



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 11, 2009

**The Honorable City Council
Palo Alto, California**

Approval of Amendment No. 2 to Contract C05110846 with Maze & Associates to Provide a Contingency of \$42,605 for a Total Contract Amount Not to Exceed \$866,142

RECOMMENDATION

The City Auditor recommends that the City Council approve an amendment to the existing \$426,052 three-year contract extension with the accounting firm of Maze & Associates to provide for a ten percent (10%) contingency of \$42,605. Combined with the original contract approved in 2005, this contingency will bring the total not to exceed contract amount to \$866,142. This recommendation is being made to correct a previous contract oversight.

BACKGROUND

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the City's annual external financial audit. In 2005, the City issued a formal Request for Proposal process and selected Maze & Associates. The contract agreement with Maze & Associates covered a three-year term, with an option to continue for another three years based on satisfactory performance. In February 2008, the City Council approved a contract amendment to exercise the three-year extension option. The amendment covered the external financial audits for the three fiscal years ending June 30, 2008, 2009, and 2010.

ANALYSIS

In reviewing the external financial audit services contract, as amended on February 5, 2008, we discovered the contract amendment did not provide contingency funding for additional services included in Exhibit B. The purpose of this request is to correct this oversight. The amended contract would modify Section 2 "NOT TO EXCEED COMPENSATION" to add a ten percent contingency in the amount of \$42,605.

This contingency is necessary to ensure the contract maintains adequate flexibility to satisfy federal Single Audit Act requirements and requests for additional assurance and internal control testing. For example, the number of Single Audits can vary from year to year, based on the City's receipt of grant funds. However, the contract amount included funding for only one Single Audit program. The Administrative Services Department has also requested that the external auditors include additional assurance testing of the new SAP Utilities Billing system prior to system acceptance. Although the external auditors may review the internal control structure of information systems as part of their routine reviews, requests for more detailed testing of new systems would be considered an additional audit service in which contingency funding would be necessary.

Funding for the contingency amounts will be charged to those programs requiring the additional services.

This request does not cover additional financial audit services that may arise as a result of other requirements, such as audits of the upcoming Measure N Library bond funds, or additional audits that could result from the City's anticipated receipt of federal stimulus grant funds (American Recovery and Reinvestment Act of 2009). The extent of these services is not yet known at this time. If there is a need

for additional financial audit services beyond the scope and budget of the existing contract, we will return to the City Council for approval.

Respectfully submitted,



Lynda Flores Brouchoud
City Auditor

- Amendment No. 2 to Contract No. C05110846 Between the City of Palo Alto and Maze & Associates for External Audit Services (2009)
- Amendment No. One to Contract No. C05110846 Between the City of Palo Alto and Maze & Associates for External Audit Services (2008)
- Contract No. C05110846 Between the City of Palo Alto and Maze & Associates for External Audit Services (2005)

**AMENDMENT NO. 2 TO AGREEMENT NO. C05110846
BETWEEN THE CITY OF PALO ALTO AND
MAZE AND ASSOCIATES**

This Amendment No. 2 to Agreement No. **C05110846** ("Agreement") is entered into May 12, 2009, by and between the CITY OF PALO ALTO ("CITY"), and **MAZE AND ASSOCIATES**, a California Corporation, located at 3478 Buskirk Avenue, Suite 215, Pleasant Hill, California, 94523 (PH) 925-930-0902 ("AUDITOR").

R E C I T A L S:

WHEREAS, the Agreement was entered into between the parties for the provision of External Audit Services; and

WHEREAS, the parties wish to amend the Agreement;

NOW, THEREFORE, in consideration of the covenants, terms, conditions, and provisions of this Amendment, the parties agree:

SECTION 2. The section entitled "NOT TO EXCEED COMPENSATION" is hereby amended, to read as follows:

The Compensation to be paid to AUDITOR for performance of Services, including both payment for professional services and reimbursable expenses, shall not exceed eight hundred sixty six thousand one hundred forty two

dollars (\$866,142.00) tabulated as follows: \$397,485.00 for services performed under the original contract from April 1, 2005 through June 30, 2007; four hundred twenty six thousand fifty two dollars (\$426,052) for the three year extension through June 30, 2010, authorized by Amendment No. 1, payable as follows: \$136,900 for the fiscal year ending June 30, 2008; \$141,955 for the fiscal year ending June 30, 2009; \$147,207 for the fiscal year ending June 30, 2010; plus forty two thousand six hundred five dollars (\$42,605) contingency to cover payment for additional services as set forth in Exhibit B, COMPENSATION.

EXHIBITS. The following exhibit(s) to the Agreement is/are hereby amended to read as set forth in the attachment(s) to this Amendment, which are incorporated in full by this reference:

- a. Exhibit A-REVISED entitled SCOPE OF WORK.
- b. Exhibit B-REVISED entitled COMPENSATION.

Except as herein modified, all other provisions of the Agreement, including any exhibits and subsequent amendments thereto, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have by their duly authorized representatives executed this Amendment on the date first above written.

CITY OF PALO ALTO

MAZE & ASSOCIATES

APPROVED AS TO FORM:

By: 

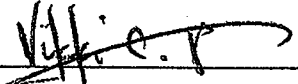
Senior Asst. City Attorney

Name: CORY BRIDGES

APPROVED:

Title: CEO

City Manager

By: 

City Auditor

Name: VIKKI C. RODRIGUEZ

Director of Administrative Services

Title: VP

Attachments:

- EXHIBIT "A" Revised: SCOPE OF WORK
- EXHIBIT "B" Revised: COMPENSATION

EXHIBIT A-REVISED
SCOPE OF SERVICES
for
External Audit Services

PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2008 through June 30, 2010, with the option to continue such services for each of the three subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards (2007 revision), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations.

Basic Audit Services Required

Auditor shall audit the City's financial statements and prepare the City's federal and state tax returns for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2008 through June 30, 2010. In providing these services, Auditor shall:

- A. audit the basic financial statements and supplementary entity-wide combining and individual fund financial statements included in the City's Comprehensive Annual Financial Report (CAFR), including all funds under the jurisdiction and control of the City, and render a professional opinion thereon.

Prior to year-end and preferably during March and April, Auditor shall perform interim work to test internal controls of accounting processes. The auditor shall provide the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work;

- B. prepare a management letter to the City Council which will include observations and recommendations noted and identified during the audit. This may include:
- (1) issues regarding internal control structure (e.g., information systems, functions, and procedures);
 - (2) items concerning compliance with laws, rules, and regulations;
 - (3) opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the City; and/or
 - (4) other matters of interest to the City Council and management;
- C. audit the financial statements of the Regional Water Quality Control Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the cities of Palo Alto, Mountain View and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System", and all addenda thereto;
- D. audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the City has created to finance the construction of specific facilities and prepare their applicable Federal and State informational and tax returns.

- E. audit the City's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract;
- F. audit the City's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable State requirements;
- G. perform agreed upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required;
- H. audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, the County of San Mateo, and the County of Santa Clara;
- I. audit and issue a report on the financial statements of the Redevelopment Agency, created on October 9, 2001 under the provisions of the Redevelopment Law (California Health and Safety Code);
- J. prepare the Annual Financial Transactions Report, Annual Street Report, and Redevelopment Agency Report, in accordance with instructions from the California State Controller's Office;
- K. assist the City in the transition to adhere to any new GASB pronouncements including, but not limited to:
 GASB 43 – Other Post Employment Benefits
 GASB 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

To the extent possible, this assistance should be provided during the interim work, and may include reviewing reports, transactions, and Management Discussion and Analysis;

- L. provide a direct data dump, word processing services, and use the City's worksheet and template to prepare the CAFR, including the entity-wide statements. The CAFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility;
- M. deliver the following items:

Items 1-4 are to be delivered to the City Auditor. Items 5-7 are to be delivered to the Director of Administrative Services Department (with a courtesy copy to the City Auditor). The report issuance dates are shown for the fiscal year ending June 30, 2008. The report issuance dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined.

