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CITY OF SACRAMENTO

DEPARTMENT OF FINANCE

JACK R. CRIST
Director of Finance

January 28, 1986
FA:86053:JRC:KMF

ADMINISTRATION
BUDGET DIVISION
REVENUE DIVISION
ACCOUNTING DIVISION

City Council
Sacramento, California

APPROVED
BY THE CITY COUNCIL

Honorable Members in Session:

FEB 11 1986

SUBJECT: External Audit Services Request for Proposal

OFFICE OF THE
CITY CLERK

SUMMARY

The City of Sacramento proposes to release the attached request for proposal document soliciting proposals from external audit firms for auditing services (Attachment I). Such services would cover the period from Fiscal Year 1985-86 to Fiscal Year 1989-90. It is recommended that the City Council approve the attached resolution and related request for proposal document.

BACKGROUND

Charter Section 117 reads as follows:

"The city manager upon approval of the city council shall engage each year an independent certified public accountant who shall examine and report to the council on the annual financial statement of the city.

In February 1978, the City Council adopted the policy guideline for retention of external audit firms. The adopted 1978 policy requires that the City change external auditors every five years. Once a firm is selected, a master agreement is signed which includes options to renew in each of the subsequent four years assuming satisfactory performance for the previous year.

In accordance with City Council policy, 1984-85 is the final audit year for our current external auditors, Price Waterhouse. This report requests approval to release the attached request for proposal document soliciting proposals for a new external audit firm beginning with the fiscal year 1985-86 audit. Included in the document is a proposed timetable which calls for final selection by May 6, 1986.

Following is the last 15 years' history on external audit firms:

1970-1975	Coopers & Lybrand
1975-1979	Touche Ross
1979-1985	Price Waterhouse
1986-	New Firm to be Selected

REQUEST FOR PROPOSAL

Attached for City Council review is a draft document which staff proposes to mail to prospective firms. The document will be mailed to approximately 50 firms listed in the PacTel Sacramento Yellow Pages plus others who have specifically requested addition to the City's bidder list. In addition, staff would notify the Sacramento office of the CPA Society and request they include a notification in their monthly newsletter.

SELECTION PROCESS AND CRITERIA

Staff proposed to utilize a selection process similar to the 1978 process when Price Waterhouse was selected. Basically, a selection panel of three (3) is recommended selected as follows:

- 1) One panel member chosen by the City Council. In 1978, this responsibility was delegated to the Budget and Finance Committee. The Committee selected Councilman Doug Pope to serve on the panel.
- 2) One panel member chosen by the City Manager. In 1978, Mr. Slipe selected Martin Huff, Former Franchise Tax Director as the second panel member.
- 3) The third panel member was chosen by one and two above from the local academic community based on staff recommendation. Dean Austin Gerber, CSUS, was the third panel member chosen.

The three panel members reviewed the written proposal responses received, selected the top five for interview, interviewed the five and then made a recommendation to the City Council. The City Director of Finance served as staff to the selection panel.

FINANCIAL

Exhibit III to the Request for Proposal is a three year history of external audit fees. The 1984-85 General Fund audit cost is \$69,000 while the total cost for all funds is \$111,900.

The Fiscal Year 1985-86 audit will be conducted (and budgeted) in Fiscal Year 1986-87.

RECOMMENDATION

It is recommended that the City Council approve the attached resolution authorizing release of the attached external audit request for proposal and approving the staff recommendation for the selection panel.

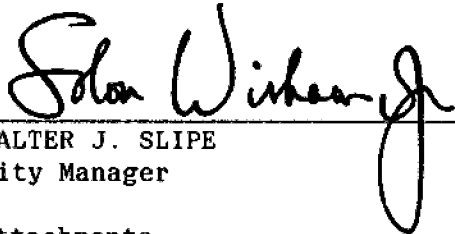
Respectfully submitted,



JACK R. CRIST
Director of Finance

Attachments

RECOMMENDATION APPROVED:



For: WALTER J. SLIPE
City Manager

Attachments

RESOLUTION NO. 86-099

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

**A RESOLUTION FORMALLY APPROVING THE
"REQUEST FOR PROPOSAL" TO SELECT AN
EXTERNAL AUDIT FIRM**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

- 1) That the attached (and incorporated herein by reference) external audit firm "Request for Proposal" document is hereby approved and
- 2) That a three (3) person selection panel be formed consisting of one City Manager appointee, one member of the Council Budget and Finance Committee, and one member of the local academic community. That said selection panel will interview finalists and make recommendations to the City Council in accordance with the "Request for Proposal" time considerations and criteria for selection and award of contract of audit firm.

MAYOR

ATTEST:

CITY CLERK

APPROVED
BY THE CITY COUNCIL

FEB 11 1986

OFFICE OF THE
CITY CLERK



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE

January 23, 1986
FA:86044:JRC:KMF

ADMINISTRATION
BUDGET DIVISION
REVENUE DIVISION
ACCOUNTING DIVISION

JACK R. CRIST
Director of Finance

The City of Sacramento is writing to your organization and others inviting proposals for comprehensive external audit services for the fiscal year ending June 30, 1986. Currently, and since 1979, the firm of Price Waterhouse, Certified Public Accountants, has performed the City's external audit services. However, the Sacramento City Council has adopted a five-year rotational policy for such services. As a result, the City will be selecting a new external audit firm to perform the financial audit for the 1985-86 fiscal year and subsequent years. The enclosed "Request for Proposal" outlines the written information requested by the City in order to properly evaluate your firm's qualifications to serve the City.

