



**CITY OF LODI  
COUNCIL COMMUNICATION**

**AGENDA TITLE:** Adopt Resolution Authorizing the City Manager to Execute an Agreement with Macias, Gini, & O'Connell, LLP for Auditing Services for the Fiscal Years Ending June 30, 2013, 2014 and 2015

**MEETING DATE:** May 1, 2013

**PREPARED BY:** Deputy City Manager

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**RECOMMENDED ACTION:** Adopt resolution authorizing the City Manager to execute an agreement with Macias, Gini, & O'Connell, LLP for auditing services for the Fiscal Years ending June 30, 2013, 2014 and 2015.

**BACKGROUND INFORMATION:** The City has solicited proposals from firms for auditing services that will cover fiscal years 2012/13 through 2014/15, with options for extension for the next two fiscal years. Staff received 14 proposals. Proposals were initially reviewed by a team of four City employees. The highest-rated firms were advanced to interviews conducted by a panel consisting of two City employees and one Council member.

Based on the criteria and results of the interviews, the panel recommends that the Council accept the proposal from Macias, Gini, & O'Connell, LLP. Audit fees for the three year term of the contract total \$255,000. Fees for the extended term of the contract total \$175,200, should the City choose to exercise those options.

**FISCAL IMPACT:** Proposed fees are \$85,000 per year for the three-year term of the contract. The proposed fees are \$23,603 lower than the fees paid for the last year.

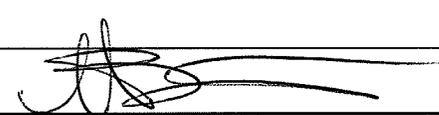
**FUNDING AVAILABLE:** Appropriations will be included in each fiscal year's Non-Departmental budget (100205).

  
Jordan Ayers  
Deputy City Manager

JA/ja

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APPROVED:

  
Konradt Bartlam, City Manager

**AGREEMENT FOR PROFESSIONAL SERVICES**

**ARTICLE 1  
PARTIES AND PURPOSE**

**Section 1.1 Parties**

THIS AGREEMENT is entered into on May1, 2013, by and between the CITY OF LODI, a municipal corporation (hereinafter "CITY"), and Macias Gini & O'Connell LLP (hereinafter "CONTRACTOR").

**Section 1.2 Purpose**

CITY selected the CONTRACTOR to provide the services required in accordance with attached Scope of Services, Exhibit A, attached and incorporated by this reference.

CITY wishes to enter into an agreement with CONTRACTOR for Audit Services (hereinafter "Project") as set forth in the Scope of Services attached here as Exhibit A. CONTRACTOR acknowledges that it is qualified to provide such services to CITY.

**ARTICLE 2  
SCOPE OF SERVICES**

**Section 2.1 Scope of Services**

CONTRACTOR, for the benefit and at the direction of CITY, shall perform the Scope of Services as set forth in Exhibit A.

**Section 2.2 Time For Commencement and Completion of Work**

CONTRACTOR shall commence work pursuant to this Agreement, upon receipt of a written notice to proceed from CITY or on the date set forth in Section 2.6, whichever occurs first, and shall perform all services diligently and complete work under this Agreement based on a mutually agreed upon timeline or as otherwise designated in the Scope of Services.

CONTRACTOR shall submit to CITY such reports, diagrams, drawings and other work products as may be designated in the Scope of Services.

CONTRACTOR shall not be responsible for delays caused by the failure of CITY staff to provide required data or review documents within the appropriate time frames. The review time by CITY and any other agencies involved in the project shall not be counted against CONTRACTOR's contract performance period. Also, any delays due to weather, vandalism, acts of God, etc., shall not be counted. CONTRACTOR shall remain in contact with reviewing agencies and make all efforts to review and return all comments.

**Section 2.3 Meetings**

CONTRACTOR shall attend meetings as may be set forth in the Scope of Services.

**Section 2.4 Staffing**

CONTRACTOR acknowledges that CITY has relied on CONTRACTOR's capabilities and on the qualifications of CONTRACTOR's principals and staff as identified in its proposal to CITY. The Scope of Services shall be performed by CONTRACTOR, unless agreed to otherwise by CITY in writing. CITY shall be notified by CONTRACTOR of any change of Project Manager and CITY is granted the right of approval of all original, additional and replacement personnel at CITY's sole discretion and shall be notified by CONTRACTOR of any changes of CONTRACTOR's project staff prior to any change.

CONTRACTOR represents it is prepared to and can perform all services within the Scope of Services (Exhibit A) and is prepared to and can perform all services specified therein. CONTRACTOR represents that it has, or will have at the time this Agreement is executed, all licenses, permits, qualifications, insurance and approvals of whatsoever nature are legally required for CONTRACTOR to practice its profession, and that CONTRACTOR shall, at its own cost and expense, keep in effect during the life of this Agreement all such licenses, permits, qualifications, insurance and approvals, and shall indemnify, defend and hold harmless CITY against any costs associated with such licenses, permits, qualifications, insurance and approvals which may be imposed against CITY under this Agreement.

**Section 2.5 Subcontracts**

Unless prior written approval of CITY is obtained, CONTRACTOR shall not enter into any subcontract with any other party for purposes of providing any work or services covered by this Agreement.

**Section 2.6 Term**

The term of this Agreement commences on May 1, 2013 and terminates upon the completion of the Scope of Services or on January 31, 2016, whichever occurs first.

**Section 2.7 Option to Extend Term of Agreement**

At its option, City may extend the term of this Agreement for an additional two one-year extensions; provided, City gives Contractor no less than thirty (30) days written notice of its intent prior to expiration of the existing term. In the event City exercises any option under this paragraph, all other terms and conditions of this Agreement continue and remain in full force and effect.

The total duration of this Agreement, including the exercise of any option under this paragraph, shall not exceed five (5) years.

## **ARTICLE 3 COMPENSATION**

### **Section 3.1 Compensation**

CONTRACTOR's compensation for all work under this Agreement shall conform to the provisions of the Fee Proposal, attached hereto as Exhibit B and incorporated by this reference.

CONTRACTOR shall not undertake any work beyond the scope of this Agreement unless such additional work is approved in advance and in writing by CITY.

### **Section 3.2 Method of Payment**

CONTRACTOR shall submit invoices for completed work on a monthly basis, or as otherwise agreed, providing, without limitation, details as to amount of hours, individual performing said work, hourly rate, and indicating to what aspect of the Scope of Services said work is attributable. CONTRACTOR's compensation for all work under this Agreement shall not exceed the amount of the Fee Proposal.

### **Section 3.3 Costs**

The Fee Proposal shall include all reimbursable costs required for the performance of the Scope of Services. Payment of additional reimbursable costs considered to be over and above those inherent in the original Scope of Services shall be approved in advanced and in writing, by CITY.

### **Section 3.4 Auditing**

CITY reserves the right to periodically audit all charges made by CONTRACTOR to CITY for services under this Agreement. Upon request, CONTRACTOR agrees to furnish CITY, or a designated representative, with necessary information and assistance needed to conduct such an audit.

CONTRACTOR agrees that CITY or its delegate will have the right to review, obtain and copy all records pertaining to performance of this Agreement. CONTRACTOR agrees to provide CITY or its delegate with any relevant information requested and shall permit CITY or its delegate access to its premises, upon reasonable notice, during normal business hours for the purpose of interviewing employees and inspecting and copying such books, records, accounts, and other material that may be relevant to a matter under investigation for the purpose of determining compliance with this requirement. CONTRACTOR further agrees to maintain such records for a period of three (3) years after final payment under this Agreement.

**ARTICLE 4**  
**MISCELLANEOUS PROVISIONS**

**Section 4.1 Nondiscrimination**

In performing services under this Agreement, CONTRACTOR shall not discriminate in the employment of its employees or in the engagement of any sub CONTRACTOR on the basis of race, color, religion, sex, sexual orientation, marital status, national origin, ancestry, age, or any other criteria prohibited by law.

**Section 4.2 ADA Compliance**

In performing services under this Agreement, CONTRACTOR shall comply with the Americans with Disabilities Act (ADA) of 1990, and all amendments thereto, as well as all applicable regulations and guidelines issued pursuant to the ADA.

**Section 4.3 Indemnification and Responsibility for Damage**

CONTRACTOR to the fullest extent permitted by law, shall indemnify and hold harmless CITY, its elected and appointed officials, directors, officers, employees and volunteers from and against any claims, damages, losses, and expenses (including reasonable attorney's fees), arising out of performance of the services to be performed under this Agreement, provided that any such claim, damage, loss, or expense is caused by the negligent acts, errors or omissions of CONTRACTOR, any subcontractor employed directly by CONTRACTOR, anyone directly or indirectly employed by any of them, or anyone for whose acts they may be liable, except those injuries or damages arising out of the active negligence of the City of Lodi or its officers or agents.

**Section 4.4 No Personal Liability**

Neither the City Council, nor any other officer or authorized assistant or agent or City employee shall be personally responsible for any liability arising under this Agreement.

**Section 4.5 Responsibility of CITY**

CITY shall not be held responsible for the care or protection of any material or parts of the work described in the Scope of Services prior to final acceptance by CITY, except as expressly provided herein.

**Section 4.6 Insurance Requirements for CONTRACTOR**

CONTRACTOR shall take out and maintain during the life of this Agreement, insurance coverage as set forth in Exhibit C attached hereto and incorporated by this reference.

**Section 4.7 Successors and Assigns**

CITY and CONTRACTOR each bind themselves, their partners, successors, assigns, and legal representatives to this Agreement without the written consent of the others.

CONTRACTOR shall not assign or transfer any interest in this Agreement without the prior written consent of CITY. Consent to any such transfer shall be at the sole discretion of CITY.

**Section 4.8 Notices**

Any notice required to be given by the terms of this Agreement shall be in writing signed by an authorized representative of the sender and shall be deemed to have been given when the same is personally served or upon receipt by express or overnight delivery, postage prepaid, or three (3) days from the time of mailing if sent by first class or certified mail, postage prepaid, addressed to the respective parties as follows:

To CITY:                      City of Lodi  
   221 West Pine Street  
   P.O. Box 3006  
   Lodi, CA 95241-1910  
   Attn: Jordan Ayers

To CONTRACTOR:        Macias Gini & O'Connell LLP  
   3000 S Street, Suite 300  
   Sacramento, CA 95816  
   Attn: Richard Green, CPA

**Section 4.9 Cooperation of CITY**

CITY shall cooperate fully and in a timely manner in providing relevant information it has at its disposal relevant to the Scope of Services.

**Section 4.10 CONTRACTOR is Not an Employee of CITY**

CONTRACTOR agrees that in undertaking the duties to be performed under this Agreement, it shall act as an independent contractor for and on behalf of CITY and not an employee of CITY. CITY shall not direct the work and means for accomplishment of the services and work to be performed hereunder. CITY, however, retains the right to require that work performed by CONTRACTOR meet specific standards without regard to the manner and means of accomplishment thereof.

**Section 4.11 Termination**

CITY may terminate this Agreement, with or without cause, by giving CONTRACTOR at least ten (10) days written notice. Where phases are anticipated within the Scope of Services, at which an intermediate decision is required concerning whether to proceed further, CITY may terminate at the conclusion of any such phase. Upon termination, CONTRACTOR shall be entitled to payment as set forth in the attached Exhibit B to the extent that the work has been performed. Upon termination, CONTRACTOR shall immediately suspend all work on the Project and deliver any documents or work in progress to CITY. However, CITY shall assume

no liability for costs, expenses or lost profits resulting from services not completed or for contracts entered into by CONTRACTOR with third parties in reliance upon this Agreement.

**Section 4.12 Confidentiality**

CONTRACTOR agrees to maintain confidentiality of all work and work products produced under this Agreement, except to the extent otherwise required by law or permitted in writing by CITY. CITY agrees to maintain confidentiality of any documents owned by CONTRACTOR and clearly marked by CONTRACTOR as "Confidential" or "Proprietary", except to the extent otherwise required by law or permitted in writing by CONTRACTOR. CONTRACTOR acknowledges that CITY is subject to the California Public Records Act.

**Section 4.13 Applicable Law, Jurisdiction, Severability, and Attorney's Fees**

This Agreement shall be governed by the laws of the State of California. Jurisdiction of litigation arising from this Agreement shall be venued with the San Joaquin County Superior Court. If any part of this Agreement is found to conflict with applicable laws, such part shall be inoperative, null, and void insofar as it is in conflict with said laws, but the remainder of this Agreement shall be in force and effect. In the event any dispute between the parties arises under or regarding this Agreement, the prevailing party in any litigation of the dispute shall be entitled to reasonable attorney's fees from the party who does not prevail as determined by the San Joaquin County Superior Court.

**Section 4.14 City Business License Requirement**

CONTRACTOR acknowledges that Lodi Municipal Code Section 3.01.020 requires CONTRACTOR to have a city business license and CONTRACTOR agrees to secure such license and pay the appropriate fees prior to performing any work hereunder.

**Section 4.15 Captions**

The captions of the sections and subsections of this Agreement are for convenience only and shall not be deemed to be relevant in resolving any question or interpretation or intent hereunder.

**Section 4.16 Integration and Modification**

This Agreement represents the entire understanding of CITY and CONTRACTOR as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered hereunder. This Agreement may not be modified or altered except in writing, signed by both parties.

**Section 4.17 Contract Terms Prevail**

All exhibits and this Agreement are intended to be construed as a single document. Should any inconsistency occur between the specific terms of this Agreement and the attached exhibits, the terms of this Agreement shall prevail.

**Section 4.18 Severability**

The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision of this Agreement.

**Section 4.19 Ownership of Documents**

All documents, photographs, reports, analyses, audits, computer media, or other material documents or data, and working papers, whether or not in final form, which have been obtained or prepared under this Agreement, shall be deemed the property of CITY. Upon CITY's request, CONTRACTOR shall allow CITY to inspect all such documents during CONTRACTOR's regular business hours. Upon termination or completion of services under this Agreement, all information collected, work product and documents shall be delivered by CONTRACTOR to CITY within ten (10) calendar days.

CITY agrees to indemnify, defend and hold CONTRACTOR harmless from any liability resulting from CITY's use of such documents for any purpose other than the purpose for which they were intended.

**Section 4.20 Authority**

The undersigned hereby represent and warrant that they are authorized by the parties to execute this Agreement.