- 1) Five (5) draft reports by October 22, 2008 and five (5) final bound reports by November 15, 2008 on the following:

- Palo Alto Improvement Corporation
- Regional Water Quality Control Plant
- Transportation Development Act
- Bicycle/Pedestrian Projects
- Redevelopment Agency of the City of Palo Alto Component Unit

- 2) A copy of the comprehensive Management Letter delivered to the City Auditor and to the Director of Administrative Services as follows:

Draft Management Letter for interim work	April 18, 2008
Draft Management Letter for completed fieldwork	October 22, 2008
Final comprehensive Management Letter	November 15, 2008

- 3) Seven (7) bound copies of the cable report on June 30, 2008.
- 4) Two (2) original copies and a complete electronic version in a website-compatible format of the Comprehensive Annual Financial Report, including the Single Audit Report, on November 14, 2008. Also, provide one copy to the City Auditor.
- 5) Five (5) copies of the Opinion Letter and the Single Audit Report to be bound with the Comprehensive Annual Financial Report by December 1, 2008.
- 6) Five (5) copies of the Gann Limit Letter on May 30, 2008. Also, provide one copy to the City Auditor.
- 7) Two (2) copies of Federal and State tax returns on January 7, 2009. Also, provide one copy to the City Auditor.
- 8) Two (2) copies of the Annual Financial Transactions Report on November 15, 2008, Annual Street Report on September 18, 2008, and Redevelopment Agency Report, to be delivered to the City's Accounting Manager before the due date for signature and mailing. Also, provide one copy of each report to the City Auditor.
- N. meet with the City Auditor and the Assistant Director of Administrative Services or their designees on a weekly basis during the audit engagement, to report on the progress of Auditor's examinations and on their preliminary audit findings and recommendations;
- O. provide the Director of Administrative Services with comments to responses on issues noted at completion of the interim audit work (Accounting Issues memo). The Auditor's comments will be provided within three weeks;
- P. meet with the City Auditor or designee independently to review internal control issues noted during the audit. This will include reportable conditions, if applicable, reflected in the draft Management Letter;
- Q. upon completion of the audit, hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff. At this meeting, the Auditor will present the financial statements and first draft of the management letter;
- R. attend a minimum of one of the City Council and one Council Finance Committee meeting for the purpose of discussing the audit and the Management Letter;
- S. provide professional publications and software including applicable licenses as described below:
The Auditor will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by the Auditor, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), and the United States General Accounting Office (GAO).
Examples of these publications include:

AICPA Professional Standards

Audit and Accounting Guide, Audits of State and Local Governmental Units (AICPA)
FASB Accounting Standards
Codification of Governmental Accounting and Financial Reporting Standards (GASB)
Governmental Accounting, Auditing and Financial Reporting (GFOA)
Government Auditing Standards (GAO)

In addition, the Auditor will make available any past, current or new GASB statements; and

- T. provide training for the City's personnel regarding important industry developments and technical matters as described below:

GASB pronouncements and major projects may significantly impact the City's financial reporting over the next several years. The Auditor will provide the City, at no additional cost, with proactive guidance on complying with such requirements. Formal training classes will be offered to the City Auditor and Director of Administrative Services or designee regarding industry developments and new accounting regulations.

ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

Administrative Services Department (ASD) and Clerical Assistance

ASD staff and responsible management will be available during the audit to assist the firm by providing information, documentation and explanations. ASD staff will prepare statements and schedules for the Auditor as requested.

Report editing and compilation shall be the responsibility of the Auditor. Printing is the responsibility of the City for those reports not identified above.

Work Area, Telephones, Photocopying and Facsimile Machines

The City will provide the Auditor with reasonable workspace. The Auditor will also be provided with access to telephone lines, photocopying machine, and facsimile machines. The invoices submitted by the Auditor will be reduced by any telephone charges.

WORKING PAPER RETENTION AND ACCESS TO WORKING PAPERS

Auditor shall maintain its audit workpapers and reports, at the Auditor's expense, for at least three years after final payment under the agreement is made, unless the firm is notified in writing by the City of Palo Alto of the need to extend the retention period.

Upon request and after reasonable notice, the Auditor may be required to make workpapers available to the City of Palo Alto or other organizations designated by the City of Palo Alto, during the Auditor's normal business hours. There will be no charge for any such reviews or inspections.

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

TIME REQUIREMENTS

Schedule for 2007-08 Fiscal Year Audit (exact dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined):

Interim Work	March 29, 2008 (two weeks late in March)
Fieldwork Completed	October 10, 2008 (three weeks ending by October 10, 2008)
Initial Draft Report	October 31, 2008
Final Report	November 14, 2008
Presentation of Audit Results to Finance Committee	December 16, 2008

EXHIBIT B-REVISED
COMPENSATION

The CITY agrees to compensate the AUDITOR for services performed in accordance with the Terms and Conditions of this Agreement, and as set forth in the schedules below. Compensation shall be calculated based on the hourly rate attached as Exhibit "C", up to the not to exceed amount fees for each task as set forth below.

The compensation to be paid to AUDITOR under this Agreement for all services included in Exhibit "A", Exhibit "A-Revised" and any additional services as authorized by the City Auditor shall not exceed \$866,142.00. AUDITOR agrees to complete all services within this amount. Any work performed or expenses incurred for which payment would result in a total exceeding the maximum amount of compensation set forth herein shall be at no cost to the CITY.

AUDITOR shall perform the audit services and prepare the reports as outlined and budgeted below.

**FEES FOR AUDIT SERVICES AND
REPORTS FOR THE FISCAL YEARS
ENDING:**

	2005	2006	2007
Comprehensive Annual Financial Report	\$95,810	\$97,821	\$99,878
Palo Alto Public Improvement Corporation	3,429	3,502	3,575
Palo Alto Redevelopment Agency	4,335	4,426	4,518
Regional Water Quality Control Plant	3,703	3,781	3,860
Cable Television Franchise	3,050	3,113	3,178
Transportation Development Act	1,673	1,708	1,743
Single Audit (one program)	5,129	5,237	5,347
Annual Report of Financial Transaction:			
City	5,468	5,583	5,700
RDA	1,014	1,035	1,057
Annual Street Report	2,242	2,289	2,337
Gann Limit Agreed Upon Procedures	<u>783</u>	<u>799</u>	<u>816</u>
 Total Per Year	 \$126,636	 \$129,294	 \$132,007
	 2008	 2009	 2010
Comprehensive Annual Financial Report	\$103,571	\$107,403	\$111,377
Palo Alto Public Improvement Corporation Financial Statements	2,932	3,092	3,206
Information Return	725	752	780
Palo Alto Redevelopment Agency	4,635	4,858	5,038
Regional Water Quality Control Plant	4,003	4,151	4,305
Cable Television Franchise	3,296	3,418	3,544
Transportation Development Act	1,807	1,874	1,940
Single Audit (one program)	5,545	5,750	5,963
Annual Report of Financial Transaction:			
City	5,911	6,130	6,357
RDA	1,096	1,137	1,179
Annual Street Report	2,423	2,513	2,606
Gann Limit Agreed Upon Procedures	<u>846</u>	<u>877</u>	<u>909</u>
 Total Per Year	 \$136,890	 \$141,955	 \$147,207

Plus a Contingency Fund of \$42,605 for additional services if received.

Additional services are those services provided by the AUDITOR which are in addition to the services specified in Exhibit A-Scope of Services for External Audit Services and not budgeted in the above schedule. The AUDITOR shall provide additional services only by advanced, written authorization from the CITY. The AUDITOR, at the City Auditor's request, shall submit a detailed, written proposal, including all hours, rates, other direct costs, overhead, profit, and schedule. The additional service fee amount shall be negotiated and agreed to in writing by the City Auditor and AUDITOR and shall include a description of the scope of services, schedule and AUDITOR's maximum compensation for such services. Additional services shall be provided under the Terms and Conditions of this Agreement. Payment for additional services is subject to all requirements and restrictions in this Agreement.