Finally, please be advised that a qualifications appraisal panel will be selecting a few of the most qualified firms to be interviewed as finalists for consideration based on written responses received. Also, the City staff will conduct a pre-proposal conference on Friday, February 28th at 1:30 p.m. in City Hall.

Very truly yours,

JACK R. CRIST
Director of Finance

Enclosures: Request for Proposal - Attachment I
--Description of Legal Entities - Exhibit I
--Current Audit Contract - Exhibit II
--Schedule Detailing Current Audit Fees - Exhibit III

CITY OF SACRAMENTO, CALIFORNIA
REQUEST FOR PROPOSAL
COMPREHENSIVE EXTERNAL AUDIT SERVICES

GENERAL PROPOSAL INFORMATION

You are invited to submit a proposal for furnishing financial and compliance audit services to the City of Sacramento. Six copies of all proposals shall be submitted by 12:00 noon, Thursday, March 18, 1986, to:

in a sealed package
Lorraine Magana, City Clerk
915 I Street, Room 203
Sacramento, California 95814

A pre-proposal conference will be held on February 28, 1986 from 1:30 p.m. to 3:00 p.m. in the City Council Chambers of City Hall. All recipients of this Request for Proposal are invited to attend for the purpose of presenting questions and obtaining any additional required information. Copies of previous audit reports will be available for review at that time. Information requests concerning this pre-proposal conference may be directed to Jack R. Crist, Director of Finance, at 449-5736.

NATURE OF SERVICES REQUIRED

The City of Sacramento requires financial statement audits (with separate audit opinions) for six (6) separate legal entities as follows:

	<u>Previous Opinion</u>
1) City of Sacramento (all funds) including Sacramento Housing & Redevelopment Agency	Unqualified
2) Sacramento Community Center Authority	Unqualified
3) Sacramento City Employees Retirement System	Unqualified
4) Sacramento Capitol Area Development Authority	Unqualified
5) Sacramento Convention and Visitors Bureau	Unqualified
6) Mountain Valley Library System	Unqualified

These six (6) separate legal entities are described in some detail in Exhibit I attached to this proposal. In addition, the City requires compliance audit services and separate compliance reports with respect to the following programs:

Previous Opinion

- | | | |
|-----|--|---|
| 7) | Federal General Revenue Sharing as required by the audit guide and standards for same issued by the Office of Revenue Sharing, U.S. Department of Treasury. | General compliance |
| 8) | Insurance Claims Administration Compliance Audit. The City of Sacramento self-funds its Workers' Compensation (\$5 million retention) and Auto & General Liability. The claims audit should be a study in sufficient depth to determine the effectiveness of claims administration and the adequacy of program reserves. The audit should be directed to the following areas:

a) Compliance with procedures and controls as defined by the City.

b) The degree of promptness and expertise with which claims have been handled.

c) Adequacy of file documentation and proper claim verification.

d) Accuracy of reported payments and reserves.

e) Internal controls surrounding information systems. | General compliance |
| 9) | Six (6) reviews of local non-profit bingo operations for compliance with City ordinance requirements. | General non-compliance |
| 10) | Other:

a) Unscheduled subsequent events reviews and issuance of comfort letters related to short and long term debt issues.

b) Special compliance audit reports related to a few small Office of Criminal Justice Planning Grants (State of California). | Not Applicable

First Time Audit Report |
| 11) | Limited reasonableness review of City officials Conflict of Interest Statements filed with the City Clerk. | General compliance |

DESCRIPTION OF ENTITY AND RECORDS TO BE AUDITED

The City of Sacramento is a charter city operating a full range of services. The entity as well as the other separate legal entities are more fully described in Exhibit I attached.

The centralized City Finance Department is composed of four functional divisions including Administration, Accounting, Budget and Revenue. The City Finance Department acts as accountants for all of the six previously described separate legal entities. Financial records are centrally maintained at the Department, easily facilitating external audit. Systems, with minor exception, are computerized utilizing a Univac 90-80 Central Computer Hardware/Software System, and limited use of outside service firms for such things as payrolls for Capitol Area Development Authority and Convention Bureau, liability insurance claims processing, and treasury management. By Charter, the treasury function is managed by a separate Council-appointed Treasurer who will make treasury records available to the auditor upon request. The City data processing functions are centralized in a separate Data Processing Department which includes both programming staff and hardware. Finally, a two person internal audit staff exists which may be utilized in conjunction with the external audit.

The City prepares its financial reports in accordance with generally accepted accounting principles as promulgated by the American Institute of CPA's and the Governmental Accounting Standards Board.

To date the City has received six (6) Government Finance Officers Association (GFOA) "Certificate of Conformance Awards" for excellence in financial reporting.

The City detailed financial records are generally computerized with automated subsystems covering the following broad categories:

- A) General ledger and chart of accounts;
- B) Budget status, revenue status, expenditure accumulations, encumbrance control, and inception-to-date capital improvement reporting;
- C) Payroll and employee position control;
- D) Utility billing and other billings systems such as special assessments and business tax;
- E) Internal Service Fund billing;
- F) Fixed assets;
- G) Retirement contribution detail; and
- H) Worker's Compensation

Supporting system documentation for all systems is on file in the City Data Processing Department.

ASSISTANCE AVAILABLE TO PROPOSER

The previous audits have been conducted by Price Waterhouse, Sacramento. Audit workpapers are on file and available for review at their office (455 Capitol Mall) with prior consent and approval. All 1984-85 fiscal year audit opinions were unqualified.

