

Agenda Report

TO: CITY COUNCIL
THROUGH: FINANCE COMMITTEE

DATE: April 9, 2001

FROM: CITY MANAGER

SUBJECT: Approval of Contract with Conrad & Associates, LLP for Audit Services for Fiscal Years 2001 – 2003

RECOMMENDATION:

It is recommended that the City Council authorize the City Manager to execute a contract with the public accounting firm of Conrad and Associates, LLP to perform the annual audits of the financial statements of the City of Pasadena, the Pasadena Community Development Commission, the Rose Bowl Operating Company, and the Pasadena Center Operating Company. The proposed contract is exempt from competitive bidding pursuant to City Charter Section 1002(F) Contracts for Professional or Unique Services.

BACKGROUND:

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted and a report issued thereon.

It is the policy and practice of the City of Pasadena to open the audit contract to competitive bids every three to five years. The City's current auditor KPMG, LLP has performed the audit for 8 years. KPMG performed the audit under a three year contract with a two year option to extend. The City Council approved an additional three years to the contract. The current contract ended after audit services for fiscal year ending June 30, 2000.

Request For Proposal

On January 25, 2001, Request for Proposal (RFP) packets were sent to eleven audit firms. On February 16, 2001, four firms attended a mandatory pre-bid conference. Final proposals were due March 2, 2001 and three firms submitted proposals. All three firms were interviewed, Wednesday, March 21, 2001 by a six member panel.

Evaluation Criteria

Each firm was evaluated based on the competitive selection process, in which the evaluation of proposals was not limited to price alone. Technical merit and firm capability were also given significant consideration in the selection process.

The competitive selection evaluation criteria were as follows:

- A) *Firm Qualifications*: Technical experience of the firm as documented by experience in auditing similar entities and performing the type of work outlined; size and structure of the firm; ability to provide ongoing technical support when necessary. (30 points)
- B) *Personnel Qualifications*: Qualifications of Partners and staff at various levels. The City expects the field senior in-charge to be a CPA candidate with at least three years experience in auditing municipalities or other governmental entities. (30 points)
- C) *Methodology*: Responsiveness of the proposal in clearly stating an understanding of the audit services to be performed, including appropriateness and adequacy of proposed procedures, reasonableness of time estimates and timeliness of expected completion. (10 points)
- D) *Dollar Cost Bid*: Cost of contracted services. (20 points)
- E) *Affirmative Action Ordinance*: Compliance with the City of Pasadena's Affirmative Action in Contracting Ordinance as evidenced by submission of completed forms AA-1 and AA-2. (5 points)
- F) *Local Preference*: Local Pasadena Business receives a 5% preference. (5 points)

Evaluation Scores

The three firms average scores were as follows:

- 90.0 – Conrad and Associates, LLP
- 88.3 – McGladrey & Pullen, LLP
- 84.5 – KPMG, LLP

Discussion of Criteria Evaluated

Firm Qualifications: All three firms have been servicing local governments for over 20 years. Each firm demonstrated strong technical experience auditing similar entities, performing the types of work outlined, and the ability to provide ongoing technical support when necessary.

Personnel Qualifications: Qualifications of the senior in-charge to be assigned to the contract was a critical factor in rating. The senior in-charge for Conrad and Associates has four years of municipal auditing experience on nine cities. Two of the cities were of similar size and complexity to Pasadena. The engagement partner, technical review partner, and engagement manager for each firm were each well experienced and comparable, and therefore did not provide a major point to distinguish between the firms.

Methodology: KPMG, being the only firm who has audited the City of Pasadena, clearly understands the scope of the work, and the time necessary to complete the audit. The two other firms were, however, able to clearly demonstrate their understanding of the audit services to be performed, including the appropriateness and adequacy of proposed procedures, reasonableness of time estimates and timeliness of expected completion.

Dollar Cost Bid: The hours and price for each firm are listed below:

	<u>Conrad & Associates</u>	<u>McGladrey & Pullen</u>	<u>KPMG</u>
<u>Total maximum price for audit:</u>			
2001	\$107,000	111,240	134,000
2002*	136,578	136,684	175,500
2003*	<u>131,658</u>	<u>142,303</u>	<u>181,500</u>
Three year total maximum costs	<u>\$375,236</u>	<u>390,227</u>	<u>491,000</u>

Hours for Services:

2001	1,259	1,068	1,300
2002*	1,561	1,262	1,645
2003*	<u>1,461</u>	<u>1,262</u>	<u>1,645</u>
Three year total hours	<u>4,281</u>	<u>3,592</u>	<u>4,590</u>

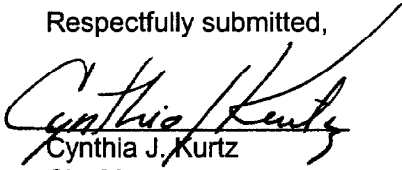
*The FY 2002 and 2003 increases are substantially due to implementing GASB 34 and adding the audit of PCOC.

FISCAL IMPACT:

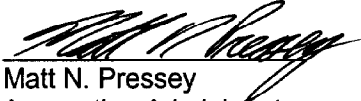
The maximum cost of the fiscal year 2001, 2002, and 2003 audits, under the terms of the contract, are \$107,000, \$136,578, and 131,658. Funds for the FY2001 audit have been included in the FY 2002 Recommended Operating Budget. The Rose Bowl Operating Company and the Pasadena Center Operating Company will each be paying for their respective audits.

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
City General Fund	\$ 74,000	90,743	84,448
PCDC	19,000	19,570	20,157
RBOC	14,000	14,420	14,853
PCOC	-	11,845	12,200
	<u>\$107,000</u>	<u>136,578</u>	<u>131,658</u>

Respectfully submitted,


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