**CITY OF PALO ALTO
OFFICE OF THE CITY AUDITOR**

8

February 11, 2008

**Honorable City Council
Palo Alto, California**

Approval of Amendment No. One to Contract No. C05110846 with Maze and Associates in an Amount Not to Exceed \$426,052 for External Audit Services for Fiscal Years Ending June 30, 2008 through June 30, 2010

RECOMMENDATION

The City Auditor recommends that the City Council approve a three-year contract extension with the accounting firm of Maze and Associates for external audit services for the fiscal years ending June 30, 2008, June 30, 2009, and June 30, 2010 at a total cost not to exceed \$426,052.

BACKGROUND

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual external financial audit, and report the results of the audit in writing to the City Council.

In 1998, the City engaged in a formal Request for Proposal (RFP) process for external audit services. The contract was awarded to the firm of Maze and Associates, and was subsequently extended for a total of seven years providing continuity through the GASB 34 implementation and SAP accounting system implementation processes.

In January 2005, the City engaged in a formal RFP process that encouraged competition from all qualified firms, including Maze and Associates. The RFP was sent to 19 audit firms, and the City received proposals from four audit firms. In April 2005, the City Council approved a contract with Maze and Associates for external audit services for fiscal years ending June 30, 2005 through June 30, 2007 with an option to continue such services for three subsequent fiscal years contingent on satisfactory performance.

Because of the excellent performance of Maze and Associates, I am recommending that the City exercise the option, and retain Maze and Associates for the audits as of June 30, 2008, 2009, and 2010. The Administrative Services Director and Accounting Manager concur.

Total proposed audit fees of \$426,052 are based on 2007 fees of \$132,007 adjusted for an annual 3.7 percent increase as follows: \$136,890 for the fiscal year ending June 30 2008; \$141,955 for the fiscal year ending June 30, 2009; and \$147,207 for the fiscal year ending June 30, 2010.

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

Attachments:

- **Amendment No. One to Contract No. C05110846 Between the City of Palo Alto and Maze & Associates for External Audit Services**
- **Exhibit A Scope of Services for External Audit Services**
- **Exhibit B City of Palo Alto Engagement Letter Fees Attachment**

**AMENDMENT NO. ONE TO CONTRACT NO. C05110846
BETWEEN THE CITY OF PALO ALTO AND
MAZE & ASSOCIATES FOR EXTERNAL AUDIT SERVICES**

This Amendment No. One to Contract No. C05110846 ("Contract") is entered into _____, 2008, by and between the CITY OF PALO ALTO, a California chartered municipal corporation ("CITY"), and MAZE & ASSOCIATES, a California corporation, located at 1931 San Miguel Drive, Suite 100, Walnut Creek, California ("AUDITOR").

R E C I T A L S:

WHEREAS, the Agreement was entered into between the parties for the provision of external audit services; and

WHEREAS, the parties wish to amend the Agreement;

NOW, THEREFORE, in consideration of the covenants, terms, conditions, and provisions of this Amendment, the parties agree:

SECTION 1. The section entitled "TERM" is hereby amended to read as follows:

"TERM". The services and/or materials furnished under this Agreement shall be from the date of its full execution through the audits for the fiscal years ending June 30, 2008 through June 30, 2010.

SECTION 2. The section entitled "NOT TO EXCEED COMPENSATION" is hereby amended, to read as follows:

The compensation to be paid to AUDITOR for performance of Services, including both payment for professional services and reimbursable expenses, shall not exceed Four Hundred Twenty-six thousand Fifty-two Dollars (\$426,052) as follows: \$136,890 for the fiscal year ending June 30, 2008; \$141,955 for the fiscal year ending June 30, 2009; and \$147,207 for the fiscal year ending June 20, 2010.

SECTION 3 The following exhibit to the agreement is hereby amended to read as set forth in the attachment to this Amendment, which is incorporated in full by this reference:

- a. Exhibit "A" entitled "Scope of Services".
- b. Exhibit "B" entitled "Compensation".

SECTION 4. Except as herein modified, all other provisions of the Agreement, including any exhibits and subsequent amendments thereto, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have by their duly authorized representatives executed this Amendment on the date first above written.

APPROVED AS TO FORM:

CITY OF PALO ALTO

Senior Asst. City Attorney

Assistant City Manager

APPROVED:

Maze & Associates

City Auditor

By: Cory Biggs

Name: CORY BIGGS

Title: CEO

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of CONTRA COSTA

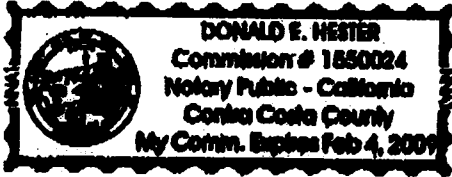
} ss.

On 5 FEB 2008, before me, DONALD E. HESTER, NOTARY PUBLIC
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared CORY BIGGS
Name(s) of Signer(s)

personally known to me

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Place Notary Seal Above

DONALD E. HESTER
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: AMENDMENT NO. ONE TO CONTRACT NO.

Document Date: 5 FEB 2008 Number of Pages: 2

Signer(s) Other Than Named Above: N/A

Capacity(ies) Claimed by Signer(s)

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): _____
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing: _____

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): ceo
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing: _____

EXHIBIT A
SCOPE OF SERVICES
for
External Audit Services

PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2008 through June 30, 2010, with the option to continue such services for each of the three subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards (2003 revision), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations.

Basic Audit Services Required

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Prior to year-end and preferably during March and April, Auditor shall perform interim work to test internal controls of accounting processes. The auditor shall provide the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work;

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- E. audit the City's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract;
- F. audit the City's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable State requirements;
- G. perform agreed upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required;
- H. audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, the County of San Mateo, and the County of Santa Clara;
- I. audit and issue a report on the financial statements of the Redevelopment Agency, created on October 9, 2001 under the provisions of the Redevelopment Law (California Health and Safety Code);
- J. prepare the Annual Financial Transactions Report, Annual Street Report, and Redevelopment Agency Report, in accordance with instructions from the California State Controller's Office;
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- L. provide a direct data dump, word processing services, and use the City's worksheet and template to prepare the CAFR, including the entity-wide statements. The CAFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility;
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- Regional Water Quality Control Plant
- Transportation Development Act
- Bicycle/Pedestrian Projects
- Redevelopment Agency of the City of Palo Alto Component Unit

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- 4) Two (2) original copies and a complete electronic version in a website-compatible format of the Comprehensive Annual Financial Report, including the Single Audit Report, on November 14, 2008. Also, provide one copy to the City Auditor.
- 5) Five (5) copies of the Opinion Letter and the Single Audit Report to be bound with the Comprehensive Annual Financial Report by December 1, 2008.
- 6) Five (5) copies of the Gann Limit Letter on May 30, 2008. Also, provide one copy to the City Auditor.
- 7) Two (2) copies of Federal and State tax returns on January 7, 2009. Also, provide one copy to the City Auditor.
- 8) Two (2) copies of the Annual Financial Transactions Report on November 15, 2008, Annual Street Report on September 18, 2008, and Redevelopment Agency Report, to be delivered to the City's Accounting Manager before the due date for signature and mailing. Also, provide one copy of each report to the City Auditor.
- N. meet with the City Auditor and the Assistant Director of Administrative Services or their designees on a weekly basis during the audit engagement, to report on the progress of Auditor's examinations and on their preliminary audit findings and recommendations;
- O. provide the Director of Administrative Services with comments to responses on issues noted at completion of the interim audit work (Accounting Issues memo). The Auditor's comments will be provided within three weeks;
- P. meet with the City Auditor or designee independently to review internal control issues noted during the audit. This will include reportable conditions, if applicable, reflected in the draft Management Letter;
- Q. upon completion of the audit, hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff. At this meeting, the Auditor will present the financial statements and first draft of the management letter;
- R. attend a minimum of one of the City Council and one Council Finance Committee meeting for the purpose of discussing the audit and the Management Letter;
- S. provide professional publications and software including applicable licenses as described below:
The Auditor will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by the Auditor, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), and the United States General Accounting Office (GAO). Examples of these publications include:

AICPA Professional Standards

Audit and Accounting Guide, Audits of State and Local Governmental Units (AICPA)
FASB Accounting Standards
Codification of Governmental Accounting and Financial Reporting Standards (GASB)
Governmental Accounting, Auditing and Financial Reporting (GFOA)
Government Auditing Standards (GAO)

In addition, the Auditor will make available any past, current or new GASB statements; and

- T. provide training for the City's personnel regarding important industry developments and technical matters as described below:

GASB pronouncements and major projects may significantly impact the City's financial reporting over the next several years. The Auditor will provide the City, at no additional cost, with proactive guidance on complying with such requirements. Formal training classes will be offered to the City Auditor and Director of Administrative Services or designee regarding industry developments and new accounting regulations.

ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

Administrative Services Department (ASD) and Clerical Assistance

ASD staff and responsible management will be available during the audit to assist the firm by providing information, documentation and explanations. ASD staff will prepare statements and schedules for the Auditor as requested.

Report editing and compilation shall be the responsibility of the Auditor. Printing is the responsibility of the City for those reports not identified above.

Work Area, Telephones, Photocopying and Facsimile Machines

The City will provide the Auditor with reasonable workspace. The Auditor will also be provided with access to telephone lines, photocopying machine, and facsimile machines. The invoices submitted by the Auditor will be reduced by any telephone charges.

WORKING PAPER RETENTION AND ACCESS TO WORKING PAPERS

Auditor shall maintain its audit workpapers and reports, at the Auditor's expense, for at least three years after final payment under the agreement is made, unless the firm is notified in writing by the City of Palo Alto of the need to extend the retention period.

Upon request and after reasonable notice, the Auditor may be required to make workpapers available to the City of Palo Alto or other organizations designated by the City of Palo Alto, during the Auditor's normal business hours. There will be no charge for any such reviews or inspections.

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

TIME REQUIREMENTS

Schedule for 2007-08 Fiscal Year Audit (exact dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined):

Interim Work	March 29, 2008 (two weeks late in March)
Fieldwork Completed	October 10, 2008 (three weeks ending by October 10, 2008)
Initial Draft Report	October 31, 2008
Final Report	November 14, 2008
Presentation of Audit Results to Finance Committee	December 16, 2008

EXHIBIT B

City of Palo Alto Engagement Letter Fees Attachment

Our fees for the work described in the attached engagement letter will be as follows, unless they are adjusted for one or more of the items below:

Service	Total fees for fiscal year ending June 30		
	2008	2009	2010
Comprehensive Annual Financial Report	\$103,571	\$107,403	\$111,377
Palo Alto Public Improvement Corporation Financial Statements Information Return	2,982 725	3,092 752	3,206 780
Palo Alto Redevelopment Agency	4,685	4,858	5,038
Regional Water Quality Control Plant	4,003	4,151	4,305
Cable Television Franchise	3,296	3,418	3,544
Transportation Development Act	1,807	1,874	1,943
Single Audit (one program)	5,545	5,750	5,963
Annual Report of Financial Transactions:			
City	5,911	6,130	6,357
RDA	1,096	1,137	1,179
Annual Street Report	2,423	2,513	2,606
Gann Limit Agreed Upon Procedures	846	877	909
Totals	<u>\$136,890</u>	<u>\$141,955</u>	<u>\$147,207</u>

Fees – Our fees are based on our 2007 fees adjusted for an annual 3.7% increase in the Consumer Price Index.

Additional Services - The above fees are for audit and assurance services described in the accompanying engagement letter. They do not include fees for assisting with closing the books nor providing other accounting services.

Recurring Audit Adjustments - Each year we include the prior year's adjusting entries as new steps in our Closing Checklist, so that you can incorporate these entries in your closing. If we are required to continue to make these same adjustments as part of this year's audit, we will bill for this service at our normal hourly rates.

Single Audit Act - Additional programs will cost \$5,545 each, unless there are other factors which add to that program's cost; in that case, we will provide a cost estimate before proceeding.



**CITY OF PALO ALTO
OFFICE OF THE CITY AUDITOR**

6

April 5, 2005

**Honorable City Council
Palo Alto, California**

**Approval of Contract with Maze and Associates in an Amount Not to Exceed
\$387,937 for External Audit Services for Fiscal Years Ending June 30, 2005 through
June 30, 2007**

RECOMMENDATION

The Auditor's Office recommends approval of an agreement with the accounting firm of Maze and Associates for external audit services for the three fiscal years ending June 30, 2005, June 30, 2006, and June 30, 2007 at a total cost not to exceed \$387,937 with an option to continue such services for three subsequent fiscal years contingent on satisfactory performance.

DISCUSSION

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual external audit, and report the results of the audit, in writing, to the City Council.

In January 2005, the City engaged in a formal Request for Proposal (RFP) process that encouraged competition from all qualified firms, including the current auditors, Maze & Associates. The RFP was sent to 19 audit firms, and the City received proposals from four audit firms.

On March 15, 2005, the Finance Committee approved my recommendation to negotiate an agreement with Maze and Associates for external audit services (3-1, Ojakian, Morton, and Mossar "for"; Kishimoto "against").

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

Attachments



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 15, 2005

The Honorable City Council
Attn: Finance Committee
Palo Alto, California

City Auditor's Recommendation for Selection of External Financial Audit Firm

RECOMMENDATION

The City Auditor should negotiate an agreement with Maze & Associates for external audit services for the fiscal years ending on June 30, 2005 through June 30, 2007, with the option to continue such services for three subsequent fiscal years contingent on satisfactory performance. The agreement would be for a total cost of \$387,937 as follows: \$126,636 for the fiscal year ending June 30, 2005; \$129,294 for the fiscal year ending June 30, 2006; and \$132,007 for the fiscal year ending June 30, 2007. This agreement will require approval by the City Council.

DISCUSSION

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual external audit, and report the results of the audit, in writing, to the City Council.

Agreements for audit services are not required to be competitively bid. However, in January 2005, the City engaged in a formal Request for Proposal (RFP) process that encouraged competition from all qualified firms, including the current auditors, Maze & Associates.¹ The RFP was sent to 19 audit firms, and in response, the City received proposals from four audit firms: Maze & Associates, Caporicci & Larson, C.G. Uhlenberg LLP, and Vavrinek, Trine, Day & Co., LLP. The total costs proposed by the audit firms for the three years ending in June 30, 2007 ranged from \$387,937 to \$454,362.

An evaluation team comprised of the City Auditor, Assistant Director of Administrative Services, and Accounting Manager evaluated the proposals. Maze & Associates provided the lowest cost proposal, and in our unanimous opinion, rated highest in experience, and the quality and completeness of the proposal. The proposed pricing represents a savings of nearly \$15,000 over last year's audit cost (\$141,444).

Maze & Associates has been the City's auditor since 1998, and as such, the firm is familiar with the City's policies and procedures and the nature of its transactions. Maze & Associates specializes in government accounting and auditing services, with a client list including more than 30 cities. The firm also has extensive experience auditing municipal utilities. Both the City Auditor and Administrative Services departments have been pleased with the quality of the work of Maze &

¹ The City of Palo Alto does not have a mandatory auditor rotation policy that would have required us to replace the current audit firm at the end of its contract term. This position is supported by both the United States General Accounting Office and the Government Finance Officers Association.

Associates and the caliber of its staff during prior audits. In comparison, the other proposers cost more, had fewer municipal clients and less municipal utility experience.

For these reasons, I recommend the Finance Committee authorize me to negotiate an agreement that would be brought forward for approval to the full Council in April 2005.