The Finance Department includes professional and paraprofessional personnel that are available to the external auditors for purposes of preparing schedules, reproducing documents, pulling documents, etc. The City staff prepares financial statement drafts, footnotes, statistical schedules, etc. and anticipates assistance from the auditor in preparing a quality annual report which includes final typing and printing.

REPORT REQUIREMENTS

External audit firms are, by Charter, selected annually by the City Council of the City of Sacramento. Audit opinions should be addressed to the City Council and the selected audit firm will occasionally be expected to appear before a Committee of the Council to answer questions. Financial statement audits will be comprehensive, full-scope audits in accordance with generally accepted auditing standards. Separate compliance audit reports should include an opinion as to specific findings related to compliance with applicable laws, regulations, etc. Specific compliance exception findings should be included in the report to assist the City staff in implementing corrective action.

Finally, the City expects to receive a "Management Letter" for each of the six (6) separate financial report opinions within a reasonable period of time after the financial audit is completed. In this regard, the City has in the past requested that the external auditor perform internal control reviews of fiscal operations in two different operating departments annually.

TIME CONSIDERATIONS

Following is the current calendar of audit events:

Tuesday, February 4, 1986	Council Budget and Finance Committee reviews draft request for audit proposals.
Tuesday, February 11, 1986	City Council approves draft "Request for Proposal" and proposed audit contract.
Friday, February 14, 1986	Request for Proposal mailed to prospective bidders.
Friday, February 28, 1986	Pre-proposal Conference, City Council Chambers, City Hall, 915 I Street, Sacramento, CA 95814.

Thursday, March 18, 1986	Six (6) copies of proposals due back to City from bidders by 10:30 a.m. in City Clerk's Office.
March 18-27, 1986	Proposals evaluated by Evaluation Panel and finalists selected for interview. Non-finalists notified.
Friday, March 28, 1986	Finalists notified of interview time and place.
Tuesday, April 7-17, 1986	Finalists interviewed by Selection Panel.
Tuesday, April 29, 1986	Budget and Finance Committee reviews and approves panel recommendation.
Tuesday, May 6, 1986	City Council approved recommendation.
Wednesday, May 7, 1986	Finalist notified by mail of Council selection.
Friday, May 16, 1986	Audit planning meeting held with selected firm.
June 30, 1986	End of fiscal year.

CONTRACTUAL ARRANGEMENTS

Exhibit II attached is the City's current audit contract. While this document is subject to negotiation once the final firm is selected, individual proposals should indicate whether or not the external audit firm would be willing to sign this contract. If not, please indicate those specific areas or section that your firm would like to negotiate change and what those changes would be. The contract is a one-year contract with City option to renew for four subsequent years. Subsequent year fee increases, if any, cannot exceed the base year (1985-86) fee adjusted for cost-of-living increases as measured by the San Francisco Bay Area Consumer Price Index.

REPORT OPINION AND MANAGEMENT LETTER REVIEW

It is expected that the audit firm will review drafts of audit opinions, compliance report findings, and management letters with designated staff prior to issuance of the final reports.

MINIMUM INFORMATION TO BE REQUESTED FROM THE PROPOSER

A. Title Page

Show the Request for Proposal subject, the name of the proposer's firm, local address, telephone number, name of the contact person, and the date.

B. Table of Contents

Include a clear identification of the material by section and by page number.

C. Letter of Transmittal

Limit to one or two pages.

1. Briefly state the proposer's understanding of the work to be done and make a positive commitment to perform the work within the time considerations previously outlined.
2. State the all-inclusive fee.
3. Give the names of the persons who will be authorized to make representations for the proposer, their titles, addresses, and telephone numbers.

D. Profile of the Proposer

1. State whether the firm is local, national, or international.
2. Give the location of the office from which the work is to be done and the number of partners, manager, supervisors, seniors, and other professional staff employed at that office.
3. Describe the range of activities performed by the local office, if any, such as audit, accounting, tax service, or management services (including computer audit capabilities).
4. Describe the local office's computer capability, including the numbers and classifications of personnel skilled in computer sciences who will work on the audit.
5. Give the physical location of firm partner "in charge" of the City of Sacramento audit.

E. Summary of the Proposer's Qualifications

1. Identify the senior staff who will work on the audit, including staff from other than the local office. Resumes for each supervisory person to be assigned to the audit should be included. (The resumes may be included as an appendix.)
2. Describe recent local and regional office auditing experience similar to the type of audit requested and give the names and telephone numbers of client officials responsible for three of the audits listed.

F. Scope Section

Clearly describe the proposer's scope of the services, technical approach and audit work plan including hours.

G. Schedule

Briefly outline the proposer's planned work schedule and sequence of events.

H. Compensation

Estimate the total hours, the estimated out-of-pocket costs, and the all-inclusive maximum fee. Break the maximum fee down into the component amounts allocated to the separate six legal entities and the individual compliance reports. See Exhibit III for current fees.

I. Additional Data

Give any additional information considered essential to the proposal in this section. (Example: publications of the proposer, such as directories, articles, and lists of clients.) If there is no additional information to present, state in this section, "There is no additional information we wish to present".

CRITERIA FOR SELECTION AND AWARD OF CONTRACT

The external audit firm will be selected based on the following general categories:

1. Quality of "Request for Proposal" response.
2. Professional qualifications and experience, both individual and firm, in auditing municipalities such as Sacramento.
3. Audit firm's demonstrated understanding of Sacramento's audit requirements.
4. Firm commitment to locally servicing the City of Sacramento audit.
5. Computer auditing capabilities and experience.
6. Price.

AFFIRMATIVE ACTION

The City shall follow the provisions of Federal Executive Order 11246 as amended relating to Equal Employment Opportunity. It is also the policy of the City that no firm shall be hired if the City determines that the hiring or business practices of such firm violate the provisions of said Executive Order 11246.

