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# AGENDA REPORT

**TO:** HENRY L. GARDNER  
INTERIM CITY ADMINISTRATOR

**FROM:** Osborn K. Solitei

**SUBJECT:** Additional Audit Related Services

**DATE:** October 13, 2014

City Administrator  
Approval

Date

10/14/14

**COUNCIL DISTRICT:** City-Wide

## RECOMMENDATION

**A City Resolution Amending City Council Resolution No. 82682 C.M.S., Which Authorized a Contract with Macias Gini, & O'Connell, LLP ("MGO") to Provide Audit Services to Increase the Contract for the City audit services for an additional amount not to exceed \$75,193. The additional services requested are to cover Government Accounting Standard Board ("GASB") No. 67 testing, planning and implementing GASB No. 68 and Agreed-Upon Procedures testing the City Procurement Policies and Procedures for fiscal year ending June 30, 2014 and a Waiver for advertising and Request for Proposals for these additional audit related services.**

## EXECUTIVE SUMMARY

On February 20, 2010 the City Council approved a five-year contract extension with MGO to provide audit services for the Fiscal year ending June 30, 2010 through fiscal year ending June 30, 2014 with MGO to provide auditing services, which includes the auditing of the financial statements for the City, the Comprehensive Annual Financial Report (CAFR), the form Oakland Redevelopment Agency, the Police and Fire Retirement System and the Oakland Municipal Employees Retirement System. The audit also encompasses the Measure Y – Violence Prevention and Public Safety Act of 2004 Compliance Audit, the Oakland Wildfire Prevention Assessment District Compliance Audit, the Measure C – Transient Occupancy Tax ("TOT") Surcharge Compliance Audit, the Oakland Army Base Audit, the Gann Appropriation Limit, and the Single Audit Report for Federal Awards. However, this contract did not include services from MGO to audit the City's implementation and compliance with GASB 67, a recent change to pension standards. Expanded auditing services are required for single-employer pension plans for OMERS and PFRS due to implementation of GASB 67 starting in Fiscal Year 2013-14 and forward. MGO is currently the City's approved auditor through Fiscal Year 2013-14, thus these services should be added to MGO's contract without additional competitive bidding.

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GASB 68 dramatically changed how state and local governments report pension-related benefits and expenses in their financial statements. Obtaining additional audit related services from the City's current auditor, MGO will allow the City to seamlessly plan for and meet new, complex GASB 68 requirements related to pensions for the first years of required implementation. Planning for and implementing the processes necessary to comply with the new GASB 68 pension requirements is beyond the current staff capacity. MGO has many years of experience working with the City's finances, systems, and processes and will be an extreme asset in helping guide the City in meeting the new requirements established in GASB 68. Competitively bidding and potentially bringing in a new contractor for the City would be a huge loss of institutional knowledge at such a critical junction.

Obtaining additional service from MGO to assist in determining whether the City has been following its procurement policies and procedures for Fiscal Years 2012, 2013, and 2014 will help the Administration efficiently and thoroughly evaluate control weaknesses with procurement and receive critical recommendations to help the City improve its procurement practices and ensure that what happened in early 2014. As previously mentioned, MGO has extensive experience working with the City's finances, systems, and processes. Competitively bidding and potentially bringing a new contractor to perform these additional, limited services would be a huge loss of institutional knowledge needed for efficiently executing this task.

### **OUTCOME**

Authorization of this action will result in an amendment of the current contract with MGO to include additional audit services necessary for the implementation of GASB 67, GASB 68, and for a critical assessment of the City's procurement practices.