**Section 4.21 Federal Transit Funding Conditions**

If the box at left is checked, the Federal Transit Funding conditions attached as Exhibit apply to this contract. In the event of a conflict between the terms of this contract or any of its other exhibits, and the Federal Transit Funding Conditions, the Federal Transit Funding Conditions will control.

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**IN WITNESS WHEREOF, CITY and CONTRACTOR have executed this Agreement as of the date first above written.**

CITY OF LODI, a municipal corporation

ATTEST:

\_\_\_\_\_  
RANDI JOHL  
City Clerk

\_\_\_\_\_  
KONRADT BARTLAM, City Manager

APPROVED AS TO FORM:  
D. STEPHEN SCHWABAUER, City Attorney  
JANICE D. MAGDICH, Deputy City Attorney

CONTRACTOR:

By: \_\_\_\_\_

By: \_\_\_\_\_  
Name:  
Title:

**Attachments:**  
**Exhibit A – Scope of Services**  
**Exhibit B – Fee Proposal**  
**Exhibit C – Insurance Requirements**

**Funding Source: 100205.7323**  
**(Business Unit & Account No.)**

Doc ID:

CA:rev.01.2012

## **Exhibit A – Scope of Services**

Refer to Proposal for Professional Auditing Services RFP13-01.



**Proud To Be  
Boring Accountants.®**

# An ironclad audit that gives your city peace of mind.

## **Proposal for Professional Auditing Services RFP 13-01 City of Lodi**

March 4, 2013

Prepared for you by:

**Richard A. Green, CPA / Partner**

Call: 916.642.7049

Email: [rgreen@mgocpa.com](mailto:rgreen@mgocpa.com)

3000 S Street, Suite 300, Sacramento, California 95816





# Proud To Be Boring Accountants®

## The Boring Story.

Our tagline isn't just some made-up marketing jargon; it's the result of our entire team digging deep to crystallize what drives them, what makes us different, and why clients should care about us.

Proud To Be Boring Accountants® of course plays off the old stereotype of accountants. We felt it was time we stood up and claimed our craft. It's who we are, and it's what we love doing. In a world where CPAs seem to be Jacks of all trades, we are masters of one, and proud of it.

We take our profession seriously, not ourselves. When you get to know us, you find out we're not really that boring, and our approach to problem-solving is thoughtful and looks at issues from all angles. Being boring accountants means we understand how to help clients stand clear of fads and quick fixes while staying focused on strategies that will help them succeed over the long-term.

That's enough explanation. We wouldn't want to bore you, now would we?

**Kevin J. O'Connell, CPA  
CEO & Managing Partner**

Proud to be a Boring Accountant.



- 1 Introduction.**  
Transmittal Letter.
- 2 Executive Summary.**  
Our Value Propositions.
- 3 Section 1**  
Firm Qualifications and Experience.
- 5 Section 2**  
Our Experience with the City of Lodi.
- 6 Section 3**  
Partner, Supervisory and Staff Qualifications and Experience.
- 12 Section 4**  
Similar Engagements with Other Government Entities.
- 13 Section 5**  
Specific Audit Approach.
- 25 Section 6**  
Identification of Anticipated Potential Audit Problems.
- 26 Section 7**  
Total All-Inclusive Maximum Price.
- 28 Attachments**
  - Statement of Past Contract Disqualification.
  - Peer Review Report.
  - Quality Control Review.

# **Hello, and thank you. Our approach, like our proposal that follows, is all about clear communication, innovation, full transparency and a willingness to always go the extra mile, – because that's what it takes to deliver the highest level of assurance.**

On behalf of MGO, we are pleased to present our proposal to provide auditing services to the **City of Lodi (the "City")** to audit the City's financial statements and perform Single Audit services for three (3) fiscal years, beginning with the fiscal year ending June 30, 2013, with an option to renew for an additional two fiscal years.

The City is currently a valued audit client of MGO that requires a seasoned engagement team with an unmatched breadth of experience and expertise in performing financial statement audits. Your proposed MGO team has the required experience, expertise as well as significant institutional knowledge of your operating environment, processes and internal control over financial reporting. As a result, we are the firm best qualified to perform the engagement and committed to perform the work within the time period specified in the RFP. Below are the three primary reasons that we believe MGO should be selected to perform the financial statement audit of the City.

## ***Our Public Sector Experience***

MGO serves the largest and most complex governments than any other firm. In California, our local government specialists have served over 100 cities, 16 counties and more than 200 special purpose units of government. Currently, we're the principal auditors for 6 of the top 10 California cities and the largest Public Employees' Retirement System (CalPERS) in the United States. Additionally, MGO has served our state's largest city, Los Angeles, for more than 10 years and the second largest Public Employees' Retirement System (CalSTRS) in the United States for 7 years. Our depth of experience and expertise will result in the City continuing to receive a quality financial statement audit that properly assesses and responds to audit risk.

## ***Our Track Record***

MGO has a proven track record as a leader in providing professional services to the public sector. Since our inception in 1987, MGO has never had an audit failure. This is a testimony of our commitment to quality and maintaining the confidence of our clients and the public. MGO also has a proven track record of successfully serving the City. While serving as independent auditor, MGO has provided valuable observations of best practices that improved financial reporting, internal control and operating efficiency and effectiveness.

## ***Our Cost Integrity***

MGO's fee philosophy is to foster long-term client relationships by offering fair and competitive pricing, while providing the highest level of uncompromised service.

This proposal is a firm and irrevocable offer for sixty (60) days. As a Partner, I am entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with the City. If the City has any questions, or if I can be of assistance to you in any way during your selection process, please do not hesitate to call me at 916.642.7046.



**Richard A. Green, CPA**  
Proud to be a Boring Accountant  
and MGO Partner  
E-Mail: rgreen@mgocpa.com

Macias Gini & O'Connell LLP  
3000 S Street, Suite 300  
Sacramento, CA 95816  
Main: 916.928.4600  
Direct: 916.642.7046

# 3 ironclad reasons MGO will best serve the City of Lodi.

## **1 Our experience. When it comes to auditing governments, we're number one.**

**MGO audits more top California governments than any other firm.** Our firm's governmental practice is one of the largest in the United States and offers unmatched resources in serving this highly complex sector, with specialists who are dedicated to year-round service. In California, our local government specialists have served over 100 cities, 16 counties and more than 200 special purpose units of government. Rest assured we will use our experience to provide a highly focused, efficient and effective audit.

Currently, we're the principal auditors for 6 of the top 10 California cities and the largest Public Employees' Retirement System (CalPERS) in the United States. Additionally, MGO has served our state's largest city, Los Angeles, for more than 10 years and the second largest Public Employees' Retirement System (CalSTRS) in the United States for 7 years. Our experience is simply unmatched.

**Experience that's second to none.** Some firms will tout their experience auditing numerous governmental entities, but often that experience doesn't directly translate to the engagement team, especially below the partner level. Your local MGO engagement team will include some of the most experienced and talented government auditors in the country. That's a promise.

## **2 Our track record. We are proven in the industry and more importantly with the City.**

**Our Capacity to Serve.** MGO professionals participate with the national standard setters in addressing the emerging technical issues of the day. We offer our clients the opportunity to have a "voice" in the direction and development of audit and accounting standards that impact their respective organizations. Members of your proposed service team participate directly with the GASB and AICPA and will serve as trusted advisors to the City.

**We're ready to hit the ground running.** Because of our institutional knowledge of your operating environment we are able to focus on the true areas of audit risk. This focus will ensure a quality financial statement audit that minimizes disruption to management and staff. Additionally, our in depth understanding of the City and its operations will allow MGO to continue to provide insightful comments on improving internal controls and operating procedures. We are proud of the added value that our comments have provided the City over the years. This value only comes from years of experience in serving the public sector and an understanding of the City that our competitors do not possess.

**MGO has never had an audit failure,** which given that we have performed so many, is something we are very proud of. It is the most rewarding statistic in the audit business and very satisfying to know that our hard work, dedication and ironclad approach results in audits that hold up under intense scrutiny.

## **3 Our cost integrity. Quality at the right price.**

**We never compromise quality.** During these economic times we have seen some very questionable tactics of underbidding just to seal the deal without considering the outcome.

We don't play those games; our professional integrity will not allow it. A former Director of the SEC's Enforcement Division said it well, "...it is critical that auditors of municipalities conduct their audits with a high degree of rigor, competence and independence, and that cities hire auditors who have the technical skills, experience and resources to conduct proper audits and not hire auditors based primarily on the lowest bid..."

That said, we are fully aware of the budget constraints the City is under and are offering a **33% discount from our standard hourly rates**, while providing you with the peace-of-mind that we will not sacrifice the quality of our audits.

## **MGO in a nutshell.**

**We are a regional certified public accounting and consulting firm serving clients from 8 offices throughout California and one in Seattle, Washington. Founded in 1987, MGO is a full-service firm with a staff of over 250 highly skilled professionals providing auditing, tax, accounting and management consulting, and business management services to governmental entities, nonprofits, corporations, partnerships and individuals. We're committed to exceeding the expectations of clients through our philosophy of proactive planning and year-round involvement and our core values of service, integrity and knowledge. We contribute to the success of many of the largest governments in California.**

### **MGO is People.**

We employ the best, most talented Professionals to deliver reliable, knowledgeable services to our clients. Our focus on building relationships and supporting the achievement of both client and employee goals is supported by 25 years of experience serving clients in California's complex business, governmental and nonprofit environments.

### **Firm Mission.**

Our mission is to provide world class services while passionately exceeding the expectations of our clients. We have developed our statewide certified public accounting practice to operate as a flexible "one office" practice.

Our professionals have the collective knowledge, experience and commitment necessary to attentively and effectively provide the highest quality service to our clients.

### **Firm Capacity.**

MGO's Public Sector practice is one of the largest in the country and offers unparalleled resources in serving this highly complex sector. We have over 90 licensed professionals experienced in working with clients in all areas of the public sector, at all levels of government and encompassing the executive, legislative and judicial branches. In addition to general-purpose units of government, we serve authorities, ✓ boards and commissions. We work in the areas of economic development, education, finance, health and human services, housing, justice, public safety, public works, retirement systems, and transportation, as well as the central administrative functions. This diversity provides us with a well-balanced perspective and a tremendous base of experience.

### **Independence**

Our firm 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. We meet the independence standards, due professional care, qualifications, and quality control requirements of the *Government Auditing Standards*, 2007 revision, published by the U.S. Government Accountability Office (GAO) in relation to the City. If we are selected as your independent auditor, we will not enter into any relationships that may impair or jeopardize our independence during the term of the contract.

### **Licensed to Practice in California**

Our firm and all key professional staff assigned to the engagement are properly licensed by the State of California to practice as Certified Public Accountants. MGO meets all requirements imposed by federal, state and local laws, rules, and regulations.

# We are thought leaders in the public sector.

Over the past 25 years, our firm has continually demonstrated our commitment to the public accounting profession by investing significant financial and human resources. Our statewide practice is dedicated to issues affecting our clients. We've contributed countless hours in consultation with the many agencies that regulate and shape the environment in which you operate. Our role as a thought leader to the public accounting profession is shown through our participation on national committees, technical publications and articles authored by our partners and directors, and the specialty training we provide to industry associations and our clients.

**A national footprint. Because of our long-term involvement and national liaisons, we're the firm best positioned to keep you up to date on changing accounting and auditing standards - and we will. Our record of thought leadership includes:**

- Participation in the **AICPA State and Local Government Expert Panel (EP)**, the successor group to the GAAC (see below) that is responsible for addressing practice and emerging issues in the public sector. The EP serves as the profession's primary liaison to the Governmental Accounting Standards Board and regulators such as the U.S. Government Accountability Office and the U.S. Office of Management and Budget. Caroline Walsh, the Firm's Quality Control Partner, was one of fifteen people nationwide who served on this panel for a three-year term from October 2006 through September 2009. Caroline participated in the review of the 2009 audit guides, which are currently being used by auditors nationwide. Last year, Caroline chaired the EP task force for the GASB's Invitation to Comment on Pension Accounting and Financial Reporting and presented testimony to GASB on behalf of the AICPA. As a former member, she was recently invited to serve as an EP task force member to review and comment on the GASB's new exposure draft, which codifies pre-November 30, 1989 accounting standards.
- Richard Green, the proposed Engagement Partner was chosen to participate in the **AICPA State and Local Government Expert Panel Pension Comment Letter Task Force**. He is also a member of the **Governmental Accounting Standards Board Task Force on Pension Accounting Research**.
- The firm's founder, Kenneth Macias, completed his term on the **AICPA Auditing Standards Board (ASB)** in 2003, which laid the ground work for the profession's *New Risk Assessment Standards*. He has also served on the task force that developed GASB Statement Nos. 31 and 42.
- MGO Partners and Directors have participated over the last 15 years with the **AICPA Government Accounting and Auditing Committee (GAAC)** which was responsible for developing

the AICPA's *Audit and Accounting Guide for State and Local Governments*. The GAAC was a major influence in the development of generally accepted auditing standards and accounting principles of governments.

- The firm's Managing Partner, Kevin O'Connell, served on the GASB task force that developed guidance to implement GASB Statement Nos. 43 and 45 related to *Other Postemployment Benefits (OPEB)*.
- Caroline Walsh, the proposed Technical Review Partner was recognized for her contribution to the 2008 *Audit Risk Alert for State and Local Governments*.
- In 2009, Caroline was appointed for a three-year term to the Governmental Accounting Standards Board (GASB) Implementation Guide Advisory Committee to assist the GASB in developing the 2009-2010 edition of the *Comprehensive Implementation Guide*. Caroline reviewed the updates for the 2010-2011 Guide.
- Caroline Walsh was recognized for her contribution on the task forces responsible for the 2008 and 2009 releases of the *AICPA Audit and Accounting Guides for State and Local Governments and Government Auditing Standards and Circular A-133 Audits* guides. These are the leading industry guidance for auditors conducting audits of state and local governments in accordance with the Yellow Book and the Single Audit Act.
- MGO is a member of the AICPA Government Audit Quality Center (GAQC). The GAQC was established in 2004 and its primary purpose is to provide resources to promote high quality governmental audits. To demonstrate our commitment to quality auditing practices, MGO was one of the first firms in the U.S. to join the GAQC.

