



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Request for Proposal - Audit services

MEETING DATE: May 7, 2003

PREPARED BY: Finance Director

RECOMMENDATION: By motion, authorize staff to solicit proposals for audit services as provided in the attached specifications.

BACKGROUND: KPMG LLP has been performing the City's annual audit since the renewal of their contract in 1998. Per Council's direction in January 2003, staff is submitting this request to solicit proposals for audit services for the fiscal year beginning 2002-03.

Audit Services

The City has used an independent audit firm to audit the City's financial statements for many years to assure the City Council and the citizens of Lodi that the City is maintaining its financial records and providing financial reports in accordance with "generally accepted accounting principles". In addition, an independent audit is required by the several Federal and State grant agreements and bond covenants entered into by the City to obtain funds and debt financing. The focus of the audit is on the City's principal financial statements published in the Comprehensive Annual Financial Report (CAFR) and compliance with Federal and State regulations to obtain grants.

The Comprehensive Annual Financial Report is also used by financial institutions to evaluate the City's financial ability to incur additional debt financing and for conformance with existing covenants to which the City agreed to obtain debt financing in past years.

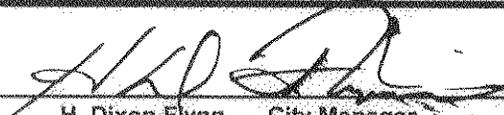
The unique nature of government service as compared to the private sector requires the City to be accountable to a wide range of interested parties with different needs and concerns. Accordingly, public agencies have relied heavily on independent audits to meet these needs.

Request For Proposal

The attached Request For Proposals (RFP) is based on two model RFPs suggested by the Government Finance Officers' Association. In addition, the RFP includes standard terms and conditions for professional services developed by the City of Lodi when requesting proposals for services.

The RFP is divided into the following seven sections:

APPROVED: _____


H. Dixon Flynn -- City Manager



CITY OF LODI

COUNCIL COMMUNICATION

1. Description of the Work
2. General Terms and Conditions
3. Special Terms and Conditions
4. Description of the City
5. Agreement
6. Insurance Requirements
7. Proposal Submittal Forms

Selection Process

The evaluation of proposals and selection of the firm will be made by a panel of four people as discussed in detail on page 14. Two members of the panel will be appointed by the Mayor and will include one Council Member and finance professional from the community. The City of Lodi Finance Director and the Accounting Manager will be the third and fourth member of the panel.

Selection will be based on the firm's general qualifications, technical experience and cost. The general qualifications and technical experience of the firms will be weighted more than the proposed cost as shown on the attached evaluation sheet.

The firm selected will be responsible for the audit of financial records beginning with fiscal year 2002-03 for five years (GFOA recommended). Accordingly, time is essential to ensure proper coordination and planning prior to the beginning of the audit.

Funding

The funding for these services is included in the City of Lodi budget. The final cost will be based on bids received from audit firms and the level of services requested by the City of Lodi.

Vicky Mc Athie
Finance Director

Attachment:
Request For Proposal – Audit Services

APPROVED: _____

H. Dixon Flynn -- City Manager

CITY OF LODI, CALIFORNIA

REQUEST FOR PROPOSAL

For

Auditing Services

RFP 03-1

**Response due by
2:00 p.m., Tuesday, May 27, 2003**

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A. NATURE OF SERVICES REQUIRED

1. General Information

The City of Lodi is requesting proposals from qualified firms of Certified Public Accountants for a five-year contract to audit the City's financial statements and perform a Single Audit for the fiscal year ending June 30, 2003, with the option to renew for additional five fiscal years. These audits are to be performed in accordance with generally accepted auditing standards set forth for financial audits in the General Accounting Office's (GAO) Government Auditing Standards, the federal Single Audit Act of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State and Local governments.

Beginning with the fiscal year ended June 30, 2003, the City of Lodi must implement the provisions related to General Standards Board Statement No. 34 (GASB 34).

2. Scope of Work

General Purpose Financial Statements - The auditor will be required to express an opinion on the fair presentation of general-purpose financial statements and notes as to conformity with generally accepted accounting principles. The auditor will not be required to audit the combining, individual fund and account group financial statements with their supporting schedules. However, the auditor will provide an "in-relation-to" report on the combining and individual fund statements and supporting schedules based on the auditing procedures applied during the audit of the general purpose statements. The auditor will not be required to audit the statistical section of the report. The auditor will be responsible for performing certain limited procedures on supplementary information required by the Governmental Accounting Standards Board as required by accepted auditing standards.

Single Audit Act Report - The City receives federal funds that are governed under the provisions of the Single Audit Act. The auditor is not required to audit the schedule of federal financial assistance. However, the auditor will provide an "in-relation-to" report on the auditing procedures applied during the audit.

Special Purpose Audits - The City receives funding under the Transportation Development Act and Community Development Block Grant that require financial and compliance audit.

