



Memorandum

TO: Honorable Mayor and City Council

FROM: Sharon W. Erickson,
City Auditor

**SUBJECT: FIRST AMENDMENT TO THE
AGREEMENT WITH MACIAS, GINI &
O'CONNELL TO PROVIDE ANNUAL
FINANCIAL AND COMPLIANCE AUDITS**

DATE: June 1, 2018

RECOMMENDATION

Approve the first amendment to the agreement with Macias, Gini & O'Connell LLP to add audit services related to the financial statements of the Executive Management and Professional Employees Tier 3 Defined Contribution Plan, and the City of San Jose Voluntary Employee Beneficiary Association (VEBA) plans, increasing total compensation under the term of the agreement by an amount not to exceed \$63,652, with revised maximum total compensation of \$4,016,441.

BACKGROUND

Section 805 of the San José City Charter specifies that the Office of the City Auditor conduct or cause to be conducted annual post audits of all the fiscal transactions and accounts kept by or for the City. In addition, Section 1215 of the San José City Charter requires that the City Council employ an independent certified public accountant who shall audit the municipal books, records, accounts, and fiscal procedures of all officers of the City who receive, administer or disburse public funds on behalf of the City.

In February 2018, the City Council approved an agreement with Macias, Gini & O'Connell LLP to perform annual financial and compliance audit services for fiscal years ending June 30, 2018, 2019, and 2020 with three one-year extension options for fiscal years ended June 30, 2021, 2022, and 2023, with annual compensation not to exceed \$612,664 in year one and fees adjusted for subsequent years by the Consumer Price Index, not to exceed 3 percent per year in years two through six, for a total amount not to exceed \$3,952,789 for a potential six year term subject to annual appropriation of funds by the City Council.

ANALYSIS

Although the agreement provided for comprehensive audit services, it did not include an audit of the financial statements of the Executive Management and Professional Employees Tier 3 Defined Contribution Plan. Annual compensation for this additional audit service totals \$8,541.79 in the first year (covering the initial period of February 2, 2013 through June 30, 2018). The cost of

future years' audit services for fiscal years from July 1 to June 30 is subject to annual cost of living adjustments (capped at 3 percent per year) and annual appropriation of funds by the City Council, increasing total compensation by an amount not to exceed \$55,110 over the remaining term of the agreement.

Also being added is an audit of the financial statements of the City of San Jose Voluntary Employee Beneficiary Association (VEBA) plans set out in Chapter 3.57 (Police and Fire VEBA) and Chapter 3.58 (Federated Employees' VEBA) of the San Jose Municipal Code. One report showing the results of the audit of both plans will be issued at a cost of \$8,541.79 in the first year (covering the initial period from inception through June 30, 2018). A separate agreement covering audits of future fiscal years will be proposed to the VEBA Advisory Committee once it is formed.

BUDGET REFERENCE

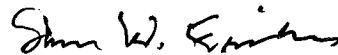
The table below identifies the fund and appropriation proposed to fund the additional costs recommended as part of this memorandum.

Fund #	Appn #	Appn Name	Total Appn	Cost	2017-18 Adopted Budget Operating/Capital Page	Last Budget Action (Date, Ord. No.)
001	0482	Human Resources Non-Personal/ Equipment (Tier 3)	\$3,690,119	\$17,084	661	10/17/2017, 30014

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Finance Department, Human Resources, and the Budget Office.

Respectfully submitted,



Sharon W. Erickson
City Auditor