**On April 5, 2011 MGO Partner and Founder, Kenneth Macias was named to the 2011-2012 American Institute of CPAs (AICPA) Board of Directors.**

## Focused on Adding Value to the City of Lodi

In recent years, the AICPA has issued several new auditing standards that emphasize the importance of communication between the auditor, management and those charged with governance. Our communication with management has always been a priority. We see ourselves not only as your auditor, but as a trusted business advisor. Providing useful recommendations for improving financial reporting and operational efficiency is an integral part of our service plan. We have consistently drawn upon our in-depth knowledge of the City and our experience with other large governments to assess current processes, identify areas for improvement and communicate best practices.

Over the years, we have assisted the City in a number of areas as noted to the right.

## Highlights of Past Client Services Provided - Value Added

**In fiscal year 2010**, MGO worked directly with the City's actuary in developing its January 1, 2010 valuations related to GASB statements No. 16 and 45 accounting and financial reporting.

**Annually, MGO provides** our clients a full day of complimentary CPE addressing the technical accounting and emerging issues related to local government.

**MGO has provided the City** with recommendations of "best practices" to improve internal control over financial reporting, operating efficiency and effectiveness.

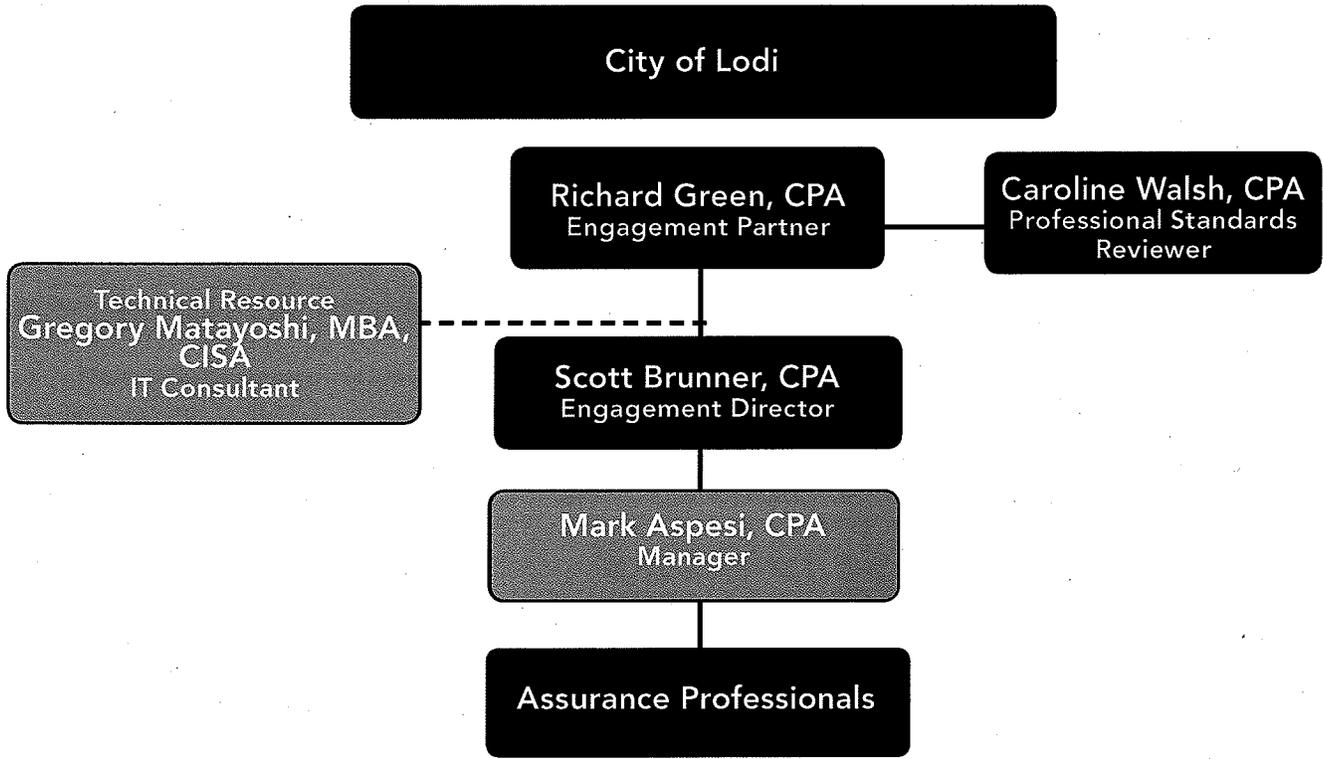
**MGO has been flexible** in adjusting staff work schedules and delivery dates to accommodate City demands on time and human resources.

## Looking Forward - Value Added

**MGO believes that the messaging and image of the City's CAFR is dated and could be improved significantly.** Should MGO be awarded the contract we would provide the following marketing services valued at approximately \$4,500 to the City at *no charge*.

- Re-design of the cover and section dividers by adding color and images related to the City
- Re-design the financial statements and schedules to use a consistent font size & format
- Add color via charts to the MD&A and statistical section
- Add color to the financial statements, schedules, and notes

## Partner, Supervisory and Staff Qualifications and Experience.



### Nature of the Engagement Team.

The proposed engagement team members are all full-time members of our firm. MGO does not intend to employ staff on a part-time basis to the County. As indicated above, the team is comprised of 4 audit professionals, and 1 specialist.

The engagement team selected to serve the City of Lodi represents a strong, balanced blend of talent, professional skills, and industry experience that is most critical to working effectively with clients of your size and complexity. Each of our key engagement team members possesses:

- Broad public sector industry experience
- Understanding of the major issues facing local governmental units
- Demonstrated technical proficiency

In addition to broad public sector industry experience, as described in the MGO team resumes, all key team members are experienced in conducting Single Audits and preparing or assisting

in the preparation of, award-winning Comprehensive Annual Financial Reports.

### Resources.

We will provide the City with qualified, trained staff if we are awarded this contract, in light of our current obligations.

### Continuity of Personnel.

MGO values staff continuity as important to the efficiency and effectiveness of the audits we perform. Continuity of staffing is an important element in our service plan for the City. Excessive personnel turnover, particularly at the staff level, sometimes creates confusion for client personnel and necessitates a series of "start-up" periods while new staff becomes familiar with the engagement. To ensure that the City's personnel derive maximum benefit from their working relationships with our people, we will continue to maintain the highest possible level of staff continuity throughout the course of the engagement.

In the event a project partner, manager, or other supervisory staff or specialist rotates out of the firm, is promoted,

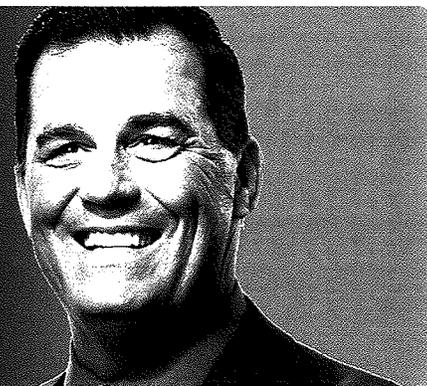
or is assigned to another office, the individual will be replaced by personnel that have substantially the same or better qualifications and experience. If these key personnel are changed for other reasons, it will be only upon prior written permission of the City. In either case, the City retains the right to approve or reject replacements. No additional staff will be hired if we are awarded with this contract.

### Continuing Professional Education of Employees.

In compliance with auditing standards generally accepted in the United States of America, our firm administers a program to ensure that all professional staff meets continuing professional education (CPE) requirements. We are aware of the strict educational guidelines required by *Government Auditing Standards*. All members of the audit team have satisfied these requirements, having at least 80 hours of continuing professional education every two years, of which 24 must directly relate to the government environment and to government accounting and auditing standards.

**Richard Green, CPA.**

**“Don't be fooled by my surname; I am a seasoned expert with over two decades of experience. I'll provide a fresh and familiar approach to address any challenges you may face.”**



Richard has over 24 years of auditing, accounting, and consulting experience, including all phases of external and internal auditing. Before joining MGO in 1994, Richard was a Financial Consultant for Merrill Lynch, specializing in the management of individual and business investment portfolios and retirement plans. Prior to Merrill Lynch, he was with Deloitte & Touche LLP for 5 years.

Richard was appointed to the AICPA State and Local Government Expert Panel Pension Comment Letter Task Force, which reviewed the issued Government Accounting Standards Board (GASB) exposure drafts on pension accounting and reporting for employers and benefit plans.

Richard recently served on the Government Finance Officers Associations' (GFOA) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting Program. This committee performs reviews of comprehensive annual financial reports submitted to the program, which promotes the highest quality financial reporting for state and local governments. In addition, he is a member of the Governmental Accounting Standards Board Task Force on Pension Accounting Research. This task force assesses the effectiveness of current accounting and financial reporting requirements for pension plans and employers.

Richard has served as Engagement Partner on each of the public retirement systems listed. Services provided for each client include performing an audit on the financial statements in accordance with standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants. Also, a majority of the audits were performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Richard has conducted numerous training programs and has been a guest speaker relating to technical and emerging issues at a variety of national and local conferences.

**Role and Responsibilities**

- Overall responsibility for the audit and delivery of client service
- Approves the overall audit risk assessment and audit procedures
- Communicates with executive management, members of the Retirement Board regarding audit planning, fieldwork and reporting
- Available throughout the year to ensure proactive issue identification and service delivery

**Professional Activities and Memberships**

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- Association of Government Accountants

**Public Speaking**

- American Institute of Certified Public Accountants Nonprofit and Government Conference
- State Association of County Retirement Systems Conference
- California Association of Public Retirement Systems
- California Special Districts Association Conference
- BDO Seidman Alliance Conference
- California Society of Certified Public Accountants

**Continuing Professional Education**

Total CPE hours were 136 in the last three calendar years (2012, 2011 and 2010) of which 91 were in governmental accounting and auditing subjects. Richard met the *Government Auditing Standards* requirement for governmental CPE.

**Engagement Partner****Education**

California State University, Sacramento  
B.S., Business Administration with a  
Concentration in Accounting

**Select Clients Served****City Governments**

- Chico
- Galt
- La Mesa
- Los Angeles
- Modesto
- Needles
- Pleasanton
- Rohnert Park
- Sacramento
- Stockton
- Vacaville
- West Sacramento

**County Governments**

- Butte
- Fresno
- Glenn
- Merced
- Napa
- Orange
- Placer
- Riverside
- Sacramento
- San Bernardino
- San Mateo
- Solano
- Sonoma
- Stanislaus
- Tulare
- Tuolumne
- Yolo

**Other Governmental Entities**

- Butte County Air Quality Management District
- California Board of Corrections
- California Bureau of State Audits
- California Business Transportation & Housing Agency
- California Department of Managed Health Care
- California Exposition and State Fair
- California Infrastructure and Economic Development Bank
- California Institute for Regenerative Medicine
- California Integrated Waste Management Board
- California Office of Criminal Justice & Planning
- California Public Employees' Retirement System
- California State Teachers' Retirement System
- California Technology Agency
- Department of Transportation - CalTRANS
- Golden Sierra Job Training Agency
- Placer County Flood Control District and Water Conservation District
- Placer Mosquito Abatement District
- Sacramento Area Flood Control Agency
- Sacramento Employment & Training Agency
- Solano County Water Agency
- Sonoma County Water Agency and Sanitation District

Additional references upon request.

**“I’m like the government auditing version of Yoda. With more than three decades of auditing experience, I’m here to shed light on any complex issues you might need assistance with. I look forward to earning your confidence.”**



Caroline has over 34 years of specialized experience in auditing and consulting for local governmental agencies, nonprofit, insurance, healthcare, and corporate enterprises. Prior to joining MGO in 1991, she spent 13 years with the Los Angeles Office of Deloitte & Touche LLP where she was the lead government senior manager.

Caroline is MGO’s Quality Control Partner serving as the chair of the firm’s Technical Standards Group. She is responsible for firm-wide quality control standards, including annual internal quality control inspections, and professional standards review of the firm’s reports. She is also the firm’s designated technical expert assigned to the BDO Alliance Government Industry Group technical helpline.

From October 2006 through 2009, Caroline served on the AICPA State and Local Government Expert Panel for a three-year term. Her role on the Expert Panel was to provide review and technical support services for the public accounting profession, including drafting and updating the AICPA guides for Audits of State and Local Governments and Government Auditing Standards and Circular A-133 Audits. The Expert Panel also serves as a liaison in activities with the GASB and government regulators. In 2009, Caroline was appointed by the AICPA Expert Panel to chair its Task Force for the AICPA’s comment letter on the GASB’s Preliminary Views on Pension Accounting and Financial Reporting by Employers. In August 2009, Caroline testified before the GASB summarizing the AICPA’s comment letter and responding to GASB Board member questions. Caroline was invited to continue to serve on the AICPA Expert Panel Task Force for Pensions. During the summer of 2011, she participated on the task force and assisted with drafting the AICPA Comment Letter on the GASB’s exposure drafts for pension plan and employer accounting and reporting.

In 2009, Caroline was appointed for a three-year term to the GASB Advisory Committee, which is a standing committee whose members review the GASB staff’s annual proposed changes and additions to the GASB’s Implementation Guidance and provide comments and feedback that GASB staff can consider prior to final review and clearance.

Caroline has served as Technical Review Partner on each of the public retirement systems listed. Services provided for each client include performing an audit on the financial statements in accordance with standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants. Also, a majority of the audits were performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Role and Responsibilities**

- Responsible for assisting the Engagement Partner in performing the audit risk assessment and design of audit procedures
- Assists the Engagement Partner in reviewing audit documentation for significant audit areas
- Reviews financial statements to ensure conformance with Generally Accepted Accounting Principles in the United States of America and Government Finance Officers’ Association requirements
- Participates in the communication with executive management and members of the Retirement Board regarding audit planning, fieldwork and reporting
- Advises the audit team regarding technical matters and provides concurring approval of financial statements and audit reports

#### **Professional Activities & Memberships**

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- Member of AICPA State & Local Government Expert Panel (2006-09)
- Current member GASB Advisory Committee for Implementation Guidance

#### **Continuing Professional Education**

Total CPE hours were 205 in the last three calendar years (2012, 2011 and 2010) of which 140 were in governmental accounting and auditing subjects. Caroline met the *Government Auditing Standards* requirement for governmental CPE.