RIGHT OF REFUSAL

The City retains the right to reject any and all proposals without cause.

DESCRIPTION OF ENTITIES TO BE AUDITED

1. CITY OF SACRAMENTO (all funds)

The City of Sacramento is a charter City providing a wide range of services to citizens. The fiscal 1985-86 budget totaled \$226.9 million of which \$31.7 million was related to capital improvement projects. Approximately 65% of the remaining 195.2 million dollars operating budget (\$127.6 million) relates to employee services costs. City employees total 3,300 of which 1,300 are public safety.

The City operates nine (9) self-supporting user fee based Enterprise Fund operations for the following services:

- | | |
|-------------------|---------------------|
| a) Water | e) Parking |
| b) Sewer | f) Golf |
| c) Waste Removal | g) Boat Harbor |
| d) Storm Drainage | h) Community Center |
| | i) Camp Sacramento |

The City maintains approximately 100 separate legal funds to account for the transactions of the City.

Accounting Methods

The accrual basis of accounting is followed for Enterprise, Internal Service, nonexpendable trusts and pension trust funds. All other funds utilize the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

- 1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are

not received at the normal time of receipt.

Following are material individual revenue sources considered susceptible to accrual and therefore recorded on the accrual basis:

General Fund

- a) Property Taxes;
- b) Sales Tax;
- c) Interest on Investments;
- d) State Motor Vehicle in Lieu Taxes;
- e) Fines, Forfeitures, and Penalties;
- f) Utility Users Tax; and
- g) Cigarette Tax.

Special Revenue Funds

- a) General Revenue Sharing;
 - b) Fines, Forfeitures, and Penalties - Traffic Safety.
- 2) Expenditures are recorded on an accrual basis except for interest on long-term debt which is recorded as an expenditure when due, and
- 3) Inventories are stated at weighted average cost.

2. SACRAMENTO COMMUNITY CENTER AUTHORITY

The Sacramento Community Center Authority was established by the Joint Powers Agreement between the County of Sacramento and the City of Sacramento on November 25, 1969. The agreement provided for the acquisition of land for, and the financing, constructing, operating and leasing of the Sacramento Community Center. The fiscal records of the Authority are maintained by the City of Sacramento on the accrual basis of accounting.

The accounting transaction of the Authority are minimal during the year and consist primarily of servicing the debt outstanding as well as receiving lease payments from the City.

3. SACRAMENTO CITY EMPLOYEES RETIREMENT SYSTEM

At June 30, 1985, the City of Sacramento Employees' Retirement System included several plans as follows:

1. Charter Section 399 Plan - This defined benefit plan was established effective January 1, 1977, to provide retirement, disability and death benefits substantially identical to those of the preceding Equal Shares Plan. Approximately 1682 active employees were participating in this plan at June 30, 1985, contributing at a rate established in 1969, based upon entry age and type of employment. The City is required to fund all costs in excess of employees' contributions.
2. Equal Shares Plan - This defined benefit plan was established July 1, 1970, to provide retirement, disability and death benefits to all City employees electing coverage at the date and to all employees who were hired from that date through January 1, 1977. Three active employees were participating in this plan as of June 30, 1985 contributing at a rate (based upon entry age and type of employment) which became effective April 23, 1977 based on an actuarial valuation as of June 30, 1985. The City is required to match employee contributions.
3. Charter Section 175 Plans - These defined benefit plans were established in 1953 and provide for retirement, disability or death benefits at a lower amount than the successor Equal Shares Plan. At June 30, 1985, 93 active employees participated in these plans. The City is contributing sufficient amounts to fund plan benefits and costs in excess of employee contributions. Members' normal rates of contributions shall be changed by the Board on the basis of periodical actuarial valuations and investigations.
4. Charter Section 173 and Prior Service Plans - These non-contributory defined benefit plans include only retired City employees who were not covered under Section 175 and successor plans. The City is required to fund all benefits for these plans.
5. Cost-of-Living Plan - This plan, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Benefits are payable to retirees and beneficiaries after one year of retirement. As of June 30, 1985, members contribute to this plan at a rate of 6.7% of their normal retirement contributions, and the City is required to fund all costs in excess of members' contributions.

At June 30, 1985, 1417 retirees were receiving pension benefits under the

various plans of the City Employees' Retirement System.

The fiscal management of the system is vested in a five-member Board consisting of the City Manager, Director of Finance, City Treasurer, and two public members (one having financial experience).

Participant contribution rates and the method of computing benefits are generally fixed at the amounts existing prior to the last electorate approved Charter change - November 2, 1976. The City assumes primary responsibility for the financing of all plan costs in excess of employee contributions. The manner in which the City costs are funded is determined by the five-member Board in accordance with actuarial advice and strict funding guideline. The system's unfunded liabilities are (by Charter) being amortized over a 28-year period.

City employees hired after January 1977 are required to join the Public Employees' Retirement System of the State of California (PERS). As of June 30, 1985, 1204 employees have joined the State's system.

At June 30, 1985, active members accumulated contributions including interest (for all plans) totaled \$58,268,049. For the fiscal year ending June 30, 1985, interest was credited to members contributions at the rate of 11.0%.

Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation:

All accounting and personnel records are maintained by the City of

Sacramento for the Retirement System. Financial reports are prepared on the accrual basis of accounting.

The System financial statements present the accumulated assets which are available for the payment of benefits to participants of the various Retirement plans of the City of Sacramento Employees' Retirement System.