3. Auditing Standards to be Followed

To meet the requirements of this request, the audit will be performed in accordance with generally accepted auditing standards provided by the American Institute of Certified Public Accountants, the standards for financial audits provided in the U.S. General Accounting Office's Government Auditing Standards, the provisions of the Single Audit Act of 1996 and the provisions of U.S. Office of Management and Budget (OMB)

Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, the standards for financial reporting provided by the Government Finance Officers Association, and the applicable laws, rules and regulations of the Transportation Development Act.

4. Reports to be Issued

Following the completion of the audit, the auditor will issue the following reports:

- a) A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles
- b) A management letter describing suggested improvements to internal controls and operations observed during the audit.
- c) A report on compliance with applicable laws and regulations.
- d) An 'in-relation-to' report on the schedule of federal financial assistance.
- e) A report on the internal control structure used to administer federal financial assistance programs.
- f) A report on compliance with specific requirements applicable to major federal and state financial assistance programs.
- g) A report on compliance with specific requirements applicable to non-major federal financial assistance programs.
- h) A report on compliance with general requirements for both major and non-major federal financial assistance programs.
- i) An agreed-upon-procedure report for GANN limitation verification.
- j) A report on compliance with general requirements for Program Receipts Sale and Repurchase Agreements –Lodi Financing Corporation

5. Internal Control and Compliance Reports

In the report on internal controls, the auditor will communicate any reportable conditions found during the audit. A reportable condition will be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses will be identified as such in the report.

Non-reportable conditions discovered by the auditors will be reported in a separate letter to management, which will be referred to in the report on internal controls.

The report on compliance will include all instances of noncompliance. Auditors will be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware of to the following parties:

- City Manager
- Finance Director
- City Attorney

Auditors will assure themselves that the City is informed of each of the following:

- The auditors responsibility under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Management consultation with other accountants
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit

B. GENERAL TERMS AND CONDITIONS

1. Proposal Requirements

- a. **Requirement to Meet All Provisions** - Each individual or firm submitting a proposal (bidder) will meet all of the terms and conditions of the specifications in the Request for Proposals (RFP). By submitting a proposal, the bidder acknowledges agreement with and accepts all provisions in the specifications of the Request for Proposal.
- b. **Proposal Submittal** - Each proposal must be submitted in the form provided in the specifications and accompanied by any other required information or supplemental materials. Proposal documents will be enclosed in an envelope, which will be sealed and addressed to:

**City of Lodi
Finance Director
P. O. Box 3006
Lodi, CA., 95241-1910**

In order to guard against premature opening, the proposal should be **clearly labeled** with the **RFP title, name of bidder, and date and time of proposal opening**. No FAX submittals will be accepted.

- c. **Proposal Withdrawal and Opening** - A bidder may withdraw a proposal, without prejudice prior to the time specified for opening by submitting a written request to the Finance Director for its withdrawal, in which event the proposal will be returned to the bidder unopened. No proposal received after the time specified or at any place other than that stated in the "Notice Inviting Bids/Requesting Proposals" will be considered.
- d. **Submittal of One Proposal Only** - No individual or business entity of any kind will be allowed to make or file, or to be interested in more than one proposal, except an alternative proposal when specifically requested; however, an individual or business entity that has submitted a sub-proposal to a bidder submitting a proposal, or who has quoted prices on materials to such bidder, is not thereby disqualified from submitting a sub-proposal or from quoting prices to other bidders submitting proposals.
- e. **Communications** - All timely requests for information submitted in writing would receive a written response from the City. Telephone communications with City staff are not encouraged, but will be permitted. However, any such oral communication will not be binding on the City.

2. Contract Award and Execution

- a. **Proposal Retention and Award** - The City reserves the right to retain all proposals for a period of 60 days for examination and comparison. The City also reserves the right to waive non-substantial irregularities in any proposal, to reject any or all proposals, to reject or delete one part of a proposal and accept the other, except to the extent that proposals are qualified by specific limitations as the interest of the City may require. See the Special Terms and Conditions for any other proposal evaluation and award criteria.
- b. **Competency and Responsibility of Bidder** - The City reserves full discretion to determine the competence and responsibility, professionally and/or financially, of bidders. Bidders will provide, in a timely manner, any and all information that the City deems necessary to make such a decision.

- c. **Contract Requirement** - The bidder to whom award is made will execute a written contract with the City within ten (10) calendar days after notice of the award has been mailed to address given in its proposal.
- d. **Failure to Accept Contract** - The following will occur if the bidder to whom the award is made (Auditor) fails to enter into the contract: The award will be annulled; and an award may be made to the next bidder who will fulfill every stipulation as if it were the party to whom the first award was made.
- e. **Insurance Requirements** - Auditor will provide proof of insurance in the form, coverage, and amounts specified in these specifications within ten (10)-calendar days after notice of contract award as a precondition to contract execution.
- f. **Business Tax** - The Auditor must have a valid City of Lodi business tax certificate prior to execution of the contract. Additional information regarding the City's business tax program may be obtained by calling (209) 333-6717.