#### **Technical Review Partner**

##### **Education**

California State University, Northridge  
B.A., Mathematics, with honors

##### **Select Clients Served**

###### **City Governments**

- Compton
- Inglewood
- Los Angeles
- Modesto
- Oakland
- Pleasanton
- Sacramento
- San Diego
- San Francisco
- San Jose
- Santa Rosa
- Simi Valley
- Stockton
- Vernon

###### **County Governments**

- Contra Costa
- Fresno
- Los Angeles
- Orange
- Riverside
- Sacramento
- San Bernardino
- San Diego
- San Francisco
- San Mateo
- Santa Clara
- Tulare
- Ventura

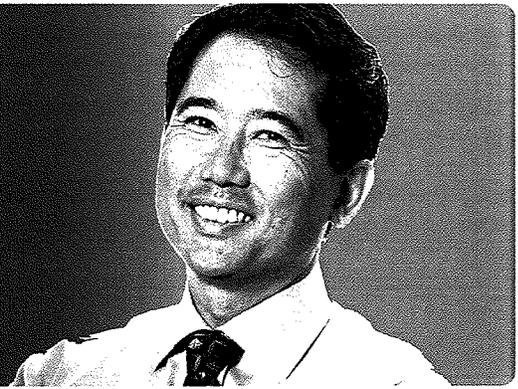
###### **Other Governmental Entities**

- Alameda County Water District
- County of Orange Children & Families Commission
- Los Angeles County First 5 Commission
- Los Angeles County External Investment Pool
- Municipal Improvement Corporation of Los Angeles
- Santa Clara Valley Water District
- San Diego City Employees’ Retirement System
- San Francisco City and County Employees’ Retirement System
- San Jose Federated City Employees’ Retirement System
- San Jose Police and Fire Department Retirement Plan

Additional references upon request.

**Gregory Matayoshi, MBA, CISA.**

**“If there’s an issue, I will identify and communicate it right away so it will be resolved. I don’t like surprises; I like resolution and fast results.”**



Greg is an IT Director and a Certified Information Systems Auditor (CISA). Greg has 23 years of professional experience managing and directing engagements, including IT reviews for both public and private sector entities. His expertise in IT and finance and responsibilities have included managing complex projects involving over 10 field teams in various subjects including accounting, financial, operational and program evaluation assignments. Greg has a strong track record of delivering projects under budget and with presenting reports to client management and elected officials.

In the past several years, Greg has conducted compliance evaluations against Knox Keene Health Act regulations for 14 health maintenance organizations, three risk bearing organizations, and two county health care providers. He has conducted over 55 information management reviews in the past four years to ensure that information systems contained adequate system controls; assessed organizational IT environment for proper segregation of duties, systems management, change controls, and system implementation management. These reviews required conducting interviews, examining information management policies and procedures, IT strategic plans, staff workload ratios, productivity requirements, and reviewing organizational structures.

In addition, Greg is Justice Information Exchange Model (JIEM) Certified.

**Role and Responsibilities**

- Works closely with assurance professionals to conduct the information systems review
- Conducts IT general and application controls assessments
- As needed, conducts focused reviews on systems security and governance

**Professional Activities and Memberships**

- Association of Government Accountants (President of the Sacramento Chapter)

**Continuing Professional Education**

Total CPE hours were 129 in the last three calendar years (2012, 2011 and 2010) of which 42 were in governmental accounting and auditing subjects. Greg met the *Government Auditing Standards* requirement for governmental CPE.

**IT Director****Education**

University of California, Davis  
M.B.A., Finance & Technology Management

University of Colorado  
B.S., Mechanical Engineering

**Select Clients Served****City Governments**

- Chico
- Compton
- Covina
- Cupertino
- Foster City
- Fresno
- Lodi
- Los Angeles
- Modesto
- Oakland
- Palo Alto
- Riverside
- Rohnert Park
- Sacramento
- San Diego
- San Jose
- Santa Monica
- Santa Rosa
- Stockton
- Ventura
- Vernon
- Woodland

**County Governments**

- Contra Costa
- Orange
- Placer
- Riverside
- Sacramento
- San Diego
- San Mateo
- Santa Clara
- Solano
- Sonoma
- Stanislaus
- Tuolumne
- Ventura

**Other Governmental Agencies**

- California Department of Water Resources
- California Department of Managed Healthcare
- California Educational Facilities Authority
- California Health Facilities Financing Authority
- California Public Employees' Retirement System
- California State Office of Fleet and Asset Management
- California State Teachers' Retirement System
- California Technology Agency
- California Tahoe Conservancy
- Orange County Employees' Retirement System
- San Diego County Employees' Retirement Association
- Washington State Auditor's Office

Additional references upon request.

**Scott Brunner, CPA.**

**“As you know, I bring continuity to this engagement. I put my all into working with you in the past and am fully invested in your success.”**



Scott has more than 25 years of auditing experience and is licensed to practice as a CPA in California. He has been responsible for managing, coordinating, planning, performing, and preparing financial statements, reports, and other schedules related to more than 200 Single Audits of California counties, cities, and special districts. He has performed other audits including California Department of Justice grants, California Office of Criminal Justice Planning/Emergency Services grants, California Department of Insurance grants, Transportation Development Act funds, Housing Authorities, and Redevelopment Agencies. He has also managed or performed numerous agreed-upon procedures engagements.

Scott has spearheaded several special projects, which include converting two medium-sized California cities' Comprehensive Annual Financial Report to the Governmental Accounting Standards Board (GASB) Statement No. 34 (New Reporting Model) format. He also helped a small-sized California city develop a fleet internal service fund and cost allocation plan.

**Role and Responsibilities**

- Leads and coordinates the delivery of the audit and technical assistance for all engagement audits
- Leads project strategy and planning efforts
- Works closely with your management team
- Available throughout the year to ensure proactive issue identification and service delivery
- Participates in client discussions concerning complex technical issues

**Professional Activities and Memberships**

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants

**Continuing Professional Education**

Total CPE hours were 151 in the last three calendar years (2012, 2011 and 2010) of which 68 were in governmental accounting and auditing subjects. Scott met the Government Auditing Standards requirement for governmental CPE.

**Engagement Director****Education**

San Diego State University  
B.S., Business Administration (Accounting)

**Select Clients Served****City Governments**

- |            |                   |
|------------|-------------------|
| • Antioch  | • Rocklin         |
| • Folsom   | • Sacramento      |
| • Lakeport | • Santa Rosa      |
| • Lodi     | • Sonoma          |
| • Modesto  | • Stockton        |
| • Needles  | • West Sacramento |

**County Governments**

- |              |              |
|--------------|--------------|
| • Butte      | • Sierra     |
| • Glenn      | • Solano     |
| • Lassen     | • Sonoma     |
| • Merced     | • Solano     |
| • Napa       | • Stanislaus |
| • Nevada     | • Tehama     |
| • Plumas     | • Tuolumne   |
| • Sacramento | • Yolo       |
| • Shasta     |              |

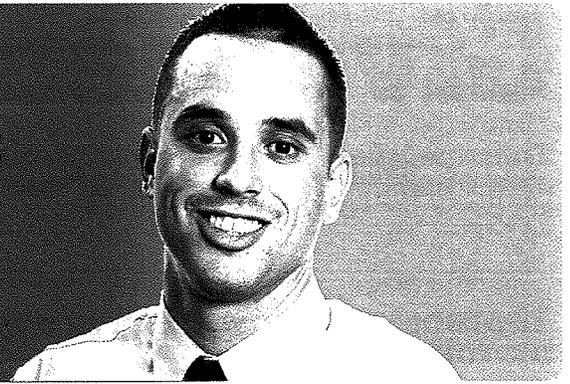
**Other Governmental Entities**

- California Bureau of State Audits
- California County Tobacco Securitization Agency
- California Infrastructure and Economic Development Bank (I-Bank)
- California Statewide Communities Development Authority
- California Statewide Financing Authority
- Golden Sierra Job Training Agency
- Stockton Port District
- Sacramento Convention and Visitor's Bureau
- U.S. Communities
- Yolo County Resource Conservation District
- Yolo-Solano Air Quality Management District

Additional references upon request.

**Mark Aspesi, CPA.**

**“I’m quick to laugh and easy to talk to, but there’s nothing funny about my over-the-top commitment and attention to detail.”**



Mark has over six years of accounting and auditing experience performing various auditing, accounting, financial, and operational assignments. His tasks include compiling data to prepare and review financial statements; reviewing of workpapers and supporting schedules; performing tests of details and analytical reviews; auditing all areas of section work; preparing closing and adjusting entries; and performing OMB Circular A-133 single audits.

Mark has satisfied the "Yellow Book" requirement of having at least eighty hours of continuing professional education every two years, of which twenty four must directly relate to the government environment and to government auditing. He has attended numerous qualifying CPE classes related to governmental accounting and auditing, audit productivity and efficiency and various updates.

**Role and Responsibilities**

- Assists Engagement Director in planning, controlling, reviewing and evaluating fieldwork
- Consults with audit team on issues and progress of fieldwork
- Discusses accounting and control issues and assists in resolving those issues
- Manages the day-to-day execution of the audit activities and directs task accomplishments, monitors progress, and ensures schedule compliance
- Assists in the coordination of other services provided by MGO

**Professional Activities and Memberships**

- California Society of Certified Public Accountants
- American Institute of Certified Public Accountants

**Continuing Professional Education**

Total CPE hours were 96 in the last three calendar years (2012, 2011 and 2010) of which 50 were in governmental accounting and auditing subjects. Mark met the Government Auditing Standards requirement for governmental CPE.

**Manager****Education**

California State University, Sacramento  
B.S., Business Administration, with an  
Emphasis in Accounting

**Select Clients Served****City Governments**

- Galt
- Sacramento
- Stockton

**County Governments**

- Placer
- Sacramento
- Solano
- Sonoma
- Tuolumne

**Other Governmental Entities**

- Bureau of State Audits
- California County Tobacco Securitization Agency
- California Statewide Financing Authority
- California Technology Agency
- County of Placer Treasury Oversight Committee
- City of Galt Culture and Recreation Fund
- Placer County Air Pollution District
- Placer County Flood Control and Water Conservation District
- Placer County Mosquito & Vector Control District
- Sacramento Area Flood Control Agency
- Sacramento Hotel Corporation
- Sacramento Housing and Redevelopment Agency
- Sacramento Regional Transit District
- Western Placer Waste Management Authority

Additional references upon request.

# Give them a ring.

These people were so happy with our service, they can't wait to tell you all about it. So go ahead and call them up. Say, "hi" and see what they have to say about us.

The most significant similar engagements performed in the last 5 years include the following:

Name.	City of Sacramento	City of Santa Rosa	County of Solano	City of Woodland	City of Lodi
<b>Scope of Work.</b>	<ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report*</li> <li>• Single Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report*</li> <li>• Single Audit</li> <li>• Gann Appropriations Limit Agreed-Upon Procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report*</li> <li>• Single Audit</li> <li>• Gann Appropriations Limit Agreed-Upon Procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report*</li> <li>• Single Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report*</li> <li>• Single Audit</li> <li>• Gann Appropriations Limit Agreed-Upon Procedures</li> </ul>
<b>Date.</b>	Fiscal years ended June 30, 2002 to present.	Fiscal years ended June 30, 1999 to present.	Fiscal years ended June 30, 2000 to present.	Fiscal years ended June 30, 2005 to present.	Fiscal years ended June 30, 2003 to present.
<b>Engagement Partner/Director.</b>	Richard Green	Scott Brunner	Scott Brunner	Richard Green	Scott Brunner
<b>Total Staff Hours.</b>	1,900+ hours	1,700+ hours	1,700+ hours	1,600+ hours	995 hours
<b>Principal Client Contact.</b>	Mr. Dennis Kauffman 916.808.5843	Ms. Betsy Howze 707.543.4301	Ms. Sheila Turgo 707.784-2956	Ms. Kim McKinney 530.661-5849	Ms. Ruby Paiste 209.333-6800 ext. 2591

\*Receives GFOA Certificate of Achievement for Excellence in Financial Reporting.

# We admit it, we're boring accountants, and we love what we do. That's why our approach to auditing is so ironclad – we're disciplined to do "the right thing" even when it's uncomfortable.

## **Understanding the Scope of Required Services**

We will perform financial audit services as required by the City in the RFP for the fiscal years ending June 30, 2013, with an option to renew for an additional two fiscal years. Our objective for each of the audit components as defined in the RFP is to provide an audit plan that is both realistic and mutually acceptable, thus forming the basis by which audit progress can be measured. Frequent communication is required for the audit plan to be an effective management tool. We will meet with the appropriate management personnel on a regular basis to report the progress of our audits, and any preliminary findings. We expect the City to communicate any foreseeable delays in the delivery of accounting records, financial statements, and/or other documents needed to complete our work.

We propose to address all key accounting and reporting issues that could potentially affect our audit opinion up front. Proper planning, timely communications, and the prompt

resolution of reporting issues will lead to a smooth transition to the issuance of our reports and timely completion of the engagement. This approach will result in a positive working relationship between our auditors and the City.

In the event that circumstances warrant more extensive and detailed services beyond those in the contractual agreement, we shall provide in writing and in advance the reasons for the additional services together with our estimate of costs. No additional work will be performed without advance approval by the City.

## **Basic Financial Statements**

We will express an opinion on the fair presentation of the basic financial statements and notes as to the conformity with generally accepted accounting principles. We will not be required to audit the combining, individual fund and account group financial statements with their supporting schedules. We 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 basic financial statements. We will not be required to audit the statistical section of the report. We 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**

We will provide an "in-relation-to" report on the auditing procedures applied during the audit.

## **Special Purpose Audits**

Financial and compliance audit procedures in relation to the funding under the Federal Transit Administration and Community Development Block Grant/Home Funds and other federal grants.

## Reports to be Issued.

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

- A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles, which includes an "in-relation-to" report on the schedule of expenditures of federal awards.
- A management letter describing suggested improvements to internal controls and operations observed during the audit.
- A report on the internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
- A report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.
- An agreed-upon procedure report for GANN limitation verification.