Investments:

Investments are recorded at amortized cost. Premium and discount on bonds and mortgage loans are amortized over the term of the applicable investment. Bonds and cash of the system are invested and managed by the City Treasurer of the City of Sacramento. Stocks and stock options are managed by outside counselors. All investment transactions are approved by the Administration, Investment, and Fiscal Management Board.

Actuarial Assumpitons and Valuation

On November 19, 1979, the Administration, Investment and Fiscal Management Board accepted an actuarial valuation as of June 30, 1985 prepared by independent actuaries. The valuation estimated that the total actuarial obligation and the unfunded obligation had changed from \$333,100,000 and \$139,100,000 respectively at June 30, 1984 to \$351,400,000 and \$136,700,000 respectively at June 30, 1985. This latest valuation recommends that the City's contribution for the amortization of the unfunded obligation be 9.42% of total payroll through June 30, 2007.

The actuarial method utilized in the valuation was the entry-age normal-

cost method. Significant assumptions utilized by the actuarial firm in the preparation of the report were as follows:

1. Interest on investments at 7% compounded annually.
2. Compensation increases of 5% in 1979 and thereafter.
3. Consumer Price Index increases of 3% per year.
4. Social Security wage base increases of 4%.

5. CAPITOL AREA DEVELOPMENT AUTHORITY

The Capitol Area Development Authority was created, pursuant to Article I of Chapter 2.8 of Division I of Title 2 of the Government Code of the State of California, by Resolution of the City Council No. 78-478, dated July 11, 1978 and by agreement No. 78-009, dated July 1, 1978, between the City of Sacramento and the State of California. The Capitol Area Development Authority serves as "Master Developer" of the capitol area to coordinate and implement efforts of the City and State governments, to manage 60 State-owned commercial and 750 residential properties, and to finance the construction of State-owned parking garages. Although the Capitol Area Development Authority did not begin operations until October 1, 1978, it was officially formed July 1, 1978. The Authority is governed by a five-member board appointed by the City and the State of California.

Accounting Methods

The fiscal records of the Authority are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

- 1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are

not received at the normal time of receipt. No such material revenues were accrued at June 30, 1985.

2) Expenses are recorded on the accrual basis.

6. SACRAMENTO CONVENTION AND VISITORS BUREAU

The Sacramento Convention and Visitors Bureau was chartered to do business in the State of California under Title 12, Part 4 of Division I of the Civil Code of State of California on the 31st day of May, 1927. The Articles of Incorporation were amended on October 24, 1932, and again on April 16, 1969, and November 30, 1976.

The Sacramento Convention and Visitors Bureau, under its charter was formed for the purposes of encouraging, promoting and directing tourist travel into the Sacramento area.

The Sacramento Convention and Visitors Bureau is funded through contributions by member organizations, as well as contractual agreements with the City of Sacramento, County of Sacramento, and by its Charter is governed to do any and all things necessary in carrying out the objectives above.

The Sacramento Convention and Visitors Bureau is governed by a fifteen-member Board of Directors, elected annually by the membership.

Accounting Methods

The fiscal records of the Bureau are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are not received at the normal time of receipt.

2) Expenditures are recorded on the accrual basis.

7. MOUNTAIN VALLEY LIBRARY SYSTEM

The Mountain Valley Library System (MVLS) is a group of 20 cooperating library jurisdictions located in 10 counties surrounding, and including, Sacramento County. Participants include 13 City and County libraries, six college and university libraries and one special library.

The purpose of the cooperative system is to provide a framework so that any library in the System may use the materials and services of the other System libraries for the benefit of their clientele.

At the present time, Mountain Valley provides its members with the following services:

- a. Information network which includes teletype, telephone, TWX communication.
- b. Workshops and in-service programs.
- c. Educational and recreational films
- d. Consultant services for general library services
- e. Administration of System activities and services
- f. Development of new programs and studies
- g. Development of cooperation among all types of libraries.

In addition, the MVLS members cooperate with two contiguous northern California library systems, North Bay and North State, in a tri-System

agreement. This enables the clients of most public libraries in northern California to have access to materials and services of other public libraries in this large geographic area.

System policy and financial matters are controlled by the System Executive Council, which consists of the head librarian of each member library. These librarians govern the System, authorized by resolutions passed by their governing jurisdictions.

The System programs are funded from three sources; State funds (California Library Services act); Federal funds (Library Services and Construction Act); and some local cost sharing by our public library members. The City of Sacramento acts as fiscal agent for the System.

Accounting Methods

The fiscal records of the Library System are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting.

Modifications from the accrual basis are as follows:

1. Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are not received at the normal time of receipt. No such material revenues were accrued at June 30, 1979.
2. Expenditures are recorded on the accrual basis.



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE
915 I STREET
ROOM 112

SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-5736

February 20, 1985
FA:84445:JRC:KMF

JACK R. CRIST
DIRECTOR OF FINANCE

ROBERT C. LELAND
ASSISTANT DIRECTOR

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: External Audit Services Agreement for Fiscal Year 1984-85

SUMMARY

The City of Sacramento proposes to retain Price Waterhouse, Certified Public Accountant as our external auditors. Attached is a proposed:

- o Resolution (Exhibit I) and
- o Agreement (Exhibit II)

for auditing services for Fiscal Year 1984-85 (year six). It is recommended that the City Council approve the Resolution and Agreement.

BACKGROUND

In February 1978, the City Council adopted the policy guideline for retention of external audit firms. The adopted 1978 policy requires that the City change external auditors every five years. Once a firm is selected, a master agreement is signed which includes options to renew in each of the subsequent four years assuming satisfactory performance for the previous year.