### **BACKGROUND/LEGISLATIVE HISTORY**

A joint Request for Proposals ("RFP") with the Port of Oakland ("Port") for financial audit services for fiscal year ending 2008 and 2009 (with an extension option of two additional years) was mailed to thirty-seven (37) accounting firms in October 2007. The RFP mailing list included all firms offering Governmental Accounting Services (Forensic accounting) included on the San Francisco Business Times "50 Largest Accounting Firms in the East Bay," as well as any firm that had requested to be included on the proposal listing through the Contract Compliance and Purchasing Division. Of those thirty-seven (37) firms, two (2) responses were received, two (2) firms were included in other proposals as sub-contractors; six (6) firms sent notification either to the Port or the City declining to respond. City and Port staff reviewed the two responses to the RFP and held interviews with the two responsive firms (Macias Gini & O'Connell, LLP and Williams Adley & Company LLP) in January 2008. City and Port staff agreed on the selection of Macias Gini & O'Connell, LLP. MGO's proposal demonstrated superior knowledge of both City and Port activities; provided an experienced audit team; and

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included training and technical support for City and Port staff for the implementation of new auditing and reporting regulations and standards.

City Council approved a two-year contract with Macias Gini & Company, LLP to provide audit services for the fiscal years ending June 2008 and 2009, with an extension option of two additional years (June 2010 and 2011). In 2009, the City Council directed staff to seek a 10% reduction in payments from all of its vendors and contractors, for the next two fiscal years. Staff approached MGO and proposed a five-year contract extension and a six-year 10% contract reduction. The five-year contract extension provided the City a savings of \$475,895. City Council approved the five-year contract extension on April 20, 2010.

## ANALYSIS

### *RFP/RFQ Waiver Justification*

Section 809 of the City of Oakland (the "City") Charter states that the City Council shall engage an independent certified public accountant to examine and report on the annual financial statements of the City.

On April 20, 2010, the City Council under resolution no. 82682 C.M.S. approved a five-year contract extension for the period from Fiscal Year 2009-10 to Fiscal Year 2013-14 with Macias Gini & O'Connell, LLP ("MGO") to provide audit services to the City. On February 1, 2011, the City Council approved amendment number one (City Resolution No. 83183 C.M.S.) for an increase of \$19,400 to perform additional audit services required by the *Office of Management and Budget (OMB) Circular A-133* for the Single Audit Report.

Staff requests City Council adopt the proposed City resolutions authorizing an amendment number two (2) to increase the existing contract with MGO by a not-to-exceed amount of \$75,193 to perform the following additional audit services:

- \$15,193 – Recently there have been major changes to the Governmental Accounting Standards Board (GASB) accounting and reporting requirements for pensions. GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25* (GASB 67). GASB 67 changed standards relating to the audits of the single-employer pension plans for Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS) starting in Fiscal Year ending June 30, 2014.
- \$24,600 – GASB Statement No. 68 *Accounting and Financial reporting for Pensions, an amendment of GASB Statement No. 27* (GASB 68) will dramatically change how state

and local governments report pension-related benefits and expenses in their financial statements, effective June 30, 2015. These GASB changes include complex process and reporting changes for the City over the next year and require additional auditing services and assistance in implementation to help ensure the City's continued compliance with GASB.

- \$35,000 – Agreed-Upon Procedure to determine whether the City has been following its procurement policies and procedures during fiscal years ending June 30, 2012, 2013 and 2014. In addition, in early 2014, internal control issues regarding the City's procurement processes were raised to the Administration and the City Council when it was found that a department had significantly overspent its contract with a vendor. At that time, the City Administrator announced his intention to audit the City's procurement process with the goal of strengthening controls over the process.

Due to the major, recent changes to the GASB accounting and reporting requirements for pensions (GASB 67 and GASB 68), expanded auditing services are required for single-employer pension plans for OMERS and PFRS due to implementation of GASB 67 starting in Fiscal Year 2013-14 and forward. Further, planning for and implementing the processes necessary to comply with the new GASB 68 pension requirement is beyond the current staff capacity, making it necessary to obtain additional audit related services for the City's GASB 68 preparations.

Currently, the City's procurement process is decentralized. The procurement process is a key control for the City to ensure that it is following the City's established policies and procedures, appropriately executing purchasing under City contracts, and overall monitoring purchasing city-wide. The internal control issues that surfaced in early 2014 that resulted in a department significantly overspending its contract with a vendor, highlighted the need to obtain a thorough review of the City's procurement process. At that time, the City Administrator announced his intention to audit the City's procurement process with the goal of strengthening controls over the process. Using MGO, who is well versed in the City's finances, systems, and processes will be an asset in completing this important review and strengthening the City's procurement process.