3. **Contract Performance**

- a. **Ability to Perform** - The Auditor warrants that it possesses, all capital and other equipment, labor, materials, and licenses necessary to carry out and complete the work hereunder in compliance with any and all federal, state, county, city and special district laws, ordinances and regulations.
- b. **Laws to be Observed** - The Auditor will keep itself fully informed of and will observe and comply with all applicable state and federal laws and county and City of Lodi ordinances, regulations and adopted codes during performance of the work.
- c. **Payment of Taxes** - The contract price will include full compensation for all taxes, which the Auditor is required to pay.
- d. **Safety Provisions** - The Auditor will conform to the rules and regulations pertaining to safety established by OSHA and the California Division of Industrial Safety.
- e. **Public and Employee Safety** - Whenever the Auditor's operations create a condition hazardous to the public or City employees, the Auditor will, at its expense and without cost to the City, take such protective measures as are necessary to prevent accidents or damage or injury to the public and the employees.
- f. **Preservation of City Property** - The Auditor will provide and install suitable safeguards, approved by the City, to protect City property from injury or damage. If City property is injured or damaged as a result of the Auditor's operations, it will be replaced or restored at the Auditor's expense. The facilities will be replaced or restored to a condition as good as when the Auditor began work.

- g. Immigration Act of 1986** - The Auditor warrants on behalf of itself that only persons authorized to work in the United States pursuant to the Immigration Reform and Control Act of 1986 and other applicable laws will be employed in the performance of the work hereunder.
- h. Auditor Non-Discrimination** - In the performance of this work, the Auditor agrees that it will not engage in discrimination in employment of persons because of age, race, color, sex, national origin or ancestry, sexual orientation, or religion of such persons.
- i. Work Delays** - Should the Auditor be obstructed or delayed in the work required to be done hereunder by changes in the work or by any default, act, or omission of the City, or by strikes, fire, earthquake, or any other Act of God, or by the inability to obtain materials, equipment, or labor due to federal government restrictions arising out of defense or war programs, then the time of completion may, at the City's sole option, be extended for such periods as may be agreed upon by the City and Auditor. In the event that there is insufficient time to grant such extensions prior to the completion date of the contract, the City may, at the time of acceptance of the work, waive liquidated damages which may have accrued for failure to complete on time, due to any of the above, after hearing evidence as to the reasons for such delay, and making a finding as to the causes of same.
- j. Payment Terms** - The City's payment terms are 30 days from the receipt of an original invoice. Progress payments will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the Auditor's dollar cost bid proposal. Interim billing shall cover a period of not less than a calendar month.
- k. Audit** - The City will have the option of inspecting and/or auditing all records and other written materials used by the Auditor in preparing its invoices to the City as a condition precedent to any payment to Auditor.
- l. Interests of Auditor** - The Auditor covenants that it presently has no interest, and will not acquire any interest direct or indirect or otherwise, which would conflict in any manner or degree with the performance of the work hereunder. The Auditor further covenants that, in the performance of this work, no subcontractor or person having such an interest will be employed. The Auditor certifies that no one who has or will have any financial interest in performing this work is an officer or employee of the City. It is hereby expressly agreed that, in the performance of the work hereunder, the Auditor will at all times be deemed an independent contractor and not an agent or employee of the City.
- m. Hold Harmless and Indemnification** - The Auditor agrees to defend, indemnify, protect and hold the City and its agents, officers and employees harmless from and against any and all claims asserted or liability established for damages or injuries to any person or property, including injury to the Auditor's employees, agents or

officers which arise from or are connected with or are caused or claimed to be caused by the acts or omissions of the Auditor, and its agents, officers or employees, in performing the work or services herein, and all expenses of investigating and defending against the same; provided, however, that the Auditor's duty to indemnify and hold harmless shall not include any claims or liability arising from the established sole negligence or willful misconduct of the City, its agents, officers or employees.

- n. **Contract Assignment** - The Auditor will not assign, transfer, convey or otherwise dispose of the contract, or its right, title or interest, or its power to execute such a contract to any individual or business entity of any kind without the previous written consent of the City.

- o. **Termination** - If, during the term of the contract, the City determines that the Auditor is not faithfully abiding by any term or condition contained herein, the City may notify the Auditor in writing of such defect or failure to perform; which notice must give the Auditor a ten calendar day notice of time thereafter in which to perform said work or cure the deficiency. If the Auditor has not performed the work or cured the deficiency within the ten (10) days specified in the notice, such action shall constitute a breach of the contract and the City may terminate the contract immediately by written notice to the Auditor. Thereafter, neither party will have any further duties, obligations, responsibilities, or rights under the contract except, however, any and all obligations of the Auditor's surety will remain in full force and effect, and will not be extinguished, reduced, or in any manner waived by the termination thereof. In said event, the Auditor will be entitled to the reasonable value of its services performed from the beginning date in which the breach occurs up to the day it received the City's Notice of Termination, minus any offset from such payment representing the City's damages from such breach. The City reserves the right to delay any such payment until completion or confirmed abandonment of the project, as may be determined at the City's sole discretion, so as to permit a full and complete accounting of costs. In no event, however, will the Auditor be entitled to receive in excess of the compensation quoted in its proposal.