### Internal Control and Compliance Reports

In the reports on internal controls, we 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. We will 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
- Internal Services Director/Deputy City Manager
- City Attorney

### Required Communications

We will inform the City with each of the following:

- The auditors responsibility under generally accepted auditing standards
- Significant accounting policies
- Management judgements 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

## Implementation of New GASB Statements and Updating of Financial Statement Presentation Tools

MGO will assist the City's management in researching and interpreting new and existing accounting standards to ensure proper application and financial reporting. We will assist the City to update financial statements in the form of Excel spreadsheets, as necessary, to accommodate new presentation requirements.

### Anticipated Changes in Accounting Standards

The scope of our audit includes GASB statements issued as of the date of this proposal, which is through GASB Statement No. 69.

## Efficient and effective.

MGO has always maintained a high degree of flexibility in our audit plans, modifying them annually as risks change or new City-requested or regulatory requirements are added. Through the use of our Risk Based Approach, along with our experience with organizations like the City, we will provide quality audits that are both flexible and efficient.

Our experienced governmental professionals have strong technical and functional skills with extensive knowledge of public agencies and its accounting, reporting and financial management. We understand that having experienced, qualified professionals will allow the City to make the most efficient use of its resources and reap the following benefits:

- Maximize the integration of City's financial and reporting systems into audit procedures and other projects.
- Efficiently deploy resources since we will not need to "learn" the City's processes and procedures.
- Effectively execute audit procedures with City departments quickly and accurately.

We understand the resources required to perform the City's audit. Based on our experience, our proposed segmentation of the engagement, broken down by the level of staff and number of hours to be assigned to each segment is as follows:

### CAFR (Includes GANN)

<b>Staff Classification</b>	<b>Hours</b>
Partners	16
Directors	80
Managers	190
Senior Associates	210
Experienced Associates	185
Associates	155
Clerical	2
<b>Total CAFR Hours</b>	<b>838</b>

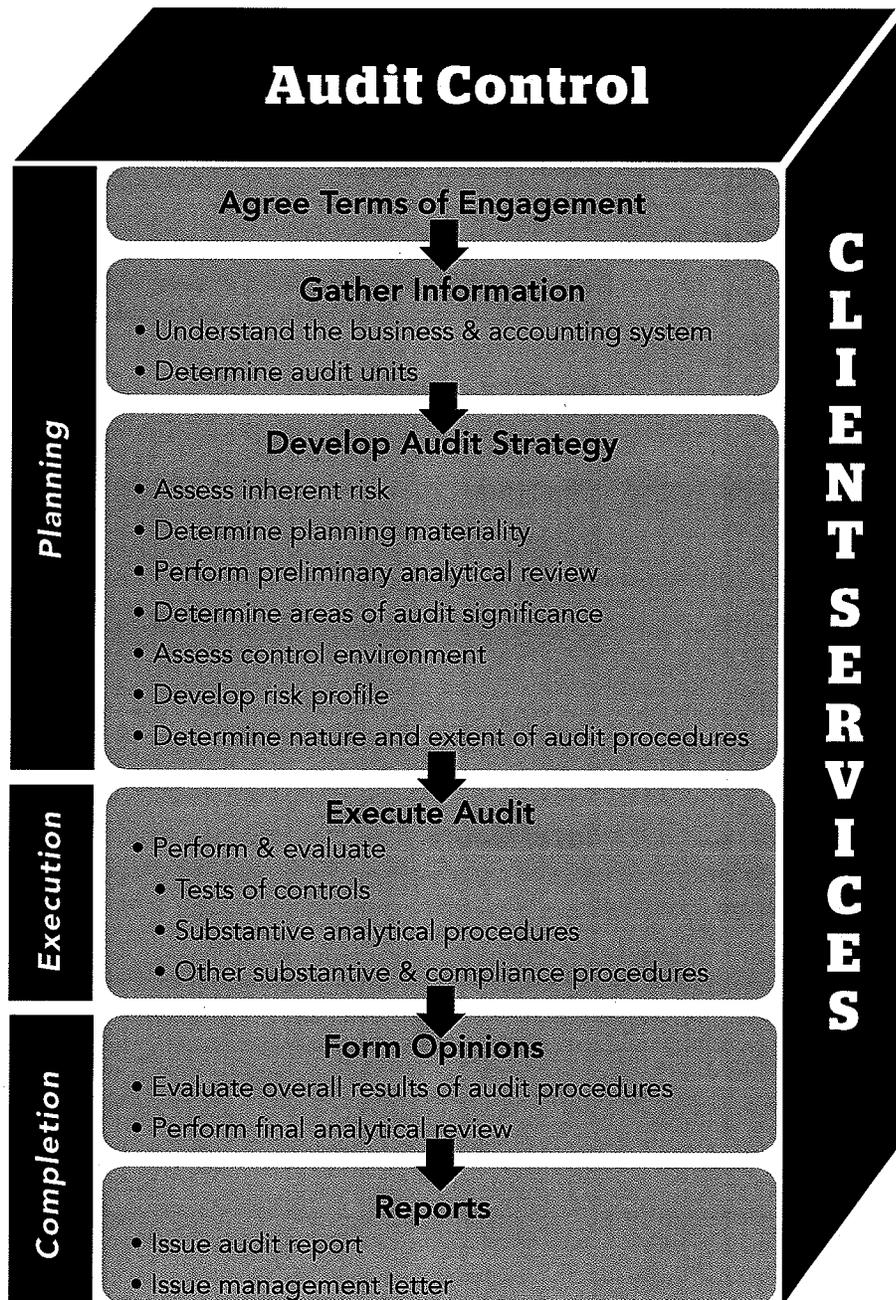
### Single Audit (One Major Program)

<b>Staff Classification</b>	<b>Hours</b>
Partners	2
Directors	8
Managers	16
Senior Associates	20
Associates	45
<b>Total Single Audit Hours</b>	<b>91</b>
<b>Total Hours</b>	<b>929</b>

## MGO Audit Approach

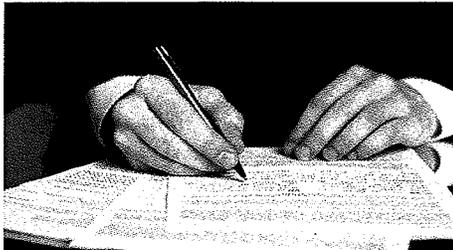
The Auditing Standards Board issued a suite of eight auditing standards, the *Risk Assessment Standards*, effective for the 2006 audits. The standards represent a significant strengthening of auditing standards that will improve the quality and effectiveness of audits. Specifically, the standards enhance the application of the audit risk model by requiring auditors to obtain a more in-depth understanding of the audit client and its environment, perform a more rigorous assessment of risk of material misstatement in the financial statements and improve linkage between assessed risks and the audit procedures performed in response to those risks.

In response to these changes, MGO has adopted the structure of the BDO International audit approach as set out in the diagram below.



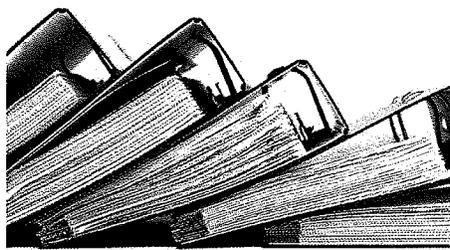
# Your MGO Ironclad Audit involves 6 clearly defined steps:

Our audit approach is tailored to meet the specific needs of each client. We will leverage off of our experience base and build upon our deep understanding of your operations. As conditions change, we will continue to develop our understanding of critical audit areas through comprehensive audit planning and risk assessment.



## Step 1. Agree Terms of Engagement.

We first agree with the client the objectives of the engagement and the nature and timing of our reports.



## Step 2. Gather Information.

We develop an understanding of the client's business, information system and organization, and the ways in which management exercises control.



## Step 3. Develop Audit Strategy.

Based on our knowledge, we then move to a detailed assessment of the risks potentially affecting the financial statements. A client-specific audit strategy is then developed, focusing our audit efforts on financial statement areas where there are significant risks of material misstatement, whether due to fraud or error. We select those procedures which will provide us with the necessary evidence with optimum timing and efficiency.

Our prior experience with the City provides us with a unique insight into the City's operations and with opportunities for identifying improvements, not only with respect to accounting and information systems but also regarding broader, and often more significant areas such as organizational structure and financial planning. This insight is often a source of valuable business advice which may be communicated to the City.



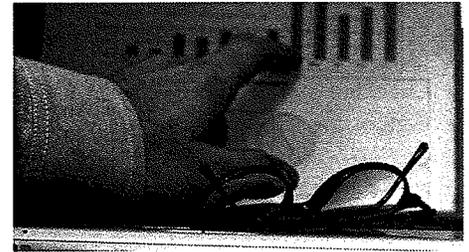
## Step 4. Execute Audit.

We then perform the selected audit procedures, ensuring that they are carried out by staff who have a level of experience and knowledge relevant to the planned procedures. The results are evaluated to determine whether we have sufficient appropriate audit evidence or whether additional procedures need to be performed.



## Step 5. Form Opinions.

We draw together all the evidence we have obtained and consider whether we have obtained reasonable assurance that the risk of material misstatement has been reduced to an appropriately low level.



## Step 6. Reports.

We issue our report, ensuring that it is a clear expression of opinion on the financial statements. In addition we report on other matters covered by the terms of our engagement.

## Sampling Approach

Audit sampling is the application of an audit procedure to less than 100% of the items within an account balance or class of transactions for the purpose of evaluating the value of the balance or class. Substantive test ("variables") sampling provides a technique for estimating the extent of monetary misstatement in a class of transactions or balances. It can also be used for estimating the amount of a population. It answers the question, "How much?" rather than "How many?" as in sampling for attributes (such as the operation of a control), and is normally used to help decide if a balance is materially misstated. Sampling can be very useful in performing substantive tests on, for example, inventory or accounts receivable. Sampling is sometimes also used for determining sample sizes for substantive tests of recorded transactions (e.g., vouching of sales, purchases).

There are situations when the more formal approach to sample size determination is often not practical.

These situations include:

- Test counting during inventory observations.
- Examining canceled checks when reviewing a bank reconciliation.
- Checking depreciation calculations.
- Requesting vendor statements.
- Testing accruals.
- Interviewing client personnel in conjunction with observation and inquiry procedures.
- Applying analytical procedures.

This does not mean that we would never use sampling for the above types of procedures. For example, sampling might be used when determining the extent of testing for:

- Examining canceled checks when the client's outstanding check list consists of an unusually large number of items which are similar in amount, such as a payroll account for a very large client.

- Selecting invoices for verifying an accounts payable listing consisting of an unusually large number of items similar in amount.
- Testing an accrual comprised of a large number of small items.

The application of sampling requires significant auditor judgment in areas such as:

- Considering audit approaches other than using audit sampling (e.g., use of computer-assisted audit techniques (CAATs)).
- Defining the population and defining the sampling item.
- Assessing the overall risk level for related control, analytical procedures and risk assessment activities.
- Determining materiality as a base for calculating the tolerable misstatement (error).
- Selecting items for 100% examination.
- Determining the sample size, considering factors such as:
  - Expected misstatement (errors) to be found.
  - The effect of other tests on the account being tested.

MGO encourages the use of statistical sampling whenever practical especially for substantive tests. We use two primary substantive statistical sampling techniques - PPS ("Probability Proportional to Size") sampling and SRS ("Stratified Random Sampling"). We generally first remove all individual items in excess of 90% of the tolerable misstatement from the population for 100% examination prior to selecting a sample, for both PPS and SRS samples.

In summary our sampling procedures include the following:

- Define the Objective
- Define the Population and the Sampling Unit
- Define Tolerable Misstatement
- Remove Items for 100% Examination
- Specify the Desired Level of Sampling Assurance and the Acceptable Risk of Overauditing
- Estimate the Expected (Anticipated) Misstatement

- Select the Sampling Technique (e.g., non-statistical, PPS, SRS)
- Determine the Sample Size
- Select the Sample
- Examine the Sample Items and Evaluate the Sample Results

## Use of On-Site Automated Systems

In the past, we have had a very limited need to access the City's on-site automated systems. We would expect it to be the same in future years. We expect to use the Utility Billing system to review invoices and the General Ledger system to review account detail.

## Analytical Procedures

Auditing standards require the use of analytical procedures in the planning and overall review stages of the audit. They may be used throughout the audit:

1. To direct our attention during the planning stage to areas where amounts appear unusual to the extent that we are put on warning that a material amount may be misstated;
2. To provide an important source of audit evidence at the execution stage or substantive analytical procedure; and
3. In forming an opinion on the financial statements by assessing the overall reasonableness of these statements.

### Preliminary Analytical Reviews –

assist us in planning the nature, timing, and extent of auditing procedures that will be used to obtain evidential matter for specific account balances or classes of transactions. To accomplish this, we focus on enhancing our understanding of the client's business and the transactions and events that have occurred since the last audit date and identifying areas that may represent specific risks relevant to the audit.

### Substantive Analytical Procedures (SAPs) –

essentially involve a comparison of an amount in the financial statements with what we would expect that amount

to be based on our knowledge of the organization and having regard to other audit evidence. Obtaining audit evidence is a cumulative process. As a result, we recognize that a single SAP may not give us sufficient assurance that an amount is fairly stated. However, where we apply a series of SAPs to an amount stated in the financial statements and in each case our conclusion is that the procedure provides evidence that the amount is consistent with our expectations, then we have obtained a degree of assurance that the amount is validly stated.

**Overall Analytical Review** – assists us in assessing the conclusions reached and in the evaluation of the overall financial statement presentation. We use a wide variety of analytical procedures for this purpose. The overall review would generally include reading the financial statements and notes and considering the adequacy of evidence gathered in response to unusual or unexpected balances identified in planning the audit or in the course of the audit; and unusual or unexpected balances or relationships that were not previously identified. Results of an overall review may indicate that additional evidence may be needed.

## Internal Control Approach

We assess overall controls each year using the BDO Compass 3 Information Gathering Questionnaire (IGQ), which poses a number of critical questions designed to identify the existence of strengths that would reduce or mitigate the risk of misstatement.

Each strength is considered in terms of its effect on each significant financial statement area, or underlying transaction stream, and the related assertions. However, the importance of the control environment, risk assessment, and monitoring components stem from their pervasive influence. As part of our Execution Step, we perform system walkthroughs and/or tests of controls identified as control points in our IGQ to determine whether the internal controls prescribed by management are functioning as designed.