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

cc. Carl Yeats
Lalo Perez
Trudy Eikenberry

**AGREEMENT BETWEEN THE CITY OF PALO ALTO AND
MAZE & ASSOCIATES FOR EXTERNAL AUDIT SERVICES**

This AGREEMENT is entered into April 1, 2005, by and between the CITY OF PALO ALTO, a chartered city and a municipal corporation of the State of California ("CITY"), and MAZE & ASSOCIATES, a California corporation, located at 1931 San Miguel Drive, Suite 100, Walnut Creek, California ("AUDITOR").

RECITALS

A. CITY intends to provide for the audit of certain City financial statements and preparation of certain tax returns and desires to engage an auditor to prepare provide external audit services in connection with the Project ("Services").

B. AUDITOR has represented that it and any subcontractors have the necessary professional expertise, qualifications, and capability, and all required licenses and/or certifications to provide the Services.

C. City in reliance on these representations desires to engage AUDITOR to provide the Services as more fully described in Exhibit "A".

D. AUDITOR has agreed to perform the Services on the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the covenants, terms, and conditions, this Agreement, the parties agree:

AGREEMENT

SECTION 1. SCOPE OF SERVICES.

AUDITOR shall perform the Services described in Exhibit "A," attached hereto and incorporated herein by reference, in accordance with the terms and conditions contained in this Agreement. The performance of all Services shall be to the reasonable satisfaction of City.

SECTION 2. TERM.

The term of this Agreement shall be from the date of its full execution through the audits for the fiscal years ending on June 30, 2005 through June 30, 2007, with the option to continue such services for each of three subsequent fiscal years, unless terminated earlier pursuant to Section 20 of this Agreement.

SECTION 3. SCHEDULE OF PERFORMANCE.

Time is of the essence in the performance of Services under this Agreement. AUDITOR shall complete the Services within the term of this Agreement and in accordance with the schedule set forth in Exhibit "A", attached to and made a part of this Agreement. Any services for which times for performance are not specified in this Agreement shall be commenced and completed by AUDITOR in a reasonably prompt and timely manner based upon the circumstances and direction communicated to the AUDITOR. CITY's agreement to extend the term or the schedule for performance shall not preclude recovery of damages for delay if the extension is required due to the fault of AUDITOR.

SECTION 4. NOT TO EXCEED COMPENSATION.

The compensation to be paid to AUDITOR for performance of the Services described in Exhibit "A", including both payment for professional services and reimbursable expenses, shall not exceed Three Hundred Eighty-seven thousand Nine Hundred Thirty-seven Dollars (\$387,937) as follows: \$126,636 for services related to June 30, 2005, \$129,294 for services related to June 30, 2006, \$132,007 for services related to June 30, 2007. The applicable rates and schedule of payment are set out in EXHIBITS B and C, entitled "COMPENSATION," which is attached to and made a part of this Agreement.

Additional Services, if any, shall be authorized in accordance with and subject to the provisions of Exhibit C. AUDITOR shall not receive any compensation for Additional Services performed without the prior written authorization of City. Additional Services shall mean any work that is determined by City to be necessary for the proper completion of the Project, but which is not included within the Scope of Services described in Exhibit A.

SECTION 5. PAYMENTS.

In order to request payment, AUDITOR shall submit monthly invoices to the City identifying the services performed and the applicable charges (including an identification of personnel who performed the services, hours worked, hourly rates, and reimbursable expenses), based upon the AUDITOR's billing rates (set forth in Exhibit "C,"). The information in AUDITOR's payment requests shall be subject to verification by City. Within thirty days of receipt of the invoice City shall pay AUDITOR the undisputed amount of the invoice for services performed in accordance with this Agreement and to the satisfaction of the City.

SECTION 6. QUALIFICATIONS/STANDARD OF CARE.

All of the Services shall be performed by AUDITOR or under AUDITOR's supervision. AUDITOR represents that it possesses the professional and technical personnel necessary to perform the Services required by this Agreement and that they have sufficient skill and experience to perform the Services assigned to them. AUDITOR represents that it, its employees and subcontractors have and shall maintain during the term of this Agreement all licenses, permits, qualifications, insurance and approvals of whatever nature that are legally required to perform the Services.

All of the services to be furnished by AUDITOR under this agreement shall meet the professional standard and quality that prevail among professionals in the same discipline and of similar knowledge and skill engaged in related work throughout California under the same or similar circumstances.

SECTION 7. COMPLIANCE WITH LAWS.

AUDITOR shall keep itself informed of and in compliance with all federal, state and local laws, ordinances, regulations, and orders that may affect in any manner the Project or the performance of the Services or those engaged to perform Services under this Contract. AUDITOR shall procure all permits and licenses, pay all charges and fees, and give all notices required by law in the performance of the Services.

AUDITOR shall report immediately to the City's project manager, in writing, any discrepancy or inconsistency it discovers in the laws, ordinances, regulations, orders, and/or guidelines in relation to the Project of the performance of the Services.

All documentation prepared by AUDITOR shall provide for a completed project that conforms to all applicable codes, rules, regulations and guidelines that are in force at the time such documentation is prepared.

SECTION 8. ERRORS/OMISSIONS.

AUDITOR shall correct, at no cost to City, any and all errors, omissions, or ambiguities in the work product submitted to CITY, provided CITY gives notice to AUDITOR. If AUDITOR has prepared plans and specifications or other design documents to construct the Project, AUDITOR shall be obligated to correct any and all errors, omissions or ambiguities discovered prior to and during the course of construction of the Project. This obligation shall survive termination of the Agreement.

SECTION 9. INDEPENDENT CONTRACTOR.

It is understood and agreed that in performing the Services under this Agreement, AUDITOR, and any person employed by or contracted with AUDITOR to furnish labor and/or materials under this Agreement, shall act as and be an independent contractor and not an agent or employee of the CITY. The manner and means of conducting the Services are the responsibility of and under the control of AUDITOR, except to the extent they are limited by applicable law and the express terms of this Agreement.

AUDITOR will be responsible for employing or engaging all persons necessary to perform the Services. All contractors and employees of AUDITOR are deemed to be under AUDITOR's exclusive direction and control. AUDITOR shall be responsible for their performance.

SECTION 10. ASSIGNMENT.

The parties agree that the expertise and experience of AUDITOR are material considerations for this Agreement. AUDITOR shall not assign or transfer any interest in this Agreement nor the performance of any of AUDITOR's obligations hereunder without the prior written consent of the city manager. Consent to one assignment will not be deemed to be consent to any subsequent assignment. Any assignment made without the approval of the City Manager will be void and of no effect.

SECTION 11. SUBCONTRACTING.

AUDITOR is encouraged to consider subcontracting portions of the work or services under this agreement to small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals. If this is to be done, AUDITOR shall submit to the City Auditor, in advance of subcontracting for the work or services, a description of the work or services to be done under such subcontract(s) together with the name of the proposed subcontractor(s) to perform any part of the services.

AUDITOR shall not subcontract any portion of the work to be performed under this Agreement without the prior written authorization of the City Auditor or designee.

SECTION 12. PROJECT MANAGEMENT.

AUDITOR will assign CORY BIGGS as the project director to have supervisory responsibility for the performance, progress, and execution of the Services. If circumstances or conditions subsequent to the execution of this Contract cause the substitution of the project director or any other key personnel for any reason, the appointment of a substitute project director and the assignment of any key new or replacement personnel will be subject to the prior written approval of the city's project manager.

SECTION 13. DUTIES of CITY.

To assist AUDITOR in the performance of the Services, CITY will furnish or cause to be furnished the specified services and/or documents described in Exhibit "A" and such other available information as may be reasonably requested by AUDITOR.

The City Auditor will represent CITY for all purposes under this Contract. Sharon W. Erickson is designated as the project manager for the City. The project manager will supervise the performance, progress, and execution of the Services. The City may designate an alternate Project Manager from time to time.

SECTION 14. OWNERSHIP OF MATERIALS.

All reports developed by AUDITOR or any other person engaged directly or indirectly by AUDITOR to perform the services required hereunder shall be and remain the property of CITY without restriction or limitation upon their use. Neither AUDITOR nor its contractors, if any, shall make any of such materials available to any individual or organization without the prior written approval of the City Auditor or designee.