C. SPECIAL TERMS AND CONDITIONS

1. Contract Term

A five-year contract is contemplated with an option to renew for an additional five years. At the end of each year, the City reserves the right to terminate services for the subsequent year upon 90 days notification.

2. Proposal Content

To be considered, the following materials must be received at the Finance Department by **May 27, 2003 at 2:00 p.m.** at its offices at the City Hall Annex at 212 W. Pine Street, Lodi, CA 95240.

- a. Four copies of the proposal to include the following:
- i. Table of Contents
 - ii. Transmittal Letter. A signed letter of transmittal briefly stating the bidder's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the engagement and a statement that the proposal is a firm and irrevocable offer for sixty days.
 - iii. Required Submittal Forms:
 - Proposal submittal summary
 - Schedule of professional fees and expenses
 - Statement of past contract disqualification
 - iv. Detailed Proposal. The detailed proposal should follow the order set forth in this request for proposals.
- b. **General Requirements** - The purpose of the proposal is to demonstrate the qualifications, competence and capacity of the firm seeking to undertake an independent audit of the City of Lodi in conformity with the requirements of this request. As such, the substance of the proposal will carry more weight than the form or manner of presentation. The proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. The proposal should also specify an audit approach that will meet the requirements of this request. The proposal should address all the points outlined. The proposal should be prepared simply and economically, providing a straightforward, concise description of the bidder's capabilities to satisfy the requirements of the request. While additional information may be presented, the following subjects, item (c) through (o) below, must be included. They represent the criteria against which the proposal will be evaluated.
- c. **Independence** - The bidder should provide an affirmative statement that he/she is independent of the City of Lodi, California as defined by generally accepted auditing standards and the U.S. General Accounting Office's Government Auditing Standards.

The bidder should also list and describe the firm's professional relationships involving the City for the past five years, together with a statement explaining why this relationship does not constitute a conflict of interest relative to performing an audit of the City.

In addition, the bidder will give the City written notice of any professional relationships entered into during the period of this agreement.

- d. **License to Practice in California** - An affirmative statement will be included as to whether the firm and all assigned key professional staff is properly licensed to practice in the State of California.
- e. **Firm Qualifications and Experience** - The bidder should state the staffing size of the firm, the size of the firm's governmental audit staff, the number that are certified, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time basis and the number and nature of the staff to be so employed on a part-time basis. If the bidder is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve, as the principal auditor should be noted. The bidder is also required to submit a copy of the report on its most recent external quality control review with a statement whether that quality control review included a review of specific government engagements. The bidder will also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three years. In addition, the firm will provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three years with state regulatory bodies or professional organizations.
- f. **Partner, Supervisory and Staff Qualifications and Experience** - The bidder should identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement. Indicate whether each person is licensed to practice as a Certified Public Accountant in California. Provide information on the government auditing experience of each person, including information on relevant local government auditing continuing professional education for the past three years and membership in professional organizations relevant to the performance of this audit.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured. Indicate the number of additional staff the firm would have to hire if awarded this contract.

The bidder should identify the extent to which staff to be assigned to the audit reflect the City's commitment to Affirmative Action.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of the City. However, in either case, the City retains the right to approve or reject replacements.

Consultants and firm specialists mentioned in response to this request for proposal can only be changed with the express prior written permission of the City, which retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the bidder provided that replacements have substantially the same or better qualifications or experience.

- g. **Resources** - The bidder should describe its ability to provide the City with qualified, trained staff if it is awarded this contract, in light of current client obligations.
- h. **Similar Engagements With Other Government Entities** - For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum -5) performed in the last five years that are similar to the engagement described in this request for proposal. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact. Also indicate if any of these agencies has received the Government Finance Officers Association's (GFOA) Certificate of Achievement in Financial Reporting during this timeframe.
- i. **Specific Audit Approach** - The proposal should set forth a work plan, including an explanation of the audit methodology and time frames before and after the close of the fiscal year to be followed, to perform the services required in this request for proposal. In developing the work plan, reference should be made to such sources of information as the City's budget and related materials, organization charts, manuals and programs, and financial and other management information systems.

Bidders will be required to provide the following information on their audit approach:

- Proposed segmentation of the engagement
- Level of staff and number of hours to be assigned to each proposed segment of the engagement
- Sample size and the extent to which statistical sampling is to be used in the engagement
- Extent of use of on-site automated systems in the engagement
- Type and extent of analytical procedures to be used in the engagement

- Approach to be taken to gain and document an understanding of the City's internal control structure
 - Approach to be taken in determining laws and regulations that will be subject to audit test work
 - Approach to be taken in drawing audit samples for purposes of testing compliance
 - Approach to be taken in establishing compliance with GASB 34.
 - A list of schedules and tables that the auditor anticipates would normally be prepared by the City to assist in the conduct of fieldwork.
- j. **Identification of Anticipated Potential Audit Problems** - The proposal should identify and describe any anticipated potential audit problems, the bidder's approach to resolving these problems and any special assistance that will be requested from the City.
- k. **Total All-Inclusive Maximum Price** - The proposal should contain all pricing information relative to performing the audit engagement as described in this request. The total all-inclusive maximum price to be presented in the proposal summary, which will include all direct and indirect costs and all out-of-pocket expenses.