Some of the audit steps that we perform during this part of our Execution Stage are as follows:

- Test controls of significant transaction streams using statistical sampling methods to determine that the checks and balances are functioning as prescribed. Our sample sizes generally vary from 25 to 45 items depending on our assessment of control and detection risks.
- If applicable, identify instances where the internal controls failed to detect an error and report these instances to the appropriate persons. If the finding is of substance, document our findings in a preliminary management letter so that necessary corrections can be made immediately.
- Based on our test results, re-evaluate our preliminary assessment of control risk and make necessary changes to our general audit approach.

The level of controls assurance is assessed for each assertion for each financial statement area. The extent of assurance we may take from controls is assessed by carrying out a detailed evaluation of controls, which would require both:

- The consideration of the design of important control activities relevant to the specific assertion that we are considering; and
- The performance of tests of controls to test adherence to the relevant control activities.

Upon completion of these tests, we update our preliminary evaluation of the control environment and the related accounting and administrative procedures. Based upon the results of our tests, we may revise our assessment of control risk for each significant area.

We will also evaluate the City's information technology (IT) environment in accordance with U.S. Government Accountability Office guidelines and AICPA guidelines. The objectives of these reviews are to (1) obtain an understanding of relevant system controls to identify areas that could pose potential auditing risks, (2) determine whether sufficient controls are in place to protect the integrity and reliability of financial data, (3) determine the capability of the core financial management system in carrying out financial data processing and (4) test the system control for the

core financial management information system.

We classify control activities in a computerized accounting system environment into two types:

1. Application controls and
2. General IT controls.

Application controls relate to the transactions and master files or databases for each individual accounting application and represent those controls that operate in the course of processing transactions whose purpose is to ensure the completeness, accuracy and validity of accounting information. Whereas, general IT controls are intended to establish a framework of overall control over all aspects of computerized processing and therefore will affect many applications. General IT controls are essential to maintaining the effectiveness of automated application controls over time.

As part of our Planning Phase, we document our understanding of and evaluate the design and implementation of the information processing system, the design of the control activities, and the effective operation of the control activities.

In addition, we expect to see a direct relationship between the application control activities and supporting general control activities. This relationship is documented and tested. We also establish specific substantive audit procedures by relating controls and substantive procedures to risks. MGO's Information Technology Consultants are experienced in this process and will provide guidance and consultation to our assurance professionals. As we design our substantive audit procedures, we make a preliminary evaluation of the extent to which application and general control activities are likely to be effective in preventing or detecting material misstatements for each assertion.

Regardless of whether we decide to rely on controls as part of our audit strategy, we assess the potential effectiveness of controls or risks in the City's accounting systems in order to identify significant weaknesses and direct our attention to those areas susceptible to misstatement, whether due to error or fraud.

## Laws and Regulations/ Compliance Approach

### The Auditor's Responsibility

Generally accepted auditing standards (GAAS) require that we design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. This involves identifying such laws and regulations and then assessing the risk that noncompliance may cause the financial statements to contain a material misstatement. We will consider such laws and regulations from the perspective of known relation to the financial statement assertions rather than from the perspective of legality per se.

Government Auditing Standards (the "Yellow Book") prescribe additional fieldwork and reporting requirements beyond those in GAAS related to compliance. The additional fieldwork responsibilities are related to our communication during the audit, follow-up on known material findings and recommendations from previous audits, as well as working paper access and documentation. The Yellow Book further requires, among other things, that we report on the scope of our testing of compliance and present the results of those tests.

### The City's Responsibility

Management has the responsibility for complying with all applicable laws and regulations and for identifying compliance requirements that have a direct and material effect on the determination of financial statement amounts. We will assess whether the City's management has identified such compliance requirements, and we will obtain a representation from management regarding the completeness of management's identification of compliance requirements.

Laws and regulations vary considerably in their relation to the financial statements:

#### **Direct and material effect on financial statements**

- We consider laws and regulations that generally have a direct and material effect on the determination of financial statement amounts. For example, escheat or unclaimed property laws, may affect recorded liabilities and revenues and applicable laws and regulations may affect the amount of revenue accrued under government contracts. However, we consider such laws or regulations from the perspective of their known relation to audit objectives derived from financial statement assertions rather than from a legal perspective.

#### **Indirect effect on financial statements**

- The City may be affected by many other laws or regulations, including those related to occupational safety and health, equal employment, and other violations. Generally, these laws and regulations relate more to an organization's operating aspects than to its financial and accounting aspects, and their financial statement effect is indirect. We ordinarily do not have sufficient basis for recognizing possible violations of such laws and regulations. Their indirect effect is normally the result of the need to disclose a contingent liability because of the allegation or determination of illegality.

#### **Designing Compliance Tests**

Based on our identification of applicable legal compliance requirements, we will assess the risk of material misstatement of financial statement amounts, the level of management or employee involvement in the compliance assurance process, and the opportunity for concealment of instances of noncompliance by either management or employees. Audit procedures will be designed to address the risk and test compliance and will include the following:

- Inquire of management regarding the identification and monitoring of compliance requirements.

- Inquire of the City's General Counsel as to any recent legislative decisions affecting employee benefit calculations, contributions or other matters.

We also remain cognizant for any instances of non-compliance with laws or regulations at all times during the course of our audit that may come to our attention through:

- The performance of other substantive procedures;
- Review of the minutes of the governing bodies of the City; and
- Inquiry of the City and its lawyers regarding litigation, claims, and assessments, and others.

### Data Mining Approach

We utilize IDEA, a microcomputer based, with mainframe and mid-range computer downloading capabilities, allowing our computer assisted audit techniques (CAATs) program to be executed at the client premises. We request key data fields from your cash disbursements, cash receipts, payroll and general ledger and are able to perform extractions to look for trends, dollar thresholds, anomalies and other key indicators. This allows us to review your databases and to concentrate on transactions that are "out of the ordinary" as well as to obtain an understanding of the underlying records. Typically, these procedures are performed over operating activities. When performing procedures at the balance sheet level, a sampling approach is used, as fully described on the following page.

## Our EDP Auditing Approach

MGO's engagement team includes an EDP consultant that will examine the integrity and reliability of financial systems from different angles. Our approach uses a comprehensive assessment of the various aspects of the IT environment that affect the accuracy and completeness of financial data. We conduct our assessments using custom tailored tools that take into consideration the complexity and unique nature of our client's operations. Our evaluation and assessment is based on physical observation and testing, qualitative and quantitative assessments, reviews of documentation and actual practices, and other IT performance data. Our recommendations are based on industry best practices and use our industry knowledge of similar entities to produce practical solutions that affect positive change.

Our consultant will provide the audit team the information and tools necessary to evaluate the strengths and weaknesses of the City's electronic data processing (EDP) controls. This information is used by the assurance team to develop its audit plans and determines how the team executes its financial statement audits. Our review of the EDP general controls encompasses the following areas:

### Organization and Operation

Identification and evaluation of the operational structure to determine whether there is adequate segregation of duties and functions. In addition, our tools will assist in determining whether personnel qualifications and controls ensure effective functioning of the City's information technology resources. This would include the review of backup procedures for all critical files.

### Systems Development Maintenance and Documentation

Determination and evaluation on whether there are procedures to ensure that the development of new systems and maintenance and changes to existing systems are appropriately authorized, tested, and implemented. Also, a determination on whether appropriate documentation exists for the applications.

### Access

Determination on whether access to data files, software, hardware and documentation is restricted to properly authorized personnel. This includes a review of physical and logical access procedures. The review of logical access would include the evaluation of password control features and similar procedures used to protect the confidentiality of data.

### Hardware and Systems Software

Determination on whether hardware controls provided by the equipment vendor are used to the appropriate extent and whether systems software is subjected to the same control procedures as those applied to changing, testing, and implementing applications.

### Communications

Determination and evaluation of the communications hardware, software, and related controls to ensure all data are authorized, accurately transmitted and reviewed, and sufficiently protected.

### Data and Procedural

Determination on whether there are controls to ensure prompt and accurate processing of data. This includes the review of data capture, data validation and editing, transaction logging, audit trails, transaction voiding, balancing controls, and error handling and correction. In addition, a review of the retention period for all critical files will be conducted.

## Client Participation Schedule - Interim June 30, 2013

### General Note

Below is a list of items that we will require to begin our interim fieldwork for the FY 2013 audit. Due to the nature of an audit, we may not anticipate and document each and every schedule or report that we require. As such, we may request additional items during the course of the audit, which are not listed below.

### General

1. Provide a copy of the current MOUs for all bargaining units that have changed since June 30, 2012
2. Please have available the City's Accounting Policy and Procedures (if there were changes from FY11/12)
3. Provide a copy of any changes made to the City's Personnel Policy and Procedures manual.
4. Provide a copy of the City's Conflict of Interest policy (if there were changes from FY11/12)
5. Provide a copy of the current chart of accounts
6. Provide a copy of the 2012/13 adopted budgets and any revisions to the budget, if applicable.
7. Provide signed confirmations for all of the following
  - a. Investments held by the City Treasurer.
  - b. Cash with fiscal agent (held outside City Treasury).
  - c. Any new cash accounts.
  - d. Federal and state revenues.
  - e. Outstanding debt
  - f. Taxes collected by San Joaquin County and remitted to the City for FYE 2012/13, include any taxes receivable outstanding as of 6/30/13.
  - g. All outside attorney letters based on #13 (below) using format provided by MGO.
8. Provide a copy of the indirect cost allocation plan and letter approving indirect cost rate, if any.
9. Provide responses/updates to internal control questionnaires
  - a. Cash Receipts (Utility Billing)
  - b. Cash Receipts/Sales (Charges for Services)
  - c. Hire to pay (Payroll)
  - d. Procure to pay (Non Payroll Cash Disbursements)
  - e. Commitments and contingencies (Claims Administration)
  - f. Period End FS (Financial Reporting)
10. Provide copy of the City's organizational chart.
11. Provide any interim financial statements, if any, or most recent YTD month end trial balance report
12. Provide all legal contracts and agreements that impact the 12/13 audit.
13. Provide a summary listing of all outside attorneys used during the 2012/13 fiscal year for legal representation, the amount of legal expenses for each and the type of services provided and related G/L account detail for all legal expenses
14. Provide a copy of the Risk Management Departments Policies and Procedures Manual concerning the administration and payment of claims.
15. Provide the current year status of the prior year's management comments

### Cash and Investments

1. Provide a list of the authorized signatures on bank accounts
2. Provide a listing of the current cash and investment holdings accounts, including restricted accounts.

3. A copy of the City's adopted 2012/13 Investment Policy and Internal Control Guidelines.

### Long-Term Debt

1. Provide a copy of the schedule of capital and noncancelable operating leases.
2. Provide copies of official statements for bond issued during the fiscal year ended June 30, 2013
3. Provide amortization schedules, where applicable, for borrowing arrangements, and access to supporting documentation for payment and borrowing activity.
4. Provide copies of any repayment schedules that have been revised during the year as a result of a call or other activity which has caused the repayment schedule to be recalculated.

### Risk-Management

1. Provide a copy of policies/ listing of insurance coverages.
2. Provide a loss history report for workers comp and general liability through the period ending June 30, 2013

### Cash Receipts

1. Provide a listing of all premise IDs and service location address/IDs from the utility billing system
2. Provide a listing of all active/open utility customers for June 30, 2013 from the utility billing system
3. Provide a listing of all cash receipts for revenue streams other than utility billing (revenues that would be captured in intergovernmental revenue, taxes, fines, etc).

### Cash Disbursements

1. Provide check register in Excel for the period ending June 30, 2013.
2. Provide the payroll register (for paychecks disbursed) in Excel for the period ending June 30, 2013.

### Gann

1. Copy of the Resolution approving the 2012/13 Appropriation Spending Limit.
2. Copy of the calculation of the 2012/13 Appropriation Spending Limit and all supporting schedules and other documents such as the letter(s) from the California Department of Finance.

### Electronic Databases

1. Trial Balance (both prior and current year Required Fields:
  - Account (with number & descriptions)
  - Balance
2. Chart of Accounts for: Fund, Org, Dept, Acct, Prog., etc Required Fields:
  - Account Number
  - Description
3. General Ledger Required Fields:
  - Period
  - Date

### IT Related

1. Please update the IT Overview Memo

### Single Audit

1. Provide a draft of the Schedule of Expenditures of Federal Awards showing expenditures incurred for the period ended June 30, 2013. Please provide an estimate of expenditures expected to be incurred through June 30, 2013 by the departments, but not yet recorded on the books. Also please show ARRA expenditures separately.
2. Please provide copies of all grant agreements in effect during the 2012/13 fiscal year concerning federal awards

3. Provide copies of all reports received from Federal and/or State regulatory agencies concerning Federal award programs reported in the SEFA and included in the Single Audit Report
4. Copies of all audit/review reports issued during the 2012/13 fiscal year concerning Federal awards that are disbursed by other agencies on behalf of the City, if any.

### FTA Program - CFDA No. 20.507

1. Provide copies of the FTA funding allocations/apportionment/grant agreements for the period ending June 30, 2013.
2. Please provide the FTA drawdowns for the period ending June 30, 2013
3. Provide the City Council's approval of the FTA funding for period ending June 30, 2013.
4. Provide the Transit FTA expenditures reconciliation to draft SEFA.
5. For selected FTA expenditures, please provide back up documentation that supports the expenditures, including, but not limited to, vendor invoices, progress payments, purchase orders, contracts, copies of checks, claim vouchers authorizing payments, payroll records, etc. Note MGO expects to be able to provide Paula with the sample selection of expenditures after we get detail list of the FTA expenditures.
6. Provide a listing of all procurement contracts funded by FTA grant awards for period ending June 30, 2013 and dollar amount of each procurement.
7. Provide all financial reports of FTA grant expenditures submitted to the FTA for the period ending June 30, 2013 (e.g., SF-269A, Financial Status Report (Short Form) - Applicable - (from direct recipients only, submitted through FTA's electronic grants management system (TEAM)); SF-270, Request for Advance or Reimbursement - Applicable - (submitted electronically through FTA's grantee payment system (ECHO)).
8. Provide the following: Earmarking - One percent of the Urbanized Area Formula Grant funds apportioned to urbanized areas with a population of at least 200,000 shall be made available for transit enhancement activities (49 USC 5307(k)(1)). Only applicable if population is greater than 200,000
9. Provide the Report of Disadvantaged Business Enterprises (DBE) Awards or Commitments and Payments. To monitor the progress of the DBE program, the recipient is required to submit semi-annual reports based on a recordkeeping system
10. Provide support for "Charter Services", to determine whether the use in charter service of equipment and facilities acquired with FTA funds conformed to 49 CFR part 604 to 49 CFR part 604.
11. Provide support for "Tripper Services" provided with FTA funded equipment, if any for the period ending June 30, 2013.
12. All fare box revenues earned under should be identified in the accounting records for the period ending June 30, 2013. Please provide the revenue report of transit farebox revenues.
13. Provide copies of relevant fiscal and operational monitoring reports, if any, issued by oversight agencies, or independent auditor's concerning FTA funds.
14. Provide disposed and acquired equipment detail document with journal entry and supporting documents if any disposition and acquisition was incurred for period ending June 30, 2013.
15. Please provide list of subrecipient expenditure and subrecipient monitoring files.