Section 2.04.051 B of the Oakland Municipal Code (OMC) permits the City Council to waive the competitive RFP selection process requirement of Section 2.04.051 A of the OMC if it finds that it is in the best interest of the City to do so. Based on the information provided above, staff believes it is in the best interest of the City to amend the audit contract for additional audit related services from Macias Gini & O'Connell LLP ("MGO") for: a) auditing services related to Governmental Accounting Standards Board (GASB) 67, b) assistance in planning and implementing GASB 68, c) agreed-upon procedures to assist the City in determining whether the City has been following its procurement policies and procedures For Fiscal Years 2012, 2013, and 2014.

MGO has provided auditing services for the City since 2007 and has extensive understanding of the City's finances, systems, and processes that will be instrumental in the City implementing and complying with new, complex GASB requirements related to the City's accounting and reporting for pensions and for strengthening critical controls over the City's procurement process.

### **COORDINATION**

This report has been reviewed by the City Attorney's Office and the Budget Office.

### **COST SUMMARY/IMPLICATIONS**

The Fiscal Impact of obtaining additional audit related services from MGO is \$75,193. The table below outlines the cost of the additional audit related services.

<b>Audit Service Description</b>		<b>FY 2014</b>
GASB No. 67, Financial Reporting for Pensions - OMERS <i>Fund 7120: Oakland Municipal Employees Retirement System</i>	\$ 6,473	
GASB No. 67, Financial Reporting for Pensions - PFRS <i>Fund 7100: Police and Fire Retirement System Fund</i>	9,120	
<b><i>Sub-Total GASB No. 67</i></b>		<b>15,593</b>
GASB No. 68, Financial Reporting for Pensions - OMERS <i>Fund 7120: Oakland Municipal Employees Retirement System</i>	3,798	
GASB No. 68, Financial Reporting for Pensions - PFRS <i>Fund 7100: Police and Fire Retirement System Fund</i>	4,998	
GASB No. 68, Financial Reporting for Pensions - City <i>Fund 1010: General Purpose Fund</i>	15,805	
<b><i>Sub-Total GASB No. 68</i></b>		<b>24,600</b>
Agreed-Upon Procedure Review <i>Fund 1010: General Purpose Fund</i>		35,000.00
<b>Total Contract Amendment <sup>1</sup></b>		<b>75,193.00</b>

<sup>1</sup> The total contract amendment of \$75,193 is available in FY 2014-15 City Budget

**SUSTAINABLE OPPORTUNITIES**

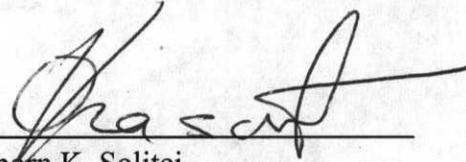
***Economic:*** There are no economic opportunities associated with this report.

***Environmental:*** There are no environmental opportunities associated with this report.

***Social Equity:*** There are no social equity opportunities associated with this report.

For questions regarding this report, please contact Osborn K. Solitei at (510) 238-3809

Respectfully submitted,



Osborn K. Solitei  
Finance Department, Controller's Bureau  
Director of Finance/ Controller

Prepared by:  
Paige Alderete, Assistant Controller  
Controller's Bureau

2014 OCT 15 RESOLUTION No. \_\_\_\_\_ C.M.S.

Introduced by Councilmember \_\_\_\_\_

**A CITY RESOLUTION AMENDING CITY COUNCIL RESOLUTION NO. 82682 C.M.S, WHICH AUTHORIZED A CONTRACT WITH MACIAS GINI & O'CONNELL LLP ("MGO") TO PROVIDE AUDIT SERVICES TO INCREASE THE CONTRACT FOR THE CITY AUDIT SERVICES FOR AN ADDITIONAL AMOUNT NOT-TO-EXCEED \$75,193. THE ADDITIONAL SERVICES REQUESTED ARE TO COVER GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 67 TESTING, PLANNING AND IMPLEMENTING GASB 68, AND AGREED-UPON PROCEDURES TESTING THE CITY PROCUREMENT POLICIES AND PROCEDURES FOR FISCAL YEAR ENDING JUNE 30, 2014 AND A WAIVER FOR ADVERTISING AND REQUEST FOR PROPOSALS FOR THESE ADDITIONAL AUDIT RELATED SERVICES.**