Price Waterhouse has performed the City's External Audit for the past five years (FY 1979-80 through FY 1983-84). The firm's performance has been satisfactory. This report addresses a proposed sixth year extension based on special circumstances.

Currently City Council policy requires that Price Waterhouse be terminated as the City's auditors and that this service be rebid with the City changing external auditors for another prospective five year period. However, due to specialized accounting and auditing services currently being performed by Price Waterhouse in connection with the Light Rail Transit Project as well as the Cash and Investment Accountability Task Force, it is deemed prudent and necessary to extend the current external audit services agreement one additional year after which it would automatically be terminated.

The recommended one year extension is justified because:

1. Price Waterhouse is currently assisting City staff in evaluating and reporting the financial condition of the Sacramento Light Rail Transit Project. Changing external auditors in the middle of this important task would be disruptive and inefficient.
2. Price Waterhouse has been intimately involved in the current evaluation of the City's Cash and Investment Accountability systems. This project will require another twelve months to complete.

Since Price Waterhouse has participated in this process and has made important recommendations for changing the existing system, it would be extremely helpful to the City staff if they were retained an additional twelve months.

FINANCIAL

Exhibit III attached is a five year comparison of audit fees previously paid and the proposed fees for the 1984-85 audit. While the audit services rendered have been modified slightly, the proposed General Fund audit program is unchanged. The fee is proposed to increase from \$65,850 to \$69,000 or 4.8%.

In total the audit of all City programs is proposed to increase from \$104,100 to \$111,900 or 7.5%. The majority of this increased cost is attributable to additional Light Rail project audit requirements.

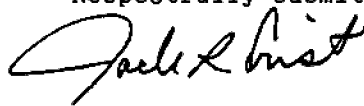
These amounts, if approved, will be budgeted in the FY 1985-86 Budget.

RECOMMENDATION

It is recommended that the City Council approve the attached Resolution authorizing the City Manager to sign an audit services agreement with Price Waterhouse for FY 1984-85.

Respectfully submitted,

cc: Jerrold Hunt
Price Waterhouse



JACK R. CRIST
Director of Finance

- Attachments:
1. Resolution - Exhibit I
 2. Agreement - Exhibit II
 3. Audit Fee Analysis - Exhibit III
 4. General Provisions - Exhibit IV

RECOMMENDATION APPROVED:



WALTER J. SLIRE
City Manager

EXHIBIT I

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION AUTHORIZING AUDITING SERVICES TO BE PERFORMED BY PRICE WATERHOUSE FOR FISCAL YEAR 1984-85

WHEREAS, the City entered into an auditing services Agreement No. 79215 on March 1980 with an option to renew the agreement; and

WHEREAS, said agreement was renewed in January 1981, April 1982, September 1983, and May 1984, and

WHEREAS, Price Waterhouse has satisfactorily performed audit services for fiscal years 1979-80, 1980-81, 1981-82, 1982-83 and 1983-84;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the attached Agreement is hereby approved for fiscal year 1984-85 auditing services; and
2. That the City Manager is hereby authorized to execute said Agreement for auditing services for fiscal year 1984-85, for a price not to exceed \$111,900.

MAYOR

ATTEST:

CITY CLERK

AMENDMENT TO AUDITING SERVICES
AGREEMENT

THIS AGREEMENT is made at Sacramento, California, as of _____, 1985 and amends the Agreement dated March 18, 1980, by and between the CITY OF SACRAMENTO, a municipal corporation ("City") and PRICE WATERHOUSE ("Auditor").

1. Services. Subject to the terms and conditions set forth in this Agreement, Auditor shall provide to City the service of examining the accounts of the City for the fiscal year July 7, 1984 to June 30, 1985; such service shall include, but not be limited to, performance of the following duties:

(a) Auditor shall examine and submit an audit report (as required by Section 117 of the Sacramento City Charter) of the financial statements of all funds of City; such audit report will cover the following entities/activities:

Financial Audit:

City of Sacramento (All Funds)

Sacramento City Employees Retirement System

Sacramento Community Center Authority

Sacramento Capitol Area Development Authority (Subject to possible deletion)

Sacramento Convention and Visitors Bureau

Mountain Valley Library System

Sacramento Transit Development Agency

Compliance Audit:

Limited Review of City Conflict of Interest Statements

City Code Section 18.100 Bingo Compliance Reviews

Sacramento Transit Development Agency

Federal "Attachment P" Grant Compliance Review

Comfort Letter in Conjunction with the Annual TRANS Official Statement and other borrowings as may occur from time to time.

Two (2) Surprise Cash and Securities Verifications

Insurance Claims Review

Revenue Sharing Compliance Audit

(b) The purpose of the engagement with Auditor is to examine the City's financial statements for the fiscal year ended June 30, 1985, and evaluate the fairness of presentation of the statement in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The examination will be conducted in accordance with generally accepted auditing standards which will include a review of the system of internal control and tests of transactions to the extent believed necessary. Accordingly, it will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although their discovery may result.

It is recognized that City has the responsibility for the proper recording of transactions in the books of account, for the safeguarding of assets and for the substantial accuracy of the financial statements. Such statements are the representations of City and will be typed and printed by the City.

The objective of the examination is the expression of an opinion on the City's financial statements. The ability of Auditor to express that opinion and the wording of that opinion will of course be dependent on the facts and circumstances at the date of that opinion. If the opinion is other than unqualified, the reasons therefor will be fully disclosed.

(c) Auditor shall submit a report of its comments and recommendations concerning City's accounting system based upon observations made during the course of auditor's examination of City's financial statements, records and internal procedures for the fiscal year ending June 30, 1985.