## Client Participation Schedule - Year-End June 30, 2013

### General Note

Below is a list of items that we will require to begin our year-end fieldwork for the FY 2013 audit. Due to the nature of an audit, we may not anticipate and document each and every schedule or report that we require. As such, we may request additional items during the course of the audit, which are not listed below.

A complete list of the Interim and Year-End schedule, with the Person Responsible, Date Requested, Date Due, Date Received, and Notes, will be provided to you prior to our year-end fieldwork.

### General

1. Provide signed confirmation letters for all confirmation templates.
2. Trial balances and revenues and expenditures/expenses as of and for the year ended June 30, 2013
3. Completed draft copy of the Basic Financial Statements.
4. Rollup of the trial balance into the drafted Fund Financial Statements.
5. Supporting schedules rolling the Governmental Fund Balance Sheet and the Proprietary Fund Statements of Net Assets up into the Statement of Net Assets.
6. Supporting schedules for the Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets.
7. Supporting schedules rolling the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets up into the Statement of Activities.
8. Supporting schedules for the Reconciliation of the Change in Fund Balance of Governmental Funds to the Statement of Activities.
9. Updated notes with supporting schedules for all note disclosures noting source of detail numbers (i.e. G/L account)
10. "Original" and "Final Budgeted Amounts" for the General and major Special Revenue fund types.  
\*Note, this should be a listing of all amounts which will be used in the Basic Financial Statement Budget and Actual Comparisons.
11. Supporting schedules for the Statement of Cash Flows.
12. Supporting schedules for the Statement of Changes in Fiduciary Net Assets.
13. Completed draft copy of the combining and individual non-major fund financial statements.
14. Provide a copy of the most recent actuarial valuation received from CalPERS.
15. Provide a draft of the Management's Discussion and Analysis.

16. Provide a draft of the Introductory Section.
17. Provide a draft of the Statistical Section.
18. Provide a formal status of the prior year recommendations.
19. Excel files of payroll and non payroll expenditures by opinion unit (general fund, water, wastewater, etc.). For each file provided, please break out the non payroll expenditures into specific line items as they are presented in the financial statements.
20. Provide updated purchasing policy for the City.

### Cash and Investments

1. Provide a reconciliation of cash and investments to the general ledger (Quarterly investment account report).
2. Provide copies of bank reconciliations for June 30, 2013 balances with outstanding check and deposit listing to support reconciliations for all bank accounts.
3. Provide access to June 30, 2012 and 7/31/12 bank statements and trustee or fiscal agent statements.
4. Provide copies of all June 30, 2012 trustee statements where cash is maintained with outside fiscal agents.
5. Summary of investments by category and by credit risk category at June 30, 2013.
6. Summary of depository accounts with calculation of insured balance (first \$250,000 at each institution).
7. Provide a copy of the State LAF composition of investments as of June 30, 2013.
8. Provide a summary of cash and investments and restricted asset balances by fund type.
9. Treasurer's pooled interest distribution calculation.
10. Provide support for amounts reported in the cash and investment note.
11. Most recent copy of the City's Quarterly Investment Account report reconciled to the general ledger.

### Advance Receivables

1. Provide a detailed listing of advance receivables at June 30, 2013.
2. Provide support for NCPA member project participation at June 30, 2013.
3. Provide a copy of the audited financial statements for the Northern California Power Agency and Transmission Agency of Northern California as of June 30, 2013.

### Receivables

1. Provide detail listings/schedules for accounts, net and special assessments receivable as of June 30, 2013.

2. Provide listing of aged accounts receivables as of June 30, 2013.
3. Provide supporting documentation for the City's estimate of the allowance for doubtful accounts and methodology used to come up with estimate
4. Provide support for taxes receivable from the County of San Joaquin as of June 30, 2013.
5. Provide supporting documentation for the interest receivable as of June 30, 2013.
6. Provide year-end reconciliation between the utility billing system and the general ledger for outstanding receivables.

### Due From/To Other Funds

1. Provide a listing of the interfund transactions due to/from and transfers in/out (amounts should equal).

### Due From Other Governmental Agencies

1. Provide detail listing of amounts due from other government and subsequent cash receipts.

### Deferred Charges

1. Provide a detail listing of outstanding deferred financing costs.

### Other Assets

1. Provide detail listing of inventory as of June 30, 2012 (amount should agree to the general ledger)
2. Provide a schedule of prepaid items (amount should agree to the general ledger).

### Capital Assets

1. Provide a rollforward schedule of capital assets by category (land, infrastructure, buildings and improvements, equipment, and CIP) for each proprietary fund and for governmental activities.
2. Provide detail listing of purchases (additions), retirements (deletions) and transfers in(out) occurring during FY 12/13. The aggregate amounts should agree to the reported amounts in the roll forward capital assets schedule.
3. Provide a copy of the depreciation schedule and the depreciation calculation for proprietary funds and for governmental activities.
4. Have available the inventory listing of all recorded capital assets by function (i.e., land, infrastructure, equipment, buildings, and CIP.
5. Year-to-date Fixed Asset Payment Information Report and Fixed Asset Purchases by Sub Location Report
6. Have available the detail of all projects transferred from CIP to buildings (including the amount) with any notice of completion forms or other supporting documentation as evidence that the project is complete.

**Client Participation Schedule - Year-End June 30, 2013 - (continued)**

7. Provide updated City capitalization policy (if any changes since FY 11/12).

**Accounts Payable**

1. Provide a listing of all subsequent disbursements (processed through vouchers/accounts payable) from July 1, 2013 to current date.
2. Provide a detail listing of the accounts payable subsidiary ledger as of June 30, 2013 (should agree to the general ledger).
3. Have available invoices/support for all items selected in conjunction with our subsequent cash disbursement testing.

**Accrued Liabilities**

1. Provide supporting documentation for the accrued salaries and benefits balances as of June 30, 2013.
2. Provide the total salaries and benefits expense for the last pay period that began in June 2013 and was paid in July 2013.
3. Provide a detail listing of accrued compensated absences (sick and vacation) short and long-term, by fund as of June 30, 2013.

**Due to Other Funds or Governmental Agencies**

1. Provide a copy of the detail listing of the due to other funds and governmental agencies as of June 30, 2013 by fund.

**Deferred Revenue**

1. Provide a supporting schedule of deferred revenues for the general fund as of June 30, 2013.

**Pollution Remediation**

1. Provide Pollution remediation reassessment report and related disclosure in financial statement notes.

**Risk Management**

1. Provide a summary of year-end liability (current vs. long-term) for self-insurance balances (workers' compensation, liability, dental, unemployment). Include support for any County adjustments.
2. Provide summary of claims paid during fiscal year 12/13, as well as, a listing of all open claims and open reserves as of June 30, 2013.
3. Provide current actuarial evaluations for liability and workers' compensation risk retention programs.
4. Provide schedule of allocation of self insurance liability costs (premiums) among funds/departments/appropriation.
5. Provide the total reserves for open pending files as of June 30, 2013.
6. Provide a copies of the audited financial statements for CalTIP as of April 30, 2013 and for CJPRMA and LAWCX as of June 30, 2013.

**Commitments/Contingencies-Leases**

1. Provide schedule of the future minimum lease payments for all capital and operating leases outstanding at year-end.
2. Provide the amount expensed in June 30, 2012 related to operating leases for disclosure in the notes - amount should agree to the general ledger.
3. Provide support for amount reported as operating lease revenue received from building/equipment rentals.

**Long-Term Obligations**

1. Provide a rollforward schedule of long-term debt by debt type (capital leases, notes, bonds, special assessments with government commitment, COP's, etc.) for GLTDAG, enterprise and internal service funds. Schedule should include prior year ending balances, additions, retirements, current year ending balance and amounts due within one year.
2. Reconciliation between general long-term debt additions per roll forward schedule (1 above) and long-term debt proceeds
3. Reconciliation between general long-term debt repayments per rollforward schedule (1 above) and principal retirement expenditures.
4. Provide support for the long-term debt footnote which includes a debt service maturity schedule, showing the principal and interest amounts due for each of the next five years and in five-year increments thereafter. Debt service maturity schedule must be separated by debt type (i.e. COPs, capital leases, bonds, etc.).
5. Provide a copy of the schedule of capital and noncancelable operating leases.
6. Provide copies of official statements for bonds issued during the year
7. Provide copies of any repayment schedules that have been revised during the year as a result of a call or other activity which has caused the repayment schedule to be recalculated.
8. Calculations of bond reserves and rate covenants as of June 30, 2013 and documentation supporting calculation and portion of official statement documenting allowed reserve calculations.

**Compensated Absences**

1. Please provide actuarial report for compensated absences with related schedule.
2. Provide changes (if any) to accrual/sick leave policies for City.

**GASB 50**

1. Provide a listing of all City personnel that participate in CalPERS (retirees and active members).

**Fund Balance**

1. Provide schedules supporting fund balances.
2. Provide an outstanding encumbrance by fund listing report at June 30, 2013.
3. Provide note disclosure for GASB 54 including definitions of fund balances.

**Net Assets**

1. Provide schedules supporting restricted net assets.
2. Provide schedules supporting invested in capital assets, net of related debt.

**Operations**

1. Provide variance explanations as provided by the auditors.
2. Provide schedules supporting the allocation of program revenues among the various functions.
3. For wastewater and water funds, provide fee schedules for FY 11/12 and 12/13 and number of customers for each area (water, wastewater)
4. Provide the Utility Type Report (TP7) for all months in FY 12/13.
5. Provide detail worksheets for all Charges for services accounts and for Internal service funds.
6. Provide a listing of all open contracts and purchase orders for FY12/13. This file should, at a minimum, include; Vendor name, contract/ PO date, contract/ PO identification number, contract/ PO amount
7. Provide FPCC (Fair Political Practices Commission) Form 700 for all Council members, City Manager, Assistant City manager, Police Chief, and HR Director (if applicable).
8. Provide number of FTE's for 2011, 2012, and 2013.
9. Provide full listing of all payroll expenditures paid during FY 12/13. This file should, at a minimum, include employee name, position, date of payment, and amount.

**Single Audit**

1. Provide a copy of the Schedule of Expenditures of Federal Awards
2. Have available the supporting documentation used in the preparation of the Schedule of Expenditures of Federal Awards for all programs.
3. Reconciliation of total federal awards as reported in the Schedule of Expenditures of Federal Awards to federal intergovernmental revenues (governmental fund types) and federal grants revenue (proprietary fund types) as reported in the Fund Financial Statements.
4. Note, once draft SEFA received, MGO will send separate PBC list for additional program to test.

**Other**

1. Additional schedules/detail as determined necessary during our fieldwork.

## **There Are No Problems. Only Solutions.**

**After reviewing your requirements in the Request for Proposal and based on our previous experience with the City, we do not anticipate any audit problems.**

**However, we have summarized the more recent and relevant accounting and reporting developments, which may have a significant impact on the City's basic financial statements.**

**We will have ongoing discussions with management about these as well as other developments in an effort to be prepared in advance for their implementation.**

### **Pension Accounting and Financial Reporting**

The GASB is recently issued significant improvements to its standards for accounting for and reporting on the pensions that governments provide to their employees. These changes are based on extensive deliberations by the Board following research conducted by the GASB staff and on public response to two previous due process documents. The reasons the GASB concluded that the effectiveness of the pension standards could be significantly improved include:

- Changes in governmental accounting and financial reporting since the existing pension standards were issued in 1994, most notably the introduction of accrual-based government-wide financial statements
- An increasing need among the users of governmental financial reports for comparable information about pensions
- The continuing development of the basic concepts that are the foundation of the GASB's standards setting, especially the concepts regarding what constitutes a liability and an outflow of resources.

In June 2012, the GASB released two statements — one relating to reporting by governments that provide pensions through a qualified trust, and the other relating to the reporting by the pension plans that administer those benefits (Financial Reporting for Pension Plans).

It should be noted that the standards relate solely to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there is generally a close connection between the ways many governments fund pensions and how they account for and report information about them in audited financial reports. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. As such, governments would not be required to mirror the accounting and financial reporting changes in their funding approaches.

# You don't always get what you pay for. Sometimes you get more.

**MGO has always maintained a high degree of flexibility in our audit plans, modifying them annually as risks change or new client-requested or regulatory requirements are added. Through the continued use of our Risk Based Audit Approach we are able to provide quality audits that are both flexible and cost-effective.**

## Professional Fee Philosophy

Our fee philosophy is to foster long-term client relationships by offering fair and competitive pricing. As a result, we are sensitive to the City's need to control costs. It is our commitment to offer quality service at competitive and fair rates. Our proposed not-to-exceed fees and hours to provide audit services for the City for the fiscal year ending June 30, 2013, with an option to audit the City for each of the four subsequent years, are included on the following pages.

After considering the economic climate, we have committed ourselves to assisting the City in meeting its financial challenges.

Should the hours we incur be less than those proposed, we reserve the right to bill our all-inclusive maximum fees. Conversely, if our incurred hours exceed our proposed hours, we

understand that our fees shall not exceed the proposed amount.

The proposed fees are based on the assumption that there will not be any major changes in scope, which includes new accounting or auditing standards and legal or regulatory requirements that are not foreseeable at this time; therefore, the impacts cannot be determined.