The City will not be responsible for expenses incurred in preparing and submitting the proposal. Such costs should not be included in the proposal.

l. **Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each** - The bid should include a schedule of professional fees and expenses, which supports the total all-inclusive maximum price. The cost of special services described in this request should be disclosed as separate components of the total all-inclusive maximum price.

m. **Out-of-pocket Expenses Included in the Total All-inclusive Maximum Price and Reimbursement Rates** - All estimated out-of-pocket expenses to be reimbursed should be presented in the format provided in the attachment. All expense reimbursements will be charged against the total all-inclusive maximum price submitted by the firm.

n. **Rates for Additional Professional Services** - If it should become necessary for the City to request the auditor to render any additional services, to either supplement the services requested in this RFP or to perform additional work, as a result of the specific recommendations included in any report issued on this engagement, such additional work will be performed only if set forth in an addendum to the contract

between the City and the firm. Any such additional work agreed to between the City and the firm will be performed at the same rates set forth in the schedule of fees and expenses included in the proposal.

- o. **Proposal Length and Copies** - Proposals should not exceed 30 pages, including required attachments and supplemental materials.

3. **Proposal Evaluation and Selection**

- a. **Review Committee** - A committee of four people will evaluate the proposals, as follows:

- City of Lodi Finance Director
- City of Lodi Accounting Manager
- one City of Lodi Council Member
- one finance professional

- b. **Evaluation of Proposals** - A point formula will be used during the review process to score proposals. The City reserves the rights to retain all proposals submitted and use any idea in a proposal regardless of whether that proposal is selected. Proposals will be evaluated using three sets of criteria. The following represent the principal selection criteria that will be considered during the evaluation process.

- **General Qualifications (Maximum Points - 15)**

- The audit firm is independent and licensed to practice in California
- The audit firm's professional personnel have received adequate continuing professional education within the preceding two years
- The bidder has no conflict of interest with regard to any other work performed by the finance for the City
- The bidder's responsiveness to the instructions in this request for proposal in preparing and submitting the proposal
- The bidder submits a copy of its last external quality control review report and the firm has a record of quality audit work.

- **Technical Quality (Maximum Points - 60)**

- Expertise and Experience (Maximum Points - 30)

- The bidder's past experience and performance on comparable government engagements (**with special emphasis on city audits and the new reporting model-GASB 34**)
- The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation

➤ **Audit Approach (Maximum Points - 30)**

- Adequacy of proposed staffing plan for various segments of the engagement
- Adequacy of sampling techniques
- Adequacy of analytical procedures

• **Price (Maximum Points - 25)**

The maximum score for price will be assigned to the firm offering the lowest total all-inclusive maximum price. Appropriate fractional scores will be assigned to other bidders. As reflected above, the award of contract will not be based solely on price, but on a combination of factors as determined to be in the best interest of the City. After evaluating the proposals and discussing them further with the finalists or the tentatively selected contractor, the City reserves the right to further negotiate the proposed work and/or method and amount of compensation.

c. **Oral Presentation** - During the evaluation process, City staff may, at its discretion, request any one or all bidders to make oral presentation. Such presentations will provide firms with an opportunity to answer any questions the staff may have on a bidder's proposal. Not all firms may be asked to make such oral presentations.

4. **Proposal Review and Award Schedule** - The following is an outline of the anticipated schedule for proposal review and contract award:

Issue RFP	5/7
Conduct pre-proposal conference	5/14
Receive proposals	5/27
Conduct finalist interviews	5/30
Finalize staff recommendation	6/11
Award contract	6/18

5. **Pre-proposal Conference** - A pre-proposal conference will be held on May 14, 2003, at 2:00 p.m., at City Hall Annex, 212 West Pine Street to answer any questions that prospective bidders may have regarding this Request for Proposal (RFP).
6. **Ownership of Materials** - All documents and other materials prepared by or in possession of the Auditor as part of the work or services under these specifications shall become the permanent property of the City and shall be delivered to the City upon demand.
7. **Release of Reports and Information** - Any reports, information, data, or other material given to, prepared by or assembled by the Auditor as part of the work or services under these specifications shall be the property of City and shall not be made available to any individual or organization by the Auditor without the prior written approval of the City.
8. **Copies of Reports and Information** - If the City requests additional copies of reports, specifications, or any other material in addition to what the auditor is required to furnish in limited quantities as part of the work or services under these specifications, the auditor shall provide such additional copies as requested, and City shall compensate the auditor for the costs of duplicating of such copies.
9. **Required Deliverable Products** - The Auditor will be required to provide the following no later than **November 1st** of each year:
 - a. One copy of each report listed in paragraph 4, page I under "Description of Work". City staff will review any documents or materials provided by the Auditor, and where necessary, the Auditor will be required to respond to staff comments and make such changes as deemed appropriate.
 - b. One copy of the letter to management on the adequacy of internal controls and recommendations for improvement.
 - c. When computers have been used to produce materials submitted to the City as a part of the work scope, the Auditor must provide the corresponding computer files to the City, compatible with the following programs unless otherwise directed by the Finance Director:

Word Processing

Word for Windows 6.0

Spreadsheets

Excel Release 5.0

Computer files must be on 3-1/2", high-density, write-protected diskettes, formatted for use on IBM-compatible systems. Each diskette must be clearly labeled and have a printed copy of the directory.

