



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Contract Audit Services

MEETING DATE: April 5, 1995

PREPARED BY: Finance Director

RECOMMENDATION: Award the contract for audit services to KPMG Peat Marwick, LLP and authorize the Mayor to execute the agreement.

BACKGROUND

On December 21, 1995 the City Council authorized staff to solicit proposals for audit services in accordance with the attached specifications. The City received and mailed requests to 8 audit firms and received proposals from the following 6 firms:

Caporicci & Larson from Walnut Creek
Coopers & Lybrand, LLP from Sacramento
Deloitte & Touche, LLP from Sacramento
Gilbert Accountancy Corp from Sacramento
KPMG Peat Marwick LLP from Sacramento
Vargas and Company from San Jose

After an extensive evaluation process, we are recommending that KPMG Peat Marwick LLP be retained as the City's independent auditors. This recommendation is based on three factors:

- Exceptionally well qualified
- History of quality service to the City
- Competitive fees

This type of selection is very difficult, especially when all of the firms considered possess the minimum qualifications necessary to perform the audit work required, and when each of them would bring unique strengths and weaknesses to the audit. In balancing these factors, when fees are competitive and past service has been good, we believe that the City's best interests are served when continuity is maintained with its auditors.

APPROVED: _____

THOMAS A. PETERSON
City Manager



recycled paper

DISCUSSION

With Council approval on December 21, 1994, the City issued a Request for Proposal (RFP) with the following key elements and selection process described:

- **Scope of Service.** Audit work will include:
 - City general purpose financial statements
 - Single Audit Act financial and compliance report
 - Transportation Development Act (TDA) financial and compliance report
 - Federal Transportation Act (FTA) financial and compliance report
 - Community Development Block Grant (CDBG) financial and compliance report

- **Review Process.**

Six proposals were received, which were extensively reviewed and rated by a committee composed of the Mayor, the Chief Financial Officer from General Mills and the Finance Director. Provided in Exhibit A is a summary of the proposals received. Bidders were evaluated for general and technical qualifications, experience and expertise, their approach to performing the audit and price. Provided in Exhibit B is the checklist used by the raters in performing this review. Oral interviews were conducted for the two finalists: KPMG Peat Marwick LLP and Deloitte & Touche LLP. The finalists were asked to discuss their recent experience and performance on comparable government engagements and their resource capability and qualifications to serve as the auditors for the City.

- **Evaluation Results.**

Peat Marwick rated as the best overall candidate based on the following evaluation factors:

Municipal government experience and expertise. Peat Marwick is the largest public sector auditing and consulting firm in the country. The Sacramento office serves over 9 Northern California cities as clients, most of whom are GFOA or CSMFO award winners.

Insurance expertise and experience. With extensive insurance industry expertise, Peat Marwick is qualified to audit and provide consulting services on the City's insurance fund. They have an actuary on staff to provide the necessary review of actuarial assumptions which are critical to a fairly presented financial statement.

Technical resources. In addition to their auditing staff, Peat Marwick has specialized technical groups available as a resource to the city in the areas of retirement and employee benefits, information systems management and securities offerings.

Added service. In addition to the services offered in their proposal, Peat Marwick offered the City 30 hours of free services for special reviews or consulting services per year over the three years of this agreement.

Service. The City has been satisfied with the level of service Peat Marwick has provided in the past. They have been responsive to our needs, staffed the audit with knowledgeable professionals, and successfully met our audit completion requirements.

Bond Market. Peat Marwick assists in issuing bonds or certificates of participation. Financial statements audited by a “Big Six” firm are often viewed more favorably by rating agencies.

Competitive fees. Of the two finalists interviewed, Peat Marwick quoted the lowest fees as summarized below:

Peat Marwick	\$32,500
Deloitte & Touche	\$32,964
Current Fees	\$31,500

ALTERNATIVES

The City does not have a formal policy encouraging the rotation of auditors. Through the internal rotation of audit staff and the use of concurring partner review, the legitimate desire for a “fresh look” can still be achieved while maintaining auditor continuity. In fact from an internal control perspective, it has been the industry experience that problem areas are more frequently uncovered by auditors when there has been continuity rather than changeover.

Overall, in considering auditor services, technical competence, service and fees should be the determining factors in making this decision, not the desire to make change for change’s sake. Nevertheless, in the event that the Council prefers to see a change in the city’s audit firm, we recommend Deloitte & Touche LLP who finished second in the evaluation process be awarded the contract. Deloitte & Touche is a highly qualified firm that has developed a special niche in the municipal auditing market. In the ratings, Deloitte & Touche were very competitive with Peat Marwick in technical ability and expertise; it was primarily the price of their bid that resulted in their second place ranking.

SUMMARY

Upon expiration of the current contract for auditing services, the City issued an RFP and received six proposals. After extensive review, two firms were selected to participate in an oral interview. Peat Marwick emerged from the evaluation process as the firm we believe will provide the services required at the best competitive price.


Dixon Flynn
Finance Director

Attachments

- Agreement for auditing services with KPMG Peat Marwick LLP
- A. Summary of audit proposals
- B. Audit proposal evaluation checklist.