SECTION 15. AUDITS.

AUDITOR will permit CITY to audit, at any reasonable time during the term of this Contract and for three (3) years thereafter, AUDITOR's records pertaining to matters covered by this Contract. AUDITOR further agrees to maintain and retain such records for at least three (3) years after the expiration or earlier termination of this Contract.

SECTION 16. INDEMNITY.

AUDITOR agrees to indemnify, defend and hold harmless CITY, its Council members, officers, employees and agents against any and all demands, claims, or liability of any nature, including death or injury to any person, property damage or any other loss, caused by or arising out of or resulting in any way from work performed under this Contract due to the willful or negligent acts (whether active or passive) or omissions or willful misconduct, or conduct for which applicable law may impose strict liability on AUDITOR, of AUDITOR's officers, employees, contractors or agents. The acceptance of said services and duties by CITY shall not operate as a waiver of such right of indemnification.

SECTION 17. WAIVERS.

The waiver by either party of any breach or violation of any covenant, term, condition or provision of this Contract, or of the provisions of any ordinance or law, will not be deemed to be a waiver of any other term, covenant, condition, provisions,

ordinance or law, or of any subsequent breach or violation of the same or of any other term, covenant, condition, provision, ordinance or law. The acceptance by either party of any fee or other money which may become due hereunder will not be deemed to be a waiver of any preceding breach or violation by the other party of any term, covenant, condition or provision of this Contract or of any applicable law or ordinance.

SECTION 18. INSURANCE.

18.1. AUDITOR, at its sole cost and expense, shall obtain and maintain, in full force and effect during the term of this Contract, the insurance coverage described in Exhibit "C". AUDITOR and its contractors, if any, shall obtain a policy endorsement naming the City of Palo Alto as an additional insured under any general liability or automobile policy or policies.

18.2. All insurance coverage required hereunder shall be provided through carriers with Best's Key Rating Guide ratings of A-:VII or higher which are admitted to transact insurance business in the State of California. Any and all contractors of AUDITOR retained to perform Services under this Contract will obtain and maintain, in full force and effect during the term of this Contract, identical insurance coverage, naming CITY as an additional insured under such policies as required above.

18.3. Certificates evidencing such insurance, shall be filed with CITY concurrently with the execution of this Contract. The certificates will be subject to the approval of CITY's Risk Manager and will contain an endorsement stating that the insurance is primary coverage and will not be canceled, reduced in coverage or limits, by the insurer except after filing with the Purchasing Manager thirty (30) days' prior written notice of such cancellation or modification, AUDITOR shall be responsible for ensuring that current certificates evidencing such insurance are provided to City's Purchasing Manager during the entire term of this Contract.

18.4. The procuring of such required policy or policies of insurance will not be construed to limit AUDITOR's liability hereunder nor to fulfill the indemnification provisions of this Contract. Notwithstanding the policy or policies of insurance, AUDITOR will be obligated for the full and total amount of any damage, injury, or loss caused by or directly arising as a result of the Services performed under this Contract, including such damage, injury, or loss arising after the Contract is terminated or the term has expired.

SECTION 19. WORKERS' COMPENSATION.

AUDITOR, by executing this Contract, certifies that it is aware of the provisions of the Labor Code of the State of

California which require every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that Code, and certifies that it will comply with such provisions, as applicable, before commencing and during the performance of the Services.

SECTION 20. TERMINATION OR SUSPENSION OF CONTRACT OR SERVICES.

20.1. The city manager may suspend the performance of the Services, in whole or in part, or terminate this Contract, with or without cause, by giving ten (10) days' prior written notice thereof to AUDITOR. Upon receipt of such notice, AUDITOR will immediately discontinue its performance of the Services.

20.2. AUDITOR may terminate this Contract or suspend its performance of the Services by giving ten (10) days prior written notice thereof to CITY, but only in the event of a substantial failure of performance by CITY.

20.3. Upon such suspension or termination, AUDITOR shall deliver to the City Manager immediately any and all copies of studies, sketches, drawings, computations, and other data, whether or not completed, prepared by AUDITOR or its contractors, if any, or given to AUDITOR or its contractors, if any, in connection with this Contract. Such materials will become the property of CITY.

20.4. Upon such suspension or termination by CITY, AUDITOR will be paid for the Services rendered or materials delivered to City in accordance with the scope of services on or before the effective date (i.e., 10 days after giving notice) of suspension or termination; provided, however, if this Contract is suspended or terminated on account of a default by AUDITOR, as such determination may be made by the City Manager acting in the reasonable exercise of his/her discretion

20.5. No payment, partial payment, acceptance, or partial acceptance by CITY will operate as a waiver on the part of CITY of any of its rights under this Contract.

SECTION 21. NOTICES.

All notices hereunder will be given in writing and mailed, postage prepaid, by certified mail, addressed as follows:

To CITY: Office of the City Clerk
City of Palo Alto
Post Office Box 10250
Palo Alto, CA 94303

With a copy to the Purchasing Manager

To AUDITOR: Attention of the project director
at the address of AUDITOR recited above

SECTION 22. CONFLICT OF INTEREST.

22.1. In accepting this Contract, AUDITOR covenants that it presently has no interest, and will not acquire any interest, direct or indirect, financial or otherwise, which would conflict in any manner or degree with the performance of the Services.

22.2. AUDITOR further covenants that, in the performance of this Contract, it will not employ any AUDITOR or person having such an interest. AUDITOR certifies that no person who has or will have any financial interest under this Contract is an officer or employee of CITY; this provision will be interpreted in accordance with the applicable provisions of the Palo Alto Municipal Code and the Government Code of the State of California.

22.3. If the Project Manager determines that AUDITOR is a "Consultant" as that term is defined by the Regulations of the Fair Political Practices Commission, AUDITOR shall be required to file the appropriate financial disclosure documents as required by the Palo Alto Municipal Code and the Political Reform Act.

SECTION 23. NONDISCRIMINATION.

As set forth in the Palo Alto Municipal Code, no discrimination will be made in the employment of any person under this Contract because of the age, race, color, national origin, ancestry, religion, disability, sexual preference or gender of that person. AUDITOR acknowledges that it has read and understands the provisions of Chapter 2.28 of the Palo Alto Municipal Code relating to Nondiscrimination Requirements and the penalties for violation thereof, and agrees to meet all requirements of Chapter 2.28 pertaining to nondiscrimination in employment, including completing the requisite form furnished by CITY and set forth in Exhibit "D".

SECTION 24. MISCELLANEOUS PROVISIONS.

24.1. This Contract will be governed by the laws of the State of California.

24.2. In the event that an action is brought, the parties agree that trial of such action will be vested exclusively in the state courts of California or in the United States District Court for the Northern District of California in the County of Santa Clara, State of California.

24.3. The prevailing party in any action brought to enforce the provisions of this Contract may recover its reasonable costs and attorneys' fees expended in connection with that action.

24.4. This document represents the entire and integrated agreement between the parties and supersedes all prior negotiations, representations, and contracts, either written or oral. This document may be amended only by a written instrument, which is signed by the parties.

24.5. The covenants, terms, conditions and provisions of this Contract will apply to, and will bind, the heirs, successors, executors, administrators, assignees, and consultants, as the case may be, of the parties.

24.6. If a court of competent jurisdiction finds or rules that any provision of this Contract or any amendment thereto is void or unenforceable, the unaffected provisions of this Contract and any amendments thereto will remain in full force and effect.

24.7. All exhibits referred to in this Contract and any addenda, appendices, attachments, and schedules to this contract which, from time to time, may be referred to in any duly executed amendment hereto are by such reference incorporated in this Contract and will be deemed to be a part of this Contract.