10. **Statement of Contract Disqualification** - Each bidder shall submit a statement regarding any past governmental agency contract disqualification on the form provided in the RFP package.

11. **Special Considerations**

- a. The City will submit its comprehensive annual financial report to the Government Finance Officers Association of the United States and Canada for review in their Certificate of Achievement for Excellence in Financial Reporting program and to the California Society of Municipal Finance Officers for their Certificate of Award of Outstanding Financial Reporting program. It is anticipated that the auditor will not be required to provide special assistance to the City to meet the requirements of that program. Final audit reports **MUST** be completed by **November 1st** in order to meet the deadlines for the filing for the awards. If there is a delay, any additional costs the City incurs, (i.e., staff overtime, additional printing costs, etc.) will be the Auditor's responsibility.
- b. The City currently anticipates it will prepare one or more official statements in connection with the sale of debt securities that will contain the general-purpose financial statements and the auditor's report thereon. The auditor shall be required, if requested by the fiscal advisor and/or the underwriter, to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters."
- c. The City has determined that the State Controller's Office of the State of California will function as the cognizant agency in accordance with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Nonprofit Organizations.
- d. The schedule of federal financial assistance and related auditor's report, as well as the reports on the internal controls and compliance are to be issued as part of the comprehensive annual financial report.

12. **Working Paper Retention and Access to Working Papers** - All working papers and reports must be retained, at the auditor's expense, for a minimum of three years, unless the firm is notified in writing by the City of the need to extend the retention period. The auditor will be required to make working papers available to third parties only upon written request by the City's Finance Director.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

13. Assistance to be provided to the Auditor by the City

- a. **Finance Department and Clerical Assistance** - Preparation and printing of the Comprehensive Annual Financial Report (including Single Audit Act section) shall be the responsibility of the City. The auditor will be responsible for reviewing, as well as editing and proofing the final draft. Preparation and printing of the TDA & CDBG compliance reports are the responsibility of the auditor. The finance department staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the City.
- b. **Information System Assistance** - The information system staff, equipment, and generalized user software have been used extensively in the past for auditing purposes. The City will provide a general ledger password to the auditors for use in performing tests of accounting transactions. Information Systems personnel will be available to provide systems documentation and explanations.
- c. **Work area, telephones, photocopying, FAX machines, and parking** - The City will provide the auditor with reasonable workspace, and access to a telephone, photocopying facilities and FAX machine. All long distance phone and fax transmissions are to be reimbursed to the City. Parking is available at City Hall.

14. **Attendance at Meeting and Hearings** - As part of the work scope and included in the maximum contract price is attendance at up to three governing body meetings annually to present and discuss audit findings and recommendations. Auditor shall attend as many 'working meetings' with staff as necessary in performing audit tasks.

D. DESCRIPTION OF THE CITY

1. **Auditor Contact** - The auditor's principal contact with the City will be Ruby Paiste, Accounting Manager, who will coordinate the assistance to be provided by the City to the auditor.
2. **Background Information** - Lodi is a general law City, incorporated on December 6, 1906, and is organized in accordance with the Council-City Manager form of government. With a population of approximately 59,500, covering 12.6 square miles, the City provides a broad range of municipal services, including: police and fire protection, parks and recreation, electric, water and sewer utilities, street maintenance, public transportation, planning, building and safety, and other general government services. The City has a total payroll of \$23.4 million covering 479 full-time equivalent employees. The accounting and financial reporting functions of the City are centralized. More detailed information on the government and its finances can be found in the 2001-

02 Financial Plan and the Comprehensive Annual Financial Report for the year ended June 30, 2002, which is available upon request.

3. **Fund Structure** - The City uses the following fund types and account groups in its financial reporting:

<u>Fund Type/Account Group</u>	Number of Individual Funds
General Fund	1
Special Revenue Funds	6
Debt Service Funds	1
Capital Projects Funds	6
Enterprise Funds	4
Internal Service Fund	1
Expendable Trust Funds	3
Agency Funds	1
General Fixed Assets Account Group	1
General Long-term Debt Account Group	1

4. **Budgetary Basis of Accounting** - The City prepares its 2-year budgets on a basis consistent with generally accepted accounting principles.

5. **Federal and State Financial Assistance** - During the first fiscal year of the five-year contract, the City expects to receive the following financial assistance:

Transportation Development Act Funds	\$ 2,000,000
Community Development Block Grant	1,950,000

6. **Pension Plans** - The City participates in the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. The City also offers a deferred compensation plan to its employees created in accordance with the Internal Revenue Code Section 457.