AGREEMENT

THIS AGREEMENT is made and entered into in the City of Lodi on this _____ day of _____ April, by and between the City of Lodi, a municipal corporation, hereinafter referred to as City and KPMG Peat Marwick LLP, hereinafter referred to as Contractor.

WITNESSETH:

WHEREAS, on December 21, 1994, City requested proposals for auditing services per Specifications No. 94-01, and

WHEREAS, pursuant to said request, Contractor submitted a proposal which was accepted by City for said services.

NOW THEREFORE, in consideration of their mutual promises, obligations and covenants hereinafter contained, the parties hereto agree as follows:

1. **TERM.** The term of this Agreement shall be from the date this Agreement is made and entered, as first written above, until acceptance or completion of the annual audit for the fiscal year ended June 30, 1997.

2. **INCORPORATION BY REFERENCE.** City Specification No. 94-01 and Contractors proposal dated February 8, 1995 are hereby incorporated in and made a part of this Agreement.

3. **CITY'S OBLIGATIONS.** For providing auditing services as specified in this Agreement, City will pay contractor and Contractor shall receive the amounts stated in the proposal hereto and incorporated into this Agreement.

4. **CONTRACTOR'S OBLIGATIONS.** For and in consideration of the payments and agreements hereinbefore mentioned to be made and performed by City, Contractor agrees with City to everything required by this Agreement and said specifications.

5. **AMENDMENTS.** Any amendment, modification, or variation from the terms of this Agreement shall be in writing and shall be effective only upon approval by the Council of the City.

6. **COMPLETE AGREEMENT.** This written Agreement, including all writings specifically incorporated herein by reference, shall constitute the complete agreement between the parties hereto. No oral agreement, understanding, or representation not reduced to writing and specifically incorporated herein shall be of any force or effect, nor shall any such oral agreement, understanding, or representation be binding upon the parties hereto.

7. **NOTICE:** All written notices to the parties hereto shall be sent by United States mail, postage prepaid by registered or certified mail addressed as follows:

City: Finance Director
City of Lodi
P.O. Box 3006
Lodi, CA 95241-3006

Contractor: KPMG Peat Marwick LLP
400 Capital Mall, Suite 800
Sacramento, CA 95814

8. **AUTHORITY TO EXECUTE AGREEMENT.** Both the City and Contractor do covenant that each individual executing this agreement on behalf of each party is a person duly authorized and empowered to execute Agreements for such party.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed the day and year first written above.

ATTEST:

CITY OF LODI
A Municipal Corporation

Jacqueline L. Taylor
Acting City Clerk

By: _____
Stephen J. Mann, Mayor

APPROVED AS TO FORM:

Bob McNatt, City Attorney

CONTRACTOR

By:

By:

Summary of Audit Proposals

Exhibit A

General Information

Firm	Location	Fees
Finalists		
KPMG Peat Marwick LLP	Sacramento	\$ 32,500
Deloitte & Touche LLP	Sacramento	32,964
Other Proposals		
Caporicci & Larson	Walnut Creek	23,310
Gilbert Accountancy	Sacramento	25,000
Vargas and Company	San Jose	25,800
Coopers & Lybrand LLP	Sacramento	35,795
Current Audit Services		
KPMG Peat Marwick LLP	Sacramento	\$ 31,500

Summary of Audit Services

General Purpose Financial Statements

Single Audit Act Financial and Compliance Reports

AUDIT PROPOSAL EVALUATION SHEET

Firm Name: _____

General Qualifications

1. A statement that the firm is independent and licensed to practice in California
2. The firm's professional personnel have received adequate continuing education within the preceding two years, focusing on local government auditing.
3. The bidder has no conflict of interest with regard to any other work performed by the firm for the City.
4. The bidder included a copy of its last external quality control review report.
5. The bidder followed the instructions in the RFP:
 - Limited the proposal to 30 pages
 - Included the Proposal Submittal Summary form
 - Included one Schedule of Professional Fees and Expenses for each Financial Report required

Total Score - General Qualifications

Score	Total Possible
	1
	3
	1
	2
	1
	2
	5
	15

Expertise and Experience

6. The bidder demonstrates recent experience and performance on comparable government engagements (instructions limited to 5 engagements)
 - Bidder should have included audits conducted within the last 5 years
 - Recent experience performing city audits
 - Recent experience performing audits of self-insurance pools (JPA's)
 - Recent experience performing TDA , FTA and CDBG audits
 - Recent experience performing Single Audits
 - For each engagement bidder should have included:
 - Total staff hours
 - Total Partner hours
 - Date of engagement
 - Scope of work
 - Contact name and phone number
7. Statements supporting the quality of the professional personnel assigned to this engagement. (For each individual indicate if licensed to practice as a CPA in California, government auditing experience, local government continuing education, and membership in professional organization relevant to the performance of this audit.
8. A statement on the quality of the firm's management support personnel available for technical consultation.
9. A statement indicating how the firm will assure the quality of the staff over the term of the contract.

Total Score - Expertise and Experience

	2
	1
	5
	5
	3
	2
	1
	1
	1
	1
	4
	1
	2
	30

