Report, in accordance with instructions from the California State Controller's Office;
- K. assist the City in the transition to adhere to any new GASB pronouncements including, but not limited to:  
 GASB 43 – Other Post Employment Benefits  
 GASB 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

To the extent possible, this assistance should be provided during the interim work, and may include reviewing reports, transactions, and Management Discussion and Analysis;

- L. provide a direct data dump, word processing services, and use the City's worksheet and template to prepare the CAFR, including the entity-wide statements. The CAFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility;
- M. deliver the following items:

Items 1-4 are to be delivered to the City Auditor. Items 5-7 are to be delivered to the Director of Administrative Services Department (with a courtesy copy to the City Auditor). The report issuance dates are shown for the fiscal year ending June 30, 2008. The report issuance dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined.

- 1) Five (5) draft reports by October 22, 2008 and five (5) final bound reports by November 15, 2008 on the following:

- Palo Alto Improvement Corporation
- Regional Water Quality Control Plant
- Transportation Development Act
- Bicycle/Pedestrian Projects
- Redevelopment Agency of the City of Palo Alto Component Unit

- 2) A copy of the comprehensive Management Letter delivered to the City Auditor and to the Director of Administrative Services as follows:

Draft Management Letter for interim work	April 18, 2008
Draft Management Letter for completed fieldwork	October 22, 2008
Final comprehensive Management Letter	November 15, 2008

- 3) Seven (7) bound copies of the cable report on June 30, 2008.
- 4) Two (2) original copies and a complete electronic version in a website-compatible format of the Comprehensive Annual Financial Report, including the Single Audit Report, on November 14, 2008. Also, provide one copy to the City Auditor.
- 5) Five (5) copies of the Opinion Letter and the Single Audit Report to be bound with the Comprehensive Annual Financial Report by December 1, 2008.
- 6) Five (5) copies of the Gann Limit Letter on May 30, 2008. Also, provide one copy to the City Auditor.
- 7) Two (2) copies of Federal and State tax returns on January 7, 2009. Also, provide one copy to the City Auditor.
- 8) Two (2) copies of the Annual Financial Transactions Report on November 15, 2008, Annual Street Report on September 18, 2008, and Redevelopment Agency Report, to be delivered to the City's Accounting Manager before the due date for signature and mailing. Also, provide one copy of each report to the City Auditor.
- N. meet with the City Auditor and the Assistant Director of Administrative Services or their designees on a weekly basis during the audit engagement, to report on the progress of Auditor's examinations and on their preliminary audit findings and recommendations;
- O. provide the Director of Administrative Services with comments to responses on issues noted at completion of the interim audit work (Accounting Issues memo). The Auditor's comments will be provided within three weeks;
- P. meet with the City Auditor or designee independently to review internal control issues noted during the audit. This will include reportable conditions, if applicable, reflected in the draft Management Letter;
- Q. upon completion of the audit, hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff. At this meeting, the Auditor will present the financial statements and first draft of the management letter;
- R. attend a minimum of one of the City Council and one Council Finance Committee meeting for the purpose of discussing the audit and the Management Letter;
- S. provide professional publications and software including applicable licenses as described below:  
The Auditor will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by the Auditor, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), and the United States General Accounting Office (GAO). Examples of these publications include:

AICPA Professional Standards

Audit and Accounting Guide, Audits of State and Local Governmental Units (AICPA)  
FASB Accounting Standards  
Codification of Governmental Accounting and Financial Reporting Standards (GASB)  
Governmental Accounting, Auditing and Financial Reporting (GFOA)  
Government Auditing Standards (GAO)

In addition, the Auditor will make available any past, current or new GASB statements; and

- T. provide training for the City's personnel regarding important industry developments and technical matters as described below:

GASB pronouncements and major projects may significantly impact the City's financial reporting over the next several years. The Auditor will provide the City, at no additional cost, with proactive guidance on complying with such requirements. Formal training classes will be offered to the City Auditor and Director of Administrative Services or designee regarding industry developments and new accounting regulations.

### **ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION**

#### **Administrative Services Department (ASD) and Clerical Assistance**

ASD staff and responsible management will be available during the audit to assist the firm by providing information, documentation and explanations. ASD staff will prepare statements and schedules for the Auditor as requested.

Report editing and compilation shall be the responsibility of the Auditor. Printing is the responsibility of the City for those reports not identified above.

#### **Work Area, Telephones, Photocopying and Facsimile Machines**

The City will provide the Auditor with reasonable workspace. The Auditor will also be provided with access to telephone lines, photocopying machine, and facsimile machines. The invoices submitted by the Auditor will be reduced by any telephone charges.

### **WORKING PAPER RETENTION AND ACCESS TO WORKING PAPERS**

Auditor shall maintain its audit workpapers and reports, at the Auditor's expense, for at least three years after final payment under the agreement is made, unless the firm is notified in writing by the City of Palo Alto of the need to extend the retention period.

Upon request and after reasonable notice, the Auditor may be required to make workpapers available to the City of Palo Alto or other organizations designated by the City of Palo Alto, during the Auditor's normal business hours. There will be no charge for any such reviews or inspections.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

### **TIME REQUIREMENTS**

Schedule for 2007-08 Fiscal Year Audit (exact dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined):

Interim Work	March 29, 2008 (two weeks late in March)
Fieldwork Completed	October 10, 2008 (three weeks ending by October 10, 2008)
Initial Draft Report	October 31, 2008
Final Report	November 14, 2008
Presentation of Audit Results to Finance Committee	December 16, 2008

## EXHIBIT B

### City of Palo Alto Engagement Letter Fees Attachment

Our fees for the work described in the attached engagement letter will be as follows, unless they are adjusted for one or more of the items below:

Service	Total fees for fiscal year ending June 30		
	2008	2009	2010
Comprehensive Annual Financial Report	\$103,571	\$107,403	\$111,377
Palo Alto Public Improvement Corporation Financial Statements Information Return	2,982 725	3,092 752	3,206 780
Palo Alto Redevelopment Agency	4,685	4,858	5,038
Regional Water Quality Control Plant	4,003	4,151	4,305
Cable Television Franchise	3,296	3,418	3,544
Transportation Development Act	1,807	1,874	1,943
Single Audit (one program)	5,545	5,750	5,963
Annual Report of Financial Transactions:			
City	5,911	6,130	6,357
RDA	1,096	1,137	1,179
Annual Street Report	2,423	2,513	2,606
Gann Limit Agreed Upon Procedures	846	877	909
Totals	<u>\$136,890</u>	<u>\$141,955</u>	<u>\$147,207</u>

**Fees** – Our fees are based on our 2007 fees adjusted for an annual 3.7% increase in the Consumer Price Index.

**Additional Services** - The above fees are for audit and assurance services described in the accompanying engagement letter. They do not include fees for assisting with closing the books nor providing other accounting services.

**Recurring Audit Adjustments** - Each year we include the prior year's adjusting entries as new steps in our Closing Checklist, so that you can incorporate these entries in your closing. If we are required to continue to make these same adjustments as part of this year's audit, we will bill for this service at our normal hourly rates.

**Single Audit Act** - Additional programs will cost \$5,545 each, unless there are other factors which add to that program's cost; in that case, we will provide a cost estimate before proceeding.