

Memorandum

TO: Honorable Mayor and City Council
and Successor Agency Board

FROM: Joe Rois,
City Auditor

SUBJECT: AGREEMENTS WITH MACIAS GINI &
O'CONNELL LLP TO PROVIDE ANNUAL
FINANCIAL AND COMPLIANCE AUDITS

DATE: January 9, 2024

RECOMMENDATION

- a) Approval by the City Council of an agreement with Macias, Gini & O'Connell LLP to perform annual financial and compliance audit services for fiscal years ending June 30, 2024, 2025, 2026, 2027, and 2028 with three one-year extension options for fiscal years ended June 30, 2029, 2030, and 2031, with annual compensation not to exceed \$895,653 in year one and with annual adjustments of 3 percent in years two through eight, for a total amount not to exceed \$7,964,448 for a potential eight year term subject to annual appropriation of funds by the City Council.
- b) Approval by the Board of the Successor Agency to the Redevelopment Agency of an agreement with Macias, Gini & O'Connell LLP to perform annual financial and compliance audit services for fiscal years ending June 30, 2024, 2025, 2026, 2027, and 2028 with three one-year extension options for fiscal years ended June 30, 2029, 2030, and 2031, with annual compensation not to exceed \$65,432 in year one and with annual adjustments of 3 percent in years two through eight, for a total amount not to exceed \$581,843 for a potential eight year term subject to annual appropriation of funds by the Board of the Successor Agency.

OUTCOME

Accepting the recommendation will ensure the City has the resources available to conduct annual financial and compliance audits for the City and Successor Agency, in accordance with the City Charter, federal law, and other requirements.

BACKGROUND

Section 805 of the San José City Charter specifies that the Office of the City Auditor conduct or cause to be conducted annual post audits of all the fiscal transactions and accounts kept by or for the City. Section 805 specifies that such audits shall include but not be limited to the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures. The audits shall be conducted in accordance with generally accepted auditing standards and accordingly shall include tests of the accounting records and other auditing procedures as may be considered necessary under the circumstances. The audits shall include

the issuance of suitable reports of examination so the Council and the public will be informed as to the adequacy of the financial statements of the City.

Section 1215 of the San José City Charter further requires that the City Council employ an independent certified public accountant who shall audit the municipal books, records, accounts, and fiscal procedures of all officers of the City who receive, administer, or disburse public funds on behalf of the City.

In addition to the above requirements set forth in the City Charter, as a recipient of Federal, State, and local government financial assistance, the City is required to undergo a compliance audit in conformity with the provision of the Single Audit Act of 1984, as amended, and 2 CFR Part 200, subpart F, or subsequent updates to that CFR. Lastly, the City is required to perform tests of compliance with provisions of various bond measures approved by San José residents.

Macias Gini and O'Connell, LLP (MGO) has conducted the annual financial and compliance audits of the City and its related entities since 2018. The current agreements with MGO end on December 31, 2023. Accordingly, the Office of the City Auditor initiated a Request for Proposal (RFP) process to select a firm to provide financial and compliance audit services.

ANALYSIS

With input from various departments, the Office of the City Auditor prepared an RFP for external audit services for the City and its related entities. The RFP covered financial audit services related to the:

- Citywide Annual Comprehensive Financial Report (ACFR)
- Annual Single Audit
- San José Mineta International Airport
- Bicycle/Pedestrian Facilities Grant
- Convention Center and Cultural Facilities
- Executive Management and Professional Employees Defined 401(A) Plan
- Parks Bond Funds (Measure P)
- Branch Library Bonds Projects Funds (Measure O)
- Public Safety and Infrastructure Bond Funds (Measure T)
- Library Parcel Tax Funds (Measure S)
- South Bay Water Recycling
- San José Clean Energy
- Wastewater Treatment System Funds
- Investment Program Compliance
- Deferred Compensation Program
- Voluntary Employee Benefits Association (VEBA)
- Successor Agency to the Redevelopment Agency.

The RFP was posted on the Bidding e-procurement system on June 28, 2023 (RFP CSJ-AUD-2023). Several clarification requests were received, and answers were distributed on Bidding on July 12, 2023, and August 4, 2023.

Two proposals were received by the due date on August 14, 2023. The proposals were evaluated by an interdepartmental team consisting of staff from the City Auditor's Office, Finance, and the Airport. Proposals were evaluated using the following criteria and weighting:

Criteria	Weight
Proposal Responsiveness	Pass/Fail
Organizational Experience of the Firm	25%
Qualifications and Experience of Project Team	25%
Proposer Capabilities and Approach	20%
Fee Structure and Cost	20%
Local Business Enterprise	5%
Small Business Enterprise	5%

The evaluation team evaluated respondents based on their written proposals. The evaluation team recommended the selection of MGO based on their proposal receiving the highest overall score. The evaluation team determined that MGO's proposal is the most advantageous to the City and unanimously agreed with the recommendation of award.

