



**DATE:** March 22, 2022

**CATEGORY:** Consent

**DEPT.:** Finance and Administrative Services

**TITLE:** **Extend the City’s External Auditor Contract for Two Years and Amend the Contract to Include GASB 87 Consultant Services**

### **RECOMMENDATION**

Authorize the City Manager or designee to:

1. Extend the City’s contract with Macias Gini & O’Connell, LLP, an additional two years for Fiscal Years 2021-22 and 2022-23.
2. Amend the City’s contract to include consulting services related to the implementation of Governmental Accounting Standard Board Statement No. 87 (GASB 87).

### **BACKGROUND**

Section 1106 of the City Charter states that the City Council shall employ an independent certified public accountant to examine the City’s books, records, inventories, and reports. In 2015, in accordance with the City Charter and Council Policy No. B-6, Selection of External Independent Auditor, the City Council appointed Macias Gini & O’Connell, LLP (MGO) to serve as the City’s independent certified public accountant. The contract period with MGO was for four years with an option to extend for two 1-year periods. In April 2020, the City exercised the option to extend the contract for two years, Fiscal Year 2019-20 and Fiscal Year 2020-21.

On February 28, 2022, the Council Finance Committee (CFC) met to discuss the possibility of extending the external auditor contract and amending the contract to include consulting services for Governmental Accounting Standard Board Statement No. 87 (GASB 87) implementation. The agenda and staff report are attached (Attachment 1 to the Council report).

### **ANALYSIS**

Staff would normally recommend issuing a Request for Proposals (RFP) for audit services at this time. However, staff recommends extending the agreement with the current auditor due to the staff capacity needed to implement the new GASB 87 accounting standard in addition to an

already busy workload and impacts from recent staffing changes. GASB 87 takes effect for the fiscal year ending June 30, 2022. Based on the complexity of this standard, it will be a significant challenge to concurrently implement the new standard and change auditors. Changing auditors results in a substantial workload increase given the need to provide historical documents and orient the new auditors to the City's processes, financial system records, accounts, and statements.

MGO proposed a 3% cost-of-living adjustment for the first year (Fiscal Year 2021-22) and no price increase for the second year of the proposed two-year contract extension. Staff feels this pricing is reasonable in light of recent inflation rates.

The CFC discussed the Government Finance Officers Association (GFOA) best practice recommendation for procurement of audit services. The GFOA recommends maintaining an auditor for a minimum term of five years and a full-scale competitive process is recommended at the end of the term. However, the GFOA also recognizes that it may not be beneficial or cost-effective to require mandatory changes as there are fewer qualified firms to perform governmental audits. Assuming the auditor's performance is satisfactory, a renewal is consistent with the GFOA's best practices.

The CFC discussed the original appointment of MGO and that staff has been satisfied with their services. The CFC also reviewed the alternatives and recommended extending the contract with MGO for two years with the provision that they rotate either the engagement partner or technical review partner. Staff subsequently discussed this matter with MGO, who verified that they can comply with this direction. The CFC also recommended amending the contract to include consulting services related to GASB 87 implementation.

### **FISCAL IMPACT**

No additional appropriations are necessary as funds are budgeted on an annual basis and funding for the Fiscal Year 2021-22 audit has been included in the current fiscal year's budget. The City Council previously approved a midyear budget adjustment on February 22, 2022 to provide a \$20,000 budget for implementing the GASB 87 services. The total audit contract amount, including additional services, will be \$167,974 for Fiscal Year 2021-22 and \$147,974 for Fiscal Year 2022-23.

### **ALTERNATIVES**

1. Authorize the extension of the contract with MGO for only one year.
2. Do not authorize the extension of the contract and direct staff to initiate a full RFP process.

3. Do not authorize the contract amendment to include GASB 87 consultation services.

**PUBLIC NOTICING**—Agenda posting.

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Attachment: 1. Agenda Packet from Council Finance Committee Meeting of  
February 28, 2022