Auditor shall prepare and deliver to City ten (10) copies of the above report within 30 days after the City audit report date provided, however, that no report shall be delivered to City later than December 31, 1985. This date will be extended as determined under the third paragraph of point 4 if delivery date of Auditor's report is extended.

2. Payment. City shall pay Auditor for services rendered pursuant to this agreement a total sum of up to \$111,900 for the 1984-85 audits. Payment of the total sum may be made by City to Auditor by monthly payments based upon the work performed by Auditor during the preceding month. The determination of the amount of work performed by Auditor and the amount of the partial payment to be made by City shall be within the sole discretion of the Finance Director of City but it is agreed that said approval for progress payments shall not be withheld unreasonably.

The payment of the last 10% of the total sum shall be made after performance of the work of Auditor and only after all services required under this Agreement has been satisfactorily performed.

City shall make no payments for any extra, further or additional service pursuant to this agreement unless such extra service and the price therefor is agreed to in writing executed by the City Manager prior to the time such extra service is rendered.

Said agreed to service shall be billed to the City based on the following hourly rate plus cost-of-living increases as described above:

Partner	\$120/Hour
Manager	70/Hour
Senior Accountant	50/Hour
Staff Accountant	28/Hour

3. Facilities and Equipment. Except as provided below, Auditor shall, at its sole cost and expense, furnish all facilities and equipment which may be required for furnishing services pursuant to this Agreement. City shall furnish physical facilities such as desks, filing cabinets, and conference space, as may be reasonably necessary for Auditor's use while consulting with City employees and reviewing records and information in possession of City. The location, quantity and quality and time of furnishing said physical facilities shall be in the sole discretion of City. In no event shall City be obligated to furnish any facility which may involve incurring any direct expense, including but not limiting the generality of this exclusion to, long-distance telephone or other communication charges, vehicle, and reproduction facilities.

4. Time for Performance: Liquidated Damages. Time is of the essence in the efficient and effective completion of the examination and delivery of the Auditor's report. It is the intent of the Auditor and the City to issue the financial statements of the City no later than December 1, 1985. Certain acts, set forth below, must chronologically precede the issuance. The City will deliver to the Auditor on or before the specified dates the following items:

<u>Items</u>	<u>Dates</u>
Completed working papers for all funds (Except cash reconciliation and adjustments)	September 16, 1985
Complete and accurate reconciliations of all cash accounts and investment accounts along with completed and recorded cash adjustments as necessary	October 1, 1985
A complete draft of financial statements which are reasonably accurate as to amounts, classification and narrative	November 1, 1985

In the event that all of the above items are delivered on or before the specified dates, the auditor will deliver a signed report, suitable for printing, to the City on or before November 15, 1985. In the event that any of the items are not provided by the City on or before the specified dates, the number of consecutive days (including weekends and holidays) which they are individually late will be added to November 15, 1985 and the derived date will become the delivery date of the Auditor's report.

Damages for the Auditor and the City which would be caused by failure of either party to meet required delivery dates are extremely difficult at this point to foresee and would be costly, difficult and inconvenient to prove. Therefore, the Auditor and City agree that for every week or partial week which either the City or the Auditor fails to meet the required delivery dates, liquidated damages equal to 1% of the total contract price will be assessed against the party which fails to deliver, not to exceed 10% of total contract price. The foregoing amount is a reasonable and good faith attempt to specify in advance what actual damages would be.

Liquidated damages can only be waived by written consent of the beneficiary of the damages and must be granted each week prior to the week the damages accrue.

4.a. Arbitration. Any dispute under this agreement shall be submitted to binding arbitration with the arbitrator(s) to be selected by the City and the Auditor jointly.

6. Policy. It is the City's policy to change external auditors at least every five years. Accordingly, it is anticipated that the agreement will not be renewed after the June, 1985 audit completion (fiscal year 1984-85). The City would, however, consider Price Waterhouse as an eligible firm after one intervening firm change.

7. General Provisions. The general provisions are set forth in Exhibit IV, which is attached hereto and by this reference incorporated herein. In the event of any inconsistency between said general provisions and any other terms or conditions of this agreement, the other term or condition shall control insofar as it is consistent with the general provisions.

Executed as of the date first above stated.

ATTEST:

CITY OF SACRAMENTO
A Municipal Corporation

CITY CLERK

WALTER J. SLIPE

APPROVED AS TO FORM:

CITY ATTORNEY

PRICE WATERHOUSE

EXHIBIT III

	ACTUAL 82-83 -----	APPROVED 83-84 -----	PROPOSED 84-85 -----
City of Sacramento	\$ 31,000	\$ 32,500	\$ 34,000
Conflict of Interest	1,100	1,150	1,200
Retirement	-0-	6,200	6,500
Bingo Audits	10,000(a)	14,700(a)	14,700(a)
TRANS Borrowing	6,500	6,800	7,100
COPS Borrowing	-0-	3,000(b)	4,000(b)
Cash Reconciliation	8,400	-0-	-0-
Surprise Security Counts	-0-	1,500	1,500
	-----	-----	-----
Subtotal General Fund	\$ 57,000	65,850	69,000
	-----	-----	-----
Mt. Valley Library	2,500	2,600	2,700
Community Center Authority	2,500	2,600	2,700
Capital Area Dev. Authority	6,200	6,500	6,800
Convention Bureau	2,500	2,600	2,700
Revenue Sharing	2,500(c)	2,500(c)	2,600(c)
Insurance Claims Review	-0-	8,500(d)	8,900
Sacramento Transit			
Development Agency	2,500	3,600(e)	10,000(e)(f)
Financial Statement Prep.	N/A	9,350(g)	6,500(g)
	-----	-----	-----
Total	\$75,700	\$104,100	\$111,900
	=====	=====	=====

-
- a. This new program is fully supported by user fees.
 - b. This cost to be paid from proceeds of Certificates of Participation borrowing.
 - c. A two year special compliance audit of the Federal Revenue Sharing Program.
 - d. This is a special review of the City's self insurance program.
 - e. This new audit cost is fully recoverable from the Light Rail Transit Development Agency.
 - f. Increase attributable to Grant Compliance Audit requirements.
 - g. To provide technical support assistance to the Accounting Division staff in preparing financial statements.

