

Memorandum

TO: Honorable Mayor and City Council

FROM: Joe Rois
City Auditor

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

DATE: July 23, 2020

RECOMMENDATION

Approve the second amendment to the agreement with Macias, Gini & O'Connell LLP to add audit services related to the financial statements for the San José Clean Energy Fund and the Public Safety and Infrastructure Bond Fund, and delete services related to the Hayes Mansion, increasing total compensation under the term of the agreement by an amount not to exceed \$154,741, with revised maximum total compensation of \$4,171,182.

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.

In June 2018, the City Council approved the first amendment to the agreement 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 José 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.

ANALYSIS

This amendment will add additional audit services to the current agreement with Macias, Gini & O'Connell LLP, including an audit of the San José Clean Energy (SJCE) Fund financial statements and tests for compliance with the SJCE Energy Risk Management Policy and Energy Risk Management Regulations. Commencing for fiscal year ending June 30, 2020, annual compensation for these additional services totals \$70,538, of which \$17,740 is for first year start-up costs. The cost of future years' audit services for fiscal years ending 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 \$238,627 over the remaining term of the agreement.

In addition, this amendment will also include an audit of the Public Safety and Infrastructure ("Measure T") Bond Fund financial statements. Commencing for fiscal year ending June 30, 2020, annual compensation for this service totals \$21,876, of which \$5,566 is for first year start-up costs. The cost of future years' audit services for fiscal years ending 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 \$73,801 over the remaining term of the agreement.

Finally, this amendment will delete services related to Hayes Mansion for the remainder of the agreement term. The compensation that was allocated to the Hayes Mansion services in the amount of \$157,687 will offset the cost of the additional services.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the August 11, 2020 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

BUDGET REFERENCE

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	Amt. for Contract	2020-21 Proposed Operating Budget page*	Last Budget Action (Date, Ord. No.)
501	212D	San José Clean Energy Annual Audits	\$124,920	\$70,538	IX-83	6/23/20 Ord. No. 30286
001	3727	Bond Project Audits	\$102,675	\$21,876	VIII-24	6/23/20 Ord. No. 30286

* The 2020-2021 Adopted Operating Budget was approved on June 16, 2020 and the annual appropriation ordinance was adopted on June 23, 2020.

CEQA

Not a project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

Respectfully submitted,



Joe Rois
City Auditor