The evaluation scores for the finalists are summarized in the table below:

Evaluation Category	Max Points	MGO LLP	Eide Bailly LLP
Organizational Experience of the Firm	25	24.0	18.0
Qualifications and Experience of Project Team	25	23.0	19.0
Proposer Capabilities and Approach	20	18.7	15.7
Fee Structure and Cost	20	17.0	20.0
Local Business Preference	5	5.0	0.0
Small Business Preference	5	0.0	0.0
Total	100	87.7	72.7

MGO is an experienced audit firm with extensive experience in the government sector. MGO has provided financial audit services to multiple large California cities, including Los Angeles, San Diego, San Francisco, Oakland, and Sacramento. MGO has also provided financial audit services as the City's financial auditor since 2018 and is familiar with the City's operations and organization. MGO has a staff of more than 700 professionals and 16 offices worldwide, including a local office in San José.

The services specified in the RFP will be addressed in four separate agreements as follows:

- Contract #1 - General Contract – City of San José Annual Comprehensive Financial Report (ACFR); Gann Report; Basic Financial Statements; Single Audit; San José Mineta International Airport ACFR; Pedestrian/Bicycle Facilities; Convention Center Cultural Facilities; Executive Management and Professional Employees Defined 401(A) Plan; Parks Bond Funds; Branch Library Bond Projects Fund; Public Safety and Infrastructure Bond Funds; Library Parcel Tax Funds; South Bay Water Recycling; San José Clean Energy Financial Statements and Compliance Report; Wastewater Treatment System Funds; and Semi-annual Investment Program Compliance
- Contract #2 - Deferred Compensation
- Contract #3 – Voluntary Employee Benefits Association (VEBA)
- Contract #4 – Successor Agency to the Redevelopment Agency

The Contracts for the Deferred Compensation and VEBA audit services are within staff's contract authority and therefore do not require Council approval. Staff recommends Council approval of the General Contract and Successor Agency agreements with MGO.

EVALUATION AND FOLLOW-UP

This memorandum will not require staff follow-up.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the January 23, 2024, Council Meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

BUDGET REFERENCE

Annual compensation for all contracts in the first-year totals \$982,353. The costs of future years' audit services are subject to annual cost of living adjustments (3 percent per year) and annual appropriation of funds by the City Council and the Board of the Successor Agency to the Redevelopment Agency. The total not to exceed over the full term (including option years) totals \$8,735,413 for all contracts.

- Contract #1 (General Contract) – First-year costs total \$895,653, with a total not to

- exceed over the full term of \$7,964,448.
- Contract #2 (Deferred Compensation) – First-year costs of \$10,634, with a total not to exceed over the full term of \$94,562.
- Contract #3 (VEBA) – First-year costs of \$10,634, with a total not to exceed over the full term of \$94,562.
- Contract #4 (SARA) – First year costs of \$65,432, with a total not to exceed over the full term of \$581,843.

The following budget information addresses the compensation to be paid for the agreements recommended for approval.

Contract #1 (General Contract)

Fund #	Appn #	Appn Name	Total Appn	Cost	2023-24 Adopted Budget	Last Budget Action (Date, Ord. No.)
001	202Y	Annual Audit	\$284,966	\$282,645	926 (Operating)	06/20/2023, Ord #30933
001	2042	Grant Compliance Single Audit	\$100,195	\$155,975	927 (Operating)	06/20/2023, Ord #30933
001	3727	Bond Project Audits	\$87,488	\$72,206	927 (Operating)	06/20/2023, Ord #30933
418	2029	Annual Audit (Library)	\$17,000	\$15,733	1,023 (Operating)	06/20/2023, Ord #30933
523	2029	Annual Audit (Airport)	\$83,033	\$86,762	966 (Operating)	06/20/2023, Ord #30933
465	4292	Bicycle and Pedestrian Facilities	\$1,925,062	\$10,935	1,058 (Capital)	10/17/23 Ord #30966
160	0482	Human Resources Non-Personal/ Equipment (401A Plan)	\$25,000	\$10,634	972 (Operating)	06/20/2023, Ord #30933
536	3983	Convention Facilities Operations	- \$12,468,000	\$60,104	- 997	06/20/2023, Ord #30933
513	0762	Environmental Services Non-Personal/ Equipment	\$39,415,055	\$25,031	1,054 (Operating)	10/17/23 Ord #30966
501	212D	SJ Clean Energy Annual Audits	\$130,650	\$93,332	1,051 (Operating)	06/20/2023, Ord #30933
541	0762	Environmental Services Non-Personal/ Equipment	\$938,797	\$82,296	1,058 (Operating)	06/20/2023, Ord #30933

Contract #4

The proposed first year fee for the Successor Agency financial audit is \$65,432 (\$581,843 total over eight years) to be paid out of the Successor Agency's annual operating budget. The cost of future years' audit services is subject to annual appropriation of funds by the Successor Agency Board.

CEQA

Not a project, File No. PPI7-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'JR' with a stylized flourish.

Joe Rois
City Auditor

For questions, please contact Joe Rois, City Auditor at joseph.rois@sanjoseca.gov.

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