7. **Joint Ventures** - The City participates in four joint ventures:

- California Joint Powers Risk Management Association
- Local Agency Workers' Compensation Excess Joint Powers Authority
- California Transit Insurance Pool
- Northern California Power Agency

8. **Magnitude of Finance Operations** - The Finance Department consists of five activities:

Finance Administration	1 employee
Revenue Billing and Collections	15 employees

performing electric, water and sewer billing, general accounts receivable, cashiering and cash management duties

Accounting 10 employees
performing payroll, accounts payable, general ledger and financial reporting duties

Purchasing 5 employees

Field Services 7 employees
performing meter reading and utility collection services.

9. Computer Systems for Accounting Applications

➤ **Hardware**

<u>Type of Equipment</u>	<u>Number</u>	<u>Make of Equipment</u>
Mid-Range Computer	1	IBM AS 400 RISC

➤ **Software** **World Software - JD Edwards**

10. Recognition for Financial Planning and Reporting Efforts - The City has received national recognition for its efforts in financial reporting from GFOA and CSMFO. The City is committed to maintain a high standard of reporting and fund management through its use of quality financial management tools.

E. AGREEMENT

THIS AGREEMENT is made and entered into in the City of Lodi on this day of I by and between the CITY OF LODI, a municipal corporation, hereinafter referred to as City, and..... hereinafter referred to as Auditor.

WITNESS:

WHEREAS, on May 7, 2003, the City requested proposals for auditing services per Specification No. 03-01.

WHEREAS, pursuant to said request, Auditor submitted a proposal that was accepted by the 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, 2007.
2. **INCORPORATION BY REFERENCE.** City Specification No. 03-01 and Auditor's proposal dated May 7, 2003, 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 and Auditor shall receive the amounts stated in the proposal hereto and incorporated into this Agreement.
4. **AUDITOR'S OBLIGATIONS.** For and in consideration of the payments and agreements herein before mentioned to be made and performed by City, Auditor agrees with City to do 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 City Manager 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.

CITY OF LODI - REQUEST FOR PROPOSAL - AUDIT SERVICES
2003

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 95241-1910

Auditor
.....
.....
.....

8. **AUTHORITY TO EXECUTE AGREEMENT.** Both City and Auditor 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 above written.

ATTEST:

CITY OF LODI
A Municipal Corporation

Susan Blackston, City Clerk

By: _____
City Manager

APPROVED AS TO FORM:

Randall Hays, City Attorney

AUDITOR

By: _____

By: _____

F. INSURANCE REQUIREMENTS:

Consultant Services

The Auditor shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the Auditor, its agents, representatives, employees, or subcontractors.

Minimum Scope of Insurance - Coverage shall be at least as broad as:

1. Insurance Services Office Commercial General Liability coverage (occurrence form CG 000 1).
2. Insurance Services Office form number CA 000 I (Ed. 1/87) covering Automobile Liability, code I (any auto).
3. Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance.
4. Errors and Omissions Liability insurance as appropriate to the consultant's profession.

Minimum Limits of Insurance - Auditor shall maintain limits no less than:

1. General Liability: \$1,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.
2. Automobile Liability: \$1,000,000 per accident for bodily injury and property damage
3. Employer's Liability: \$ 1,000,000 per accident for bodily injury or disease
4. Errors and Omissions Liability: \$1,000,000 per occurrence

Deductibles and Self-Insured Retention - Any deductibles or self-insured retention must be declared to and approved by the City. At the option of the City, either: the insurer shall reduce or eliminate such deductibles or self-insured retention's as respects the City, its officers, officials, employees and volunteers; or the Auditor shall procure a bond guaranteeing payment of losses and related investigations, claim administration and defense expenses.

Other Insurance Provisions - The general liability and automobile liability policies are to contain, or be endorsed to contain, the following provisions:

1. The City, its officers, officials, employees, agents and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the Auditor; products and completed operations of the Auditor; premises owned, occupied or used by the Auditor; or automobiles owned, leased, hired or borrowed by the Auditor. The coverage shall contain no special limitations on the scope of protection afforded to the City, its officers, official, employees, agents or volunteers.
2. For any claims related to this project, the Auditor's insurance coverage shall be primary insurance as respects the City, its officers, officials, employees, agents and volunteers. Any insurance or self-insurance maintained by the City, its officers, officials, employees, agents or volunteers shall be in excess of the Auditor's insurance and shall not contribute to it.
3. Any failure to comply with reporting or other provisions of the policies including breach of warranties shall not affect coverage provided to the City, its officers, officials, employees, agents or volunteers.
4. The Auditor's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.
5. Each insurance policy required by this clause shall be endorsed to state that coverage shall not be suspended, voided, cancelled by either party, reduced in coverage or in limits except after thirty days' prior written notice by certified mail, return receipt requested, has been given to the City.

Acceptability of Insurers - Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A: VII.