24.8. This Contract is subject to the fiscal provisions of the Charter of the City of Palo Alto and the Palo Alto Municipal Code. This Contract will terminate without any penalty (a) at the end of any fiscal year in the event that funds are not appropriated for the following fiscal year, or (b) at any time within a fiscal year in the event that funds are only appropriated for a portion of the fiscal year and funds for this Contract are no longer available. This Section 15.11 shall take precedence in the event of a conflict with any other covenant, term, condition, or provision of this Contract.

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IN WITNESS WHEREOF, the parties hereto have by their duly authorized representatives executed this Contract on the date first above written.

APPROVED AS TO FORM:

G. M. Baum (For)
Senior Asst. City Attorney

CITY OF PALO ALTO

[Signature]
Assistant City Manager

APPROVED:

[Signature]
Director of Administrative Services

MAZE & ASSOCIATES

By: *Marie A. Giannel*

Name: *Maria A. Giannel*

Title: *Principal*

By: *Timothy J. Krisch*

Name: *Timothy J. Krisch*

Title: *Principal*

Taxpayer Identification No.

94.2590179

(Compliance with Corp. Code § 313 is required if the entity on whose behalf this contract is signed is a corporation. In the alternative, a certified corporate resolution attesting to the signatory authority of the individuals signing in their respective capacities is acceptable)

Attachments:

- EXHIBIT "A": SCOPE OF WORK
- EXHIBIT "B": COMPENSATION
- EXHIBIT "C": COMPENSATION - HOURLY RATES
- EXHIBIT "D": INSURANCE
- EXHIBIT "E": NONDISCRIMINATION COMPLIANCE FORM

EXHIBIT A

SCOPE OF SERVICES for External Audit Services

PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2005 through June 30, 2007, with the option to continue such services for each of the three subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards (2003 revision), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations.

Basic Audit Services Required

Auditor shall audit the City's financial statements and prepare the City's federal and state tax returns for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2005 through June 30, 2007. In providing these services, Auditor shall:

- A. audit the general purpose financial statements and supplementary entity-wide combining and individual fund financial statements included in the City's Comprehensive Annual Financial Report (CAFR), including all funds under the jurisdiction and control of the City, and render a professional opinion thereon.

Prior to year-end and preferably during March and April, Auditor shall perform interim work to test internal controls of accounting processes. The auditor shall provide the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work;

- B. prepare a management letter to the City Council which will include observations and recommendations noted and identified during the audit. This may include:
 - (1) issues regarding internal control structure (e.g., information systems, functions, and procedures);
 - (2) items concerning compliance with laws, rules, and regulations;
 - (3) opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the City; and/or
 - (4) other matters of interest to the City Council and management;
- C. audit the financial statements of the Regional Water Quality Control Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the cities of Palo Alto, Mountain View and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System", and all addenda thereto;
- D. audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the City has created to finance the construction of specific facilities and prepare their applicable Federal and State informational and tax returns.

EXHIBIT A

SCOPE OF SERVICES for External Audit Services

PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2008 through June 30, 2010, with the option to continue such services for each of the three subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the U.S. General Accounting Office's Government Auditing Standards (2003 revision), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations.

Basic Audit Services Required

Auditor shall audit the City's financial statements and prepare the City's federal and state tax returns for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2008 through June 30, 2010. In providing these services, Auditor shall:

- A. audit the basic financial statements and supplementary entity-wide combining and individual fund financial statements included in the City's Comprehensive Annual Financial Report (CAFR), including all funds under the jurisdiction and control of the City, and render a professional opinion thereon.

Prior to year-end and preferably during March and April, Auditor shall perform interim work to test internal controls of accounting processes. The auditor shall provide the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work;

- B. prepare a management letter to the City Council which will include observations and recommendations noted and identified during the audit. This may include:
- (1) issues regarding internal control structure (e.g., information systems, functions, and procedures);
 - (2) items concerning compliance with laws, rules, and regulations;
 - (3) opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the City; and/or
 - (4) other matters of interest to the City Council and management;
- C. audit the financial statements of the Regional Water Quality Control Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the cities of Palo Alto, Mountain View and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System", and all addenda thereto;
- D. audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the City has created to finance the construction of specific facilities and prepare their applicable Federal and State informational and tax returns.

- E. audit the City's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract;
- F. audit the City's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable State requirements;
- G. perform agreed upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required;
- H. audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, the County of San Mateo, and the County of Santa Clara;
- I. audit and issue a report on the financial statements of the Redevelopment Agency, created on October 9, 2001 under the provisions of the Redevelopment Law (California Health and Safety Code);
- J. prepare the Annual Financial Transactions Report, Annual Street Report, and Redevelopment Agency Report, in accordance with instructions from the California State Controller's Office;
- K. assist the City in the transition to adhere to any new GASB pronouncements including, but not limited to:
 - GASB 40 – Deposit and Investment Risk Disclosures – an amendment of GASB Statement 3
 - GASB 43 – Other Post Employment Benefits
 - GASB 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

To the extent possible, this assistance should be provided during the interim work, and may include reviewing reports, transactions, and Management Discussion and Analysis;

- L. provide a direct data dump, word processing services, and use the City's worksheet and template to prepare the CAFR, including the entity-wide statements. The CAFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility;
- M. deliver the following items:

Items 1-4 are to be delivered to the City Auditor. Items 5-7 are to be delivered to the Director of Administrative Services Department (with a courtesy copy to the City Auditor). The report issuance dates are shown for the fiscal year ending June 30, 2005. The report issuance dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined.

- 1) Five (5) draft reports by October 22, 2005 and five (5) final bound reports by November 15, 2005 on the following:

- Palo Alto Improvement Corporation
- Regional Water Quality Control Plant
- Transportation Development Act
- Bicycle/Pedestrian Projects
- Redevelopment Agency of the City of Palo Alto Component Unit

- 2) A copy of the comprehensive Management Letter delivered to the City Auditor and to the Director of Administrative Services as follows:

Draft Management Letter for interim work	May 30, 2005
Draft Management Letter for completed fieldwork	October 22, 2005
Final comprehensive Management Letter	November 15, 2005

- 3) Seven (7) bound copies of the cable report on November 15, 2005.
- 4) Two (2) original copies and a complete electronic version in a website-compatible format of the Comprehensive Annual Financial Report, including the Single Audit Report, on November 15, 2005. Also, provide one copy to the City Auditor.
- 5) One hundred twenty-five (125) copies of the Opinion Letter and the Single Audit Report to be bound with the Comprehensive Annual Financial Report by December 1, 2005.
- 6) Five (5) copies of the Gann Limit Letter on November 15, 2005. Also, provide one copy to the City Auditor.
- 7) Two (2) copies of Federal and State tax returns on November 15, 2005. Also, provide one copy to the City Auditor.
- 8) Two (2) copies of the Annual Financial Transactions Report, Annual Street Report, and Redevelopment Agency Report, to be delivered to the City's Accounting Manager before the due date for signature and mailing. Also, provide one copy to the City Auditor.
- N. meet with the City Auditor and the Assistant Director of Administrative Services or their designees on a weekly basis during the audit engagement, to report on the progress of Auditor's examinations and on their preliminary audit findings and recommendations;
- O. provide the Director of Administrative Services with comments to responses on issues noted at completion of the interim audit work (Accounting Issues memo). The Auditor's comments will be provided within three weeks;
- P. meet with the City Auditor or designee independently to review internal control issues noted during the audit. This will include reportable conditions, if applicable, reflected in the draft Management Letter;
- Q. upon completion of the audit, hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff. At this meeting, the Auditor will present the financial statements and first draft of the management letter;
- R. attend a minimum of one of the City Council and one Council Finance Committee meeting for the purpose of discussing the audit and the Management Letter;
- S. provide professional publications and software including applicable licenses as described below:
The Auditor will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by the Auditor, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), and the United States General Accounting Office (GAO).
Examples of these publications include:

AICPA Professional Standards

Audit and Accounting Guide, Audits of State and Local Governmental Units (AICPA)
FASB Accounting Standards
Codification of Governmental Accounting and Financial Reporting Standards (GASB)
Governmental Accounting, Auditing and Financial Reporting (GFOA)
Government Auditing Standards (GAO)

In addition, the Auditor will make available any past, current or new GASB statements; and

- T. provide training for the City's personnel regarding important industry developments and technical matters as described below:

GASB pronouncements and major projects may significantly impact the City's financial reporting over the next several years. The Auditor will provide the City, at no additional cost, with proactive guidance on complying with such requirements. Formal training classes will be offered to the City Auditor and Director of Administrative Services or designee regarding industry developments and new accounting regulations.

ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

Administrative Services Department (ASD) and Clerical Assistance

ASD staff and responsible management will be available during the audit to assist the firm by providing information, documentation and explanations. ASD staff will prepare statements and schedules for the Auditor as requested.

Report editing and compilation shall be the responsibility of the Auditor. Printing is the responsibility of the City for those reports not identified above.

Work Area, Telephones, Photocopying and Facsimile Machines

The City will provide the Auditor with reasonable workspace. The Auditor will also be provided with access to telephone lines, photocopying machine, and facsimile machines. The invoices submitted by the Auditor will be reduced by any telephone charges.

WORKING PAPER RETENTION AND ACCESS TO WORKING PAPERS

Auditor shall maintain its audit workpapers and reports, at the Auditor's expense, for at least three years after final payment under the agreement is made, unless the firm is notified in writing by the City of Palo Alto of the need to extend the retention period.

Upon request and after reasonable notice, the Auditor may be required to make workpapers available to the City of Palo Alto or other organizations designated by the City of Palo Alto, during the Auditor's normal business hours. There will be no charge for any such reviews or inspections.

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

TIME REQUIREMENTS

Schedule for 2004-2005 Fiscal Year Audit (exact dates TBD)

Interim Work

May 30, 2005

(for subsequent years, it is anticipated that interim work be completed in March and April)

Fieldwork Completed

October 15, 2005

Initial Draft Report

October 31, 2005

Final Report

November 15, 2005

Presentation of Audit Results to
Finance Committee

December 12, 2005

EXHIBIT B COMPENSATION

The CITY agrees to compensate the AUDITOR for professional services performed in accordance with the terms and conditions of this Agreement, and as set forth in the schedule below. Compensation shall be calculated based on the hourly rate attached as Exhibit "C" up to the not to exceed fees for each task set forth below.

The compensation to be paid to AUDITOR under this Agreement for all services described in Exhibit "A" ("Basic Services") is \$387,937. AUDITOR agrees to complete all Basic Services, including reimbursable expenses, within this amount. Any work performed or expenses incurred for which payment would result in a total exceeding the maximum amount of compensation set forth herein shall be at no cost to the CITY.

AUDITOR shall perform the audit services and prepare the reports as outlined and budgeted below.

FEES FOR AUDIT SERVICES & REPORTS FOR THE FISCAL YEARS ENDING JUNE 30,

	2005	2006	2007
Comprehensive Annual Financial Report	\$95,810	\$97,821	\$ 99,876
Palo Alto Public Improvement Corporation	3,429	3,502	3,575
Palo Alto Redevelopment Agency	4,335	4,426	4,518
Regional Water Quality Control Plant	3,703	3,781	3,860
Cable Television Franchise	3,050	3,113	3,178
Transportation Development Act	1,673	1,708	1,743
Single Audit	5,129	5,237	5,347
Annual Report of Financial Transactions:			
City	5,468	5,583	5,700
RDA	1,014	1,035	1,057
Annual Street Report	2,242	2,289	2,337
Gann Limit Agreed Upon Procedures	<u>783</u>	<u>799</u>	<u>816</u>
Total	\$126,636	\$129,294	\$132,007

ADDITIONAL SERVICES

The AUDITOR shall provide additional services only by advanced, written authorization from the CITY. The AUDITOR, at the City Auditor's written request, shall submit a detailed proposal including all hours, rates, other direct costs, overhead, and profit and schedule. The additional services fee amount shall be negotiated and agreed to in writing by the City Auditor and AUDITOR and shall include a description of the scope of services, schedule and AUDITOR's maximum compensation for such services. Payment for additional services is subject to all requirements and restrictions in this Agreement.

EXHIBIT C

COMPENSATION – HOURLY RATES

<u>Position</u>	<u>Hourly Rate</u>
Partner	\$295
Director	190
Supervisor	120
Associates	77
Administrative staff	60

CHAPTER 8 - CERTIFICATION

Certification of Nondiscrimination

As suppliers of goods or services to the City of Palo Alto, the firm as individuals listed below certify that they do not discriminate in employment with regards to age, race, color, religion, sex, national; origin, ancestry, or sexual preference; that they are in compliance with all Federal, State and local directives and executive orders regarding nondiscrimination in employment.

The undersigned certify that they are respectively:

Partner and Partner
Title Title

Maze and Associates
Corporation Name

By: Cory Byers Date: 2/15/05

Title: Partner

By: Scott Maze Date 2/15/05

Title: Partner

PRODUCER Phone: (925) 284-3911 Fax: 925-284-3919
KOSICH & CALLAHAN INSURANCE SERVICES
 3435 MT. DIABLO BLVD, STE. 300
 LAFAYETTE CA 94549

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

Agency Lic#: 0802662

INSURERS AFFORDING COVERAGE

NAIC #

INSURED
MAZE & ASSOCIATES
 1931 SAN MIGUEL DRIVE #200
 WALNUT CREEK CA 94596

INSURER A: Republic Indemnity Insurance
 INSURER B:
 INSURER C:
 INSURER D:
 INSURER E:

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	ADD'L INSRD	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS	
		GENERAL LIABILITY				EACH OCCURRENCE	\$
		<input type="checkbox"/> COMMERCIAL GENERAL LIABILITY				DAMAGE TO RENTED PREMISES (Ea occurrence)	\$
		<input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR				MED. EXP (Any one person)	\$
						PERSONAL & ADV INJURY	\$
						GENERAL AGGREGATE	\$
		GEN'L AGGREGATE LIMIT APPLIES PER:				PRODUCTS-COMP/OP AGG.	\$
		<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC					
		AUTOMOBILE LIABILITY				COMBINED SINGLE LIMIT (Ea accident)	\$
		<input type="checkbox"/> ANY AUTO				BODILY INJURY (Per person)	\$
		<input type="checkbox"/> ALL OWNED AUTOS				BODILY INJURY (Per accident)	\$
		<input type="checkbox"/> SCHEDULED AUTOS				PROPERTY DAMAGE (Per accident)	\$
		<input type="checkbox"/> HIRED AUTOS					
		<input type="checkbox"/> NON-OWNED AUTOS					
		GARAGE LIABILITY				AUTO ONLY - EA ACCIDENT	\$
		<input type="checkbox"/> ANY AUTO				OTHER THAN EA ACC	\$
						AUTO ONLY: AGG	\$
		EXCESS / UMBRELLA LIABILITY				EACH OCCURRENCE	\$
		<input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE				AGGREGATE	\$
							\$
		<input type="checkbox"/> DEDUCTIBLE					\$
		<input type="checkbox"/> RETENTION \$					\$
		WORKERS COMPENSATION AND EMPLOYERS' LIABILITY	15076603	01/01/05	01/01/06	WC STATUTORY LIMITS	OTHER
A		ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below				E.L. EACH ACCIDENT	\$ 1,000,000
						E.L. DISEASE-EA EMPLOYEE	\$ 1,000,000
						E.L. DISEASE-POLICY LIMIT	\$ 1,000,000
		OTHER:					

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/EXCLUSIONS ADDED BY ENDORSEMENT/ SPECIAL PROVISIONS
 PROOF OF INSURANCE ONLY.

CERTIFICATE HOLDER

CANCELLATION

CITY OF PALO ALTO
 PURCHASING AND CONTRACT MANAGEMENT
 250 HAMILTON AVENUE
 PALO ALTO, CA 94301

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, IT'S AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

Attention: LAURA PEARCE, CONTRACT MG


 Kenneth R. Kosich