



COUNCIL REPORT

DATE: April 23, 2024

CATEGORY: Consent

DEPT.: Finance and Administrative Services

TITLE: **Recommendation to Approve
Engagement of the City's External Audit
Firm**

RECOMMENDATION

1. Approve the Council Finance Committee's recommendation to engage Badawi & Associates as the City's external audit firm to perform professional audit services for the fiscal years ending June 30, 2024, 2025, 2026, and 2027, with an option for two additional fiscal years.
2. Authorize the City Manager or designee to execute a professional services agreement with Badawi & Associates to perform professional audit services for the fiscal years ending June 30, 2024, 2025, 2026, and 2027, in an amount not to exceed \$895,085, with an option to extend the agreement for two additional fiscal years.

BACKGROUND

The City is required to engage an independent certified public accounting firm to conduct an annual audit of the City's records. The independent audit firm of Macias Gini & O'Connell (MGO) was the City's auditor from Fiscal Year 2015-16 through Fiscal Year 2022-23. As the agreement with MGO has been completed, the City has a need to enter into a new agreement with an audit firm for Fiscal Year 2023-24 and beyond.

In December 2003, the City Council adopted a policy (Council Policy No. B-6) that establishes a three-step process for Council selection of the external auditor required by City Charter Section 1106. Step one requires Council Finance Committee (CFC) approval of the evaluation criteria and other components of a Request for Proposals (RFP) to be sent to audit firms. The CFC met on January 30, 2024 and approved the evaluation criteria of the RFP. In step two, staff evaluates proposals received by the City in response to the RFP and the most qualified firms are forwarded to the CFC, along with reasons for not recommending other proposers. Step three involves the CFC and staff interviewing these firms and the CFC selecting the firm to be recommended to the City Council to serve as the City's external auditor.

ANALYSIS

On January 31, 2024, staff issued an RFP to seek independent, professional audit services. The RFP was posted on the PlanetBids procurement website, and 23 firms were notified of the posting via email. The RFP was also posted on the California Society of Municipal Finance Officers (CSMFO) website. Six proposals were received by the deadline noted in the RFP. Proposals were individually evaluated and scored based on criteria included in the RFP and referenced below:

- The firm's experience and performance on comparable government audits, including the ability of the firm to be nationally recognized by bond rating agencies, attorneys, underwriters, bond insurers, and financial institutions.
- Qualifications of the firm's professional personnel to be assigned to the engagement.
- The quality of the proposed audit approach, including documenting and understanding the internal control structure, drawing audit samples, and preliminary timeline for performing key phases of the audit.
- Competitive cost of services.
- The firm's responsiveness to the RFP, including the firm's adherence to the terms set forth in the RFP.

Of the six proposals received, three firms were invited to interview with the CFC and staff. On March 20, 2024, the CFC and staff interviewed the following firms:

- Badawi & Associates (Badawi)
- Macias Gini & O'Connell (MGO)
- Maze & Associates (Maze)

Based on the staff evaluation of the proposals and the interview process, and extensive reference checks the CFC recommends that the City Council approve an agreement with Badawi for an initial four-year term with an option to extend the agreement for an additional two fiscal years.

FISCAL IMPACT

The contract amount proposed by Badawi for the initial four-year term is not to exceed \$583,200 and includes \$35,000 per year of optional professional services related to agreed-upon procedures (AUP). These AUPs have historically been reviews of lease and revenue-sharing agreements and the City's credit card transactions. The proposed costs for the two additional

fiscal years is not to exceed \$311,885 and also includes \$35,000 per year of optional professional services related to AUPs. The total contract amount shall not exceed \$895,085.

ALTERNATIVES

1. Select a different firm to engage as the City's independent external auditor.
2. Cancel this procurement and begin a new procurement process with a new RFP.
3. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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