Verification of Coverage - Auditor shall furnish the City with a certificate of insurance showing maintenance of the required insurance coverage. Original endorsements effecting general liability and automobile liability coverage required by this clause must also be provided. The endorsements are to be signed by a person authorized by that insurer to bind coverage on its behalf. All endorsements are to be received and approved by the City before work commences.

Statement of Bidder's Past Contract Disqualifications

The bidder shall state whether it or any of its officers or employees who have a proprietary interest in it, has ever been disqualified, removed, or otherwise prevented from bidding on, or completing a federal, state, or local government project because of the violation of law, a safety regulation, or for any other reason, including but not limited to financial difficulties, project delays, or disputes regarding work or productquality, and if so, to explain the circumstances.

1. Do you have any disqualification as described in the above paragraph to declare?

Yes _____ No _____

2. If yes, explain the circumstances.

Executed on _____ at _____

I declare, under penalty of perjury of the laws of the State of California, that the foregoing is true and correct.

Signature of Authorized Bidder Representative

CITY OF LODI - REQUEST FOR PROPOSAL - AUDIT SERVICES
2003

REFERENCES

Number of years engaged in providing the services included within the scope of the specifications under the present business name:

List and describe fully the last three contracts performed by your firm, that demonstrate your ability to provide the services included with the scope of the specifications. Attach additional pages if required. The City reserves the right to contact each of the references listed for additional information regarding your firm's qualifications.

Reference No. 1

Customer Name: _____
Contact Individual: _____ Phone No: _____
Address: _____
Contract Amount: _____ Year: _____
Description of Services Provided:

Reference No. 2

Customer Name: _____
Contact Individual: _____ Phone No: _____
Address: _____
Contract Amount: _____ Year: _____
Description of Services Provided:

Reference No. 3

Customer Name: _____
Contact Individual: _____ Phone No: _____
Address: _____
Contract Amount: _____ Year: _____
Description of Services Provided:

CITY OF LODI - REQUEST FOR PROPOSAL - AUDIT SERVICES
2003

Letterhead

DATE: May 7, 2003
TO: Invited Parties
FROM: Vicky Mc Athie, Finance Director
SUBJECT: **Professional Auditing Services**

The City of Lodi is soliciting proposals from qualified firms of certified public accountants for a five-year contract to audit the financial statements of the following entities beginning with the fiscal year ending June 30, 2003, with the option of renewing the contract for five subsequent fiscal years:

City of Lodi, Comprehensive Annual Financial Report and Single Audit.
City of Lodi, Transportation Development Act Funds
City of Lodi, Federal Transit Assistance (Section IX) Funds
City of Lodi, Community Development Block Grant Funds

Audit firms expressing interest will be provided with a copy of a request for proposal (RFP) document.

Please indicate your interest in receiving a copy of the RFP by making a request in writing by May 16, 2003.

All questions and correspondence should be directed to Ruby Paiste, Accounting Manager at the above address or by calling (209) 333 - 6761.

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

Score	Total Possible
	1
	3
	1
	2
	1
	2
	5
	15

Total Score - General Qualifications

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

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

Total Score - Expertise and Experience

AUDIT PROPOSAL EVALUATION SHEET

Firm Name: _____

Audit Approach

10. The bid should contain the following information on audit approach:

(Is the item included (1 point - if the approach reasonable; 2 points - if the approach is preferable)

- Proposed segmentation of the engagement
- Level of staff and number of hours assigned to each segment
- Extent of statistical sampling
- Proposed use of on-site automated systems
- Type and extent of analytical procedures
- Approach to document and understand the City's internal control structure (Preferred approach is prior to June 30, 1995, not during fieldwork)
- Approach taken to determine laws and regulations that will be subject to audit test work
- Approach taken to draw samples for tests of compliance.
- A statement indicating how the firm will be able to staff and service the City in light of their other client obligations
- An indication that they can meet our completion date of November 1st each year

Score	Total Possible
	3
	3
	3
	3
	3
	3
	3
	3
	3
	3
	3
	30

Total Score - Audit Approach

Price

11. The maximum score for price will be assigned to the firm offering the lowest total all-inclusive maximum price, over the three year contract. Appropriate fractional scores will be assigned to other proposers. (ie. If the bid is 10% higher than the lowest proposal, the firm would receive a score 10% lower than 25, or a 22)

	25
--	----

TOTAL CUMULATIVE SCORE

	100
--	-----

CITY COUNCIL

SUSAN HITCHCOCK, Mayor
EMILY HOWARD
Mayor Pro Tempore
JOHN BECKMAN
LARRY D. HANSEN
KEITH LAND

CITY OF LODI

CITY HALL, 221 WEST PINE STREET
P.O. BOX 3006
LODI, CALIFORNIA 95241-1910
(209) 333-6702
FAX (209) 333-6807
cityclrk@lodi.gov

H. DIXON FLYNN
City Manager
SUSAN J. BLACKSTON
City Clerk
RANDALL A. HAYS
City Attorney

DATE: May 7, 2003
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