**WHEREAS**, Section 809 of the Charter of the City of Oakland provides for an annual audit by an independent certified public accountant who shall examine and report to the City Council on the annual financial statements of the City; and

**WHEREAS**, on April 20, 2010 , the City Council adopted Resolution No. 82682 authorizing the City Administrator to execute a contract with Macias Gini & O'Connell, LLP to provide audit services for the City of Oakland; and

**WHEREAS**, there have been recent, major changes to the Governmental Accounting Standards Board (GASB) accounting and reporting requirements for pensions (GASB 67 and GASB 68) requiring additional auditing services as well as complex process and reporting changes regarding pensions for the City over the next year; and

**WHEREAS**, internal control issues surfaced in early 2014 regarding weaknesses in the City's procurement process that resulted in a department significantly overspending its contract with a vendor and in response, the City Administrator announced his intention to audit the City's procurement process with the goal of strengthening controls over the process.; and

**WHEREAS**, the procurement process is a key control for the City to ensure that it is following the City's established policies and procedures, appropriately executing purchasing under City contracts, and overall monitoring purchasing city-wide.

**WHEREAS**, Oakland Municipal Code 2.04.051.A requires the City Administrator to conduct a request for proposals/qualifications (RFP/Q) process for professional services contracts in excess of \$25,000 and Oakland Municipal Code section 2.04.051.B allows Council to waive the RFP/Q requirements upon a finding by the Council that it is in the best interest of the City to do so; and

**WHEREAS**, Staff recommends that it is in the City's best interest to waive advertising and the request for proposals process for the additional services to be added to the contract because at the time the City entered its contract with Macias Gini & O'Connell, LLP the requirement for additional GASB requirement was unknown; the current contract involves closely related services; and, the extension of the scope of the contract is reasonable and economical under the circumstances; now, therefore be it

**RESOLVED**, that the City Council finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Resolution; and be it

**FURTHER RESOLVED**, that pursuant to the Oakland Municipal Code 2.04.051.B and for the reasons stated above and in the report(s) accompanying this item, the City Council hereby finds and determines that it is in the best interests of the City to waive the advertising and the request for proposals process for hiring of an independent certified public accountant to perform the additional Agreed-Upon Procedures for a program included in the Single Audit as a major program for testing and the work already being performed by Macias Gini & O'Connell, LLP for the City and so waives the RFP/Q requirements, and be it

**FURTHER RESOLVED**, that the City Council hereby authorizes the City Administrator to amend the amount of the contract with Macias Gini & O'Connell, LLP in an amount of seventy five thousand one hundred ninety three dollars (\$75,193) to pay for GASB No. 67 (\$15,593), GASB No. 68 (\$24,600), and the Agreed-Upon Procedures testing the Procurement policies and procedures (\$35,000); and be it

**FURTHER RESOLVED**, that the funding is available in the City's 2014-15 budget appropriation for Fund 7100: Police and fire Retirement System Fund \$14,117.50 and Fund 7120: Oakland Municipal Employees Retirement System for GASB 67 & 68 services \$10,270.50, Fund 1010: General Purpose Fund for GASB 68 services \$15,805, and Fund 1010 for procurement process agreed upon procedures \$35,000; and be it

**FURTHER RESOLVED**, that the Office of the City Attorney will approve the contract amendment as to form and legality and a copy will be on file in the Office of the City Clerk; and be it

**FURTHER RESOLVED**, that this Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_

**PASSED BY THE FOLLOWING VOTE:**

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF and PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_

LaTonda Simmons  
City Clerk and Clerk of the Council  
of the City of Oakland, California