Additionally, our proposed not-to-exceed fees and hours are also based on the assumption that the accounting records are in order and that all adjustments necessary to present the financial statements in accordance with accounting principles generally accepted in the United States of America are completed by the City.

If the scope of work is expanded or we encounter difficulties because accounting records are not readily available, material weaknesses in internal control are identified, or other problems arise, we

will meet with responsible City officials to discuss a potential fee adjustment and to discuss the problems encountered before any additional work is incurred. Our fees for additional professional services would be based on our quoted hourly rates in effect during the year when additional services are requested, which vary according to the degree of responsibility involved and the experience level of the personnel assigned to the task.

Our professional services will be billed monthly based on the amount of hours worked.

## Rates for Additional Professional Services

Our fees for additional professional services would be based on our standard hourly rates (as indicated on the next page), which may vary to the degree of responsibility involved and the experience level of the personnel assigned to the task.

## Proposal Submittal Summary

	<u>Total All- Inclusive Maximum Price*</u>	<u>Each Additional Major Program</u>
For the Year Ending June 30, 2013	\$ 85,000	\$ 6,000
For the Year Ending June 30, 2014	85,000	\$ 6,000
For the Year Ending June 30, 2015	<u>85,000</u>	\$ 6,000
<i>Total Contract</i>	<u>255,000</u>	
For the Year Ending June 30, 2016	87,600	\$ 6,250
For the Year Ending June 30, 2017	<u>87,600</u>	\$ 6,250
<i>Total with Option Years</i>	<u><u>\$ 430,200</u></u>	

\*Total All-Inclusive Maximum Price - Includes one major program

**Schedule of Professional Fees and Expenses****For the Fiscal Year Ending June 30, 2013**

Staff Classification	Hours	Standard Hourly Rates	Fee
Partners	18	\$ 400	\$ 7,200
Directors	75	320	24,000
Managers	170	175	29,750
Senior Associates	210	135	28,350
Experienced Associates	160	125	20,000
Associates	165	115	18,975
Clerical	2	100	200
		Out of Pocket Expenses	2,468
Total Hours	<u>800</u>	Subtotal	\$ 130,943
		Less Professional Discount	(45,943)
		Total 2013 Fees*	<u>\$ 85,000</u>

**For the Fiscal Year Ending June 30, 2014**

Staff Classification	Hours	Standard Hourly Rates	Fee
Partners	18	\$ 410	\$ 7,380
Directors	75	330	24,750
Managers	170	180	30,600
Senior Associates	210	140	29,400
Experienced Associates	160	130	20,800
Associates	165	120	19,800
Clerical	2	105	210
		Out of Pocket Expenses	2,591
Total Hours	<u>800</u>	Subtotal	\$ 135,531
		Less Professional Discount	(50,531)
		Total 2014 Fees*	<u>\$ 85,000</u>

**For the Fiscal Year Ending June 30, 2015**

Staff Classification	Hours	Standard Hourly Rates	Fee
Partners	18	\$ 420	\$ 7,560
Directors	75	340	25,500
Managers	170	185	31,450
Senior Associates	210	145	30,450
Experienced Associates	160	135	21,600
Associates	165	125	20,625
Clerical	2	110	220
		Out of Pocket Expenses	2,721
Total Hours	<u>800</u>	Subtotal	\$ 140,126
		Less Professional Discount	(55,126)
		Total 2015 Fees*	<u>\$ 85,000</u>

## Schedule of Professional Fees and Expenses - (Continued)

**For the Fiscal Year Ending June 30, 2016  
(Option Year)**

Staff Classification	Hours	Standard Hourly Rates	Fee
Partners	18	\$ 430	\$ 7,740
Directors	75	350	26,250
Managers	170	190	32,300
Senior Associates	210	150	31,500
Experienced Associates	160	140	22,400
Associates	165	130	21,450
Clerical	2	115	230
		Out of Pocket Expenses	2,857
<b>Total Hours</b>	<b>800</b>	Subtotal	<b>\$ 144,727</b>
		Less Professional Discount	(57,127)
		<b>Total 2016 Fees*</b>	<b>\$ 87,600</b>

**For the Fiscal Year Ending June 30, 2017  
(Option Year)**

Staff Classification	Hours	Standard Hourly Rates	Fee
Partners	18	\$ 440	\$ 7,920
Directors	75	360	27,000
Managers	170	195	33,150
Senior Associates	210	155	32,550
Experienced Associates	160	145	23,200
Associates	165	135	22,275
Clerical	2	120	240
		Out of Pocket Expenses	3,000
<b>Total Hours</b>	<b>800</b>	Subtotal	<b>\$ 149,335</b>
		Less Professional Discount	(61,735)
		<b>Total 2017 Fees*</b>	<b>\$ 87,600</b>

\*Total All-Inclusive Maximum Price - Includes one major program

CITY OF LODI - REQUEST FOR PROPOSAL - AUDIT SERVICES  
2013

**G. Proposal Submittal Forms**

**1. 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 product quality, and if so, to explain the circumstances.

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

Yes \_\_\_\_\_ No  X

2. If yes, explain the circumstances.

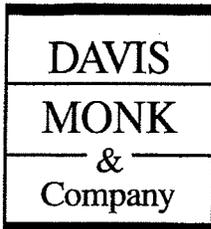
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Executed on \_\_\_\_\_ at \_\_\_\_\_

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

*Richard Muen*

\_\_\_\_\_  
Signature of Authorized Bidder Representative



Certified Public Accountants  
& Business Consultants

*A Partnership Consisting of  
Professional Associations*

*Gainesville*  
4010 N.W. 25th Place  
P.O. Box 13494 (32604)  
Gainesville, Florida 32606  
Phone: (352) 372-6300  
(800) 344-5034  
Fax: (352) 375-1583

*Palatka*  
906 South State Road 19  
Palatka, Florida 32177  
Phone: (386) 325-4561  
Fax: (386) 328-1014

*St. Augustine*  
1301 Plantation Island Dr.  
Suite 205A  
St. Augustine, Florida 32080  
Phone: (904) 471-3445  
Fax: (904) 471-3825

*Website:*  
www.davismonk.com

*Members:*

CPAmerica International

Florida Institute of  
Certified Public Accountants

American Institute of  
Certified Public Accountants

Horwath International

## SYSTEM REVIEW REPORT

May 14, 2009

To the Partners of  
**Macias, Gini & O'Connell, LLP**  
and the Peer Review Committee of the American Institute of Certified  
Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Macias, Gini & O'Connell, LLP (the "firm") applicable to non-SEC issuers in effect for the year ended March 31, 2009. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Macias, Gini & O'Connell, LLP applicable to non-SEC issuers in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias, Gini & O'Connell, LLP has received a peer review rating of *pass*.

*Davis, Monk & Company*  
**DAVIS, MONK & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**



JOHN CHIANG  
California State Controller

January 14, 2013

Rick Green, Partner  
Macias Gini & O'Connell, LLP  
3000 S. Street, Suite 300  
Sacramento, CA 95816

Dear Mr. Green:

The State Controller's Office completed a quality control review of Macias Gini & O'Connell, LLP. We reviewed the audit working papers for the firm's audit of the California Institute for Regenerative Medicine for the fiscal year ended June 30, 2012.

The firm's audit was performed in accordance with the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards; U.S. generally accepted auditing standards; and the California Business and Professions Code.

If you have any questions, please contact Carolyn Baez, Chief, Financial Audits Bureau, at (916) 322-7656.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/sk

cc: Alan Trounson, President  
California Institute for Regenerative Medicine  
Independent Citizens' Oversight Committee  
California Institute for Regenerative Medicine  
Citizen's Financial Accountability Oversight Committee  
California Institute for Regenerative Medicine  
Shelley Walker Davey, Manager  
Macias Gini & O'Connell, LLP

# Please call us if you need anything. We promise not to bore you.

**The West Coast is our home.**

We have cheerful offices throughout California and Washington.

Come and see us.

**Sacramento HQ**

3000 S Street  
Suite 300  
Sacramento  
California 95816  
T: 916.928.4600

**Walnut Creek**

2121 N. California Blvd.  
Suite 750  
Walnut Creek  
California 94596  
T: 925.274.0190

**Oakland**

505 14th Street  
5th Floor  
Oakland  
California 94612  
T: 510.273.8974

**San Diego**

12264 El Camino Real  
Suite 402  
San Diego  
California 92130  
T: 858.792.2210

**LA/Century City**

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Los Angeles  
California 90067  
T: 310.277.3373

**Newport Beach**

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Suite 600  
Newport Beach  
California 92660  
T: 949.221.0025

**San Diego**

225 Broadway  
Suite 1750  
San Diego  
California 92101  
T: 619.573.1112

**Seattle, WA**

701 Fifth Avenue  
42nd Floor  
Seattle  
Washington 98104  
T: 206.262.7850

[info@mgocpa.com](mailto:info@mgocpa.com)

**mgocpa.com**

**Proud To Be  
Boring Accountants:**

### Exhibit B – Fees for Services

CONTRACTOR will provide its services to CITY as provided in the Scope Services in Exhibit A as follows:

	Total All-Inclusive Maximum Price*	Each Additional Major Program
Auditing Services for the year ending June 30, 2013	\$ 85,000	\$ 6,000
Auditing Services for the year ending June 30, 2014	85,000	\$ 6,000
Auditing Services for the year ending June 30, 2015	85,000	\$ 6,000
Total Contract	<u>255,000.00</u>	
Auditing Services for the year ending June 30, 2016	87,600	\$ 6,250
Auditing Services for the year ending June 30, 2017	87,600	\$ 6,250
Total with Option Years	<u><u>\$430,200</u></u>	

\*Total All-Inclusive Maximum Price - Includes One Major Program

## Exhibit C – Insurance Requirements

**5-413 Insurance Requirements for Contractor** The Contractor shall take out and maintain during the life of this contract, insurance coverage as listed below. These insurance policies shall protect the Contractor and any subcontractor performing work covered by this contract from claims for damages for personal injury, including accidental death, as well as from claims for property damages, which may arise from Contractor's operations under this contract, whether such operations be by Contractor or by any subcontractor or by anyone directly or indirectly employed by either of them, and the amount of such insurance shall be as follows:

- |  |  |
|--|--|
| 1. <u>COMPREHENSIVE GENERAL LIABILITY LIABILITY</u><br>\$1,000,000 Ea. Occurrence<br>\$2,000,000 Aggregate | 2. <u>COMPREHENSIVE AUTOMOBILE</u><br>\$1,000,000 Bodily Injury - Ea. Person<br>\$1,000,000 Bodily Injury - Ea. Occ.<br>\$1,000,000 Property Damage - Ea. Occ. |
|--|--|

NOTE: Contractor agrees and stipulates that any insurance coverage provided to the City of Lodi shall provide for a claims period following termination of coverage which is at least consistent with the claims period or statutes of limitations found in the California Tort Claims Act (California Government Code Section 810 et seq.).

A copy of the certificate of insurance with the following endorsements shall be furnished to the City:

- (a) Additional Named Insured Endorsement  
Such insurance as is afforded by this policy shall also apply to the City of Lodi, its elected and appointed Boards, Commissions, Officers, Agents, Employees, and Volunteers as additional named insureds.  
  
(This endorsement shall be on a form furnished to the City and shall be included with Contractor's policies.)
- (b) Primary Insurance Endorsement  
Such insurance as is afforded by the endorsement for the Additional Insureds shall apply as primary insurance. Any other insurance maintained by the City of Lodi or its officers and employees shall be excess only and not contributing with the insurance afforded by this endorsement.
- (c) Severability of Interest Clause  
The term "insured" is used severally and not collectively, but the inclusion herein of more than one insured shall not operate to increase the limit of the company's liability.
- (d) Notice of Cancellation or Change in Coverage Endorsement  
This policy may not be canceled nor the coverage reduced by the company without 30 days' prior written notice of such cancellation or reduction in coverage to the City Attorney, City of Lodi, P.O. Box 3006, Lodi, CA 95241.

**5-414 Compensation Insurance** The Contractor shall take out and maintain during the life of this contract, Worker's Compensation Insurance for all of Contractor's employees employed at the site of the project and, if any work is sublet, Contractor shall require the subcontractor similarly to provide Worker's Compensation Insurance for all of the latter's employees unless such employees are covered by the protection afforded by the Contractor. In case any class of employees engaged in hazardous work under this contract at the site of the project is not protected under the Worker's Compensation Statute, the Contractor shall provide and shall cause each subcontractor to provide insurance for the protection of said employees. This policy may not be canceled nor the coverage reduced by the company without 30 days' prior written notice of such cancellation or reduction in coverage to the City Attorney, City of Lodi, P.O. Box 3006, Lodi, CA 95241.

RESOLUTION NO. 2013-76

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING  
THE CITY MANAGER TO EXECUTE AN AGREEMENT WITH  
MACIAS, GINI & O'CONNELL, LLP FOR AUDITING SERVICES  
FOR THE FISCAL YEARS ENDING JUNE 30, 2013, 2014, AND  
2015; AND FURTHER AUTHORIZING STAFF TO UTILIZE  
TWO ADDITIONAL ONE-YEAR OPTIONS

=====

WHEREAS, the City issued a Request for Proposals for auditing services for fiscal years ending June 30, 2013, 2014, and 2015, with options to extend services for each of the following two fiscal years; and

WHEREAS, proposals were received from 14 firms; and

WHEREAS, staff reviewed and rated the proposals and recommended four firms for interviews; and

WHEREAS, the interview team recommends that the City Council award a contract to Macias, Gini, & O'Connell, LLP in the amount of \$255,000, for fiscal years ending 2013, 2014, and 2015, with two additional one-year options to extend services.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi does hereby authorize the City Manager to execute an agreement with Macias, Gini, & O'Connell, LLP for auditing services for fiscal years 2013, 2014, and 2015; and

BE IT FURTHER RESOLVED that, if staff determines it is in the best interests of the City, staff is hereby authorized to utilize two additional one-year options for auditing services at a cost not to exceed \$175,200.

Dated: May 1, 2013

=====

I hereby certify that Resolution No. 2013-76 as passed and adopted by the City Council of the City of Lodi in a regular meeting held May 1, 2013, by the following votes:

AYES: COUNCIL MEMBERS – Hansen, Johnson, Katzakian, Mounce,  
and Mayor Nakanishi

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None

  
RANDI JOHL  
City Clerk