1. Independent Contractor. At all times during the term of this Agreement, Auditor shall be an independent contractor and shall not be an employee of City. City shall have the right to control Auditor only insofar as the results of Auditor's services rendered pursuant to this Agreement; however, City shall not have the right to control the means by which Auditor accomplishes services rendered pursuant to this Agreement.

2. Licenses, Permits, Etc. Auditor represents and warrants to City that he has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Auditor to practice his profession. Auditor represents and warrants to City that Auditor shall, at his sole cost and expense, keep in effect at all times during the term of this Agreement any licenses, permits, and approvals which are legally required for Auditor to practice his profession.

3. Time. Auditor shall devote such time to the performance of services pursuant to this Agreement as may be reasonably necessary for satisfactory performance of Auditor's obligations pursuant to this Agreement.

4. Insurance.

(a) Public Liability. During the term of this Agreement, Auditor shall maintain in full force and effect a policy of public liability insurance with minimum coverages as follows: \$100,000.00 for injury to one person in any one occurrence; \$300,000.00 for injury to more than one person in any one occurrence; and \$50,000.00 for property damage. If City so requests, Auditor shall cause City to be named as an additional assured on said policy and shall obtain a waiver of the insurer's right of subrogation against City.

(b) Workman's Compensation. During the term of this Agreement, Auditor shall fully comply with the terms of the law of California concerning workman's compensation. Said compliance shall include, but not be limited to, maintaining in full force and effect one or more policies of insurance insuring against any liability Auditor may have for workman's compensation.

(c) Errors and Omissions. During the term of this Agreement, Auditor shall maintain in full force and effect a policy of errors and omissions insurance, Auditor shall take out and keep in full force and effect during the term of this Agreement a policy in form and content satisfactory to City which shall indemnify City against errors and omissions by Auditor. Said policy or policies shall provide liability coverage in an amount specified by City in its request.

5. Auditor Not Agent. Except as City may specify in writing, Auditor shall have no authority, express or implied, to act on behalf of City in any capacity whatsoever as an agent. Auditor shall have no authority, express or implied, pursuant to this Agreement to bind City to any obligation whatsoever.

City Agreement No. _____

City Agreement No. _____

83206

6. Assignment Prohibited. No party to this Agreement may assign any right or obligation pursuant to this Agreement. Any attempted or purported assignment of any right or obligation pursuant to this Agreement shall be void and of no effect.

7. Personnel. Auditor shall assign only competent personnel to perform services pursuant to this Agreement. In the event that City, in its sole discretion, at any time during the term of this Agreement, desires the removal of any person or persons assigned by Auditor to perform services pursuant to this Agreement, Auditor shall remove any such person immediately upon receiving notice from City of the desire of City for the removal of such person or persons.

8. Standard of Performance. Auditor shall perform all services required pursuant to this Agreement in the manner and according to the standards observed by a competent practitioner of the profession in which Auditor is engaged. All products of whatsoever nature which Auditor delivers to City pursuant to this Agreement shall be prepared in a substantial, first class and workmanlike manner and conform to the standards of quality normally observed by a person practicing in Auditor's profession.

City Agreement No. _____

City Agreement No. 83206

EXHIBIT III

	ACTUAL 82-83	APPROVED 83-84	PROPOSED 84-85
	-----	-----	-----
City of Sacramento	\$ 31,000	\$ 32,500	\$ 34,000
Conflict of Interest	1,100	1,150	1,200
Retirement	-0-	6,200	6,500
Bingo Audits	10,000(a)	14,700(a)	14,700(a)
TRANS Borrowing	6,500	6,800	7,100
COPS Borrowing	-0-	3,000(b)	4,000(b)
Cash Reconciliation	8,400	-0-	-0-
Surprise Security Counts	-0-	1,500	1,500
	-----	-----	-----
Subtotal General Fund	\$ 57,000	65,850	69,000
	-----	-----	-----
Mt. Valley Library	2,500	2,600	2,700
Community Center Authority	2,500	2,600	2,700
Capital Area Dev. Authority	6,200	6,500	6,800
Convention Bureau	2,500	2,600	2,700
Revenue Sharing	2,500(c)	2,500(c)	2,600(c)
Insurance Claims Review	-0-	8,500(d)	8,900
Sacramento Transit			
Development Agency	2,500	3,600(e)	10,000(e)(f)
Financial Statement Prep.	N/A	9,350(g)	6,500(g)
	-----	-----	-----
Total	\$75,700	\$104,100	\$111,900
	=====	=====	=====

- a. This new program is fully supported by user fees.
- b. This cost to be paid from proceeds of Certificates of Participation borrowing.
- c. A two year special compliance audit of the Federal Revenue Sharing Program.
- d. This is a special review of the City's self insurance program.
- e. This new audit cost is fully recoverable from the Light Rail Transit Development Agency.
- f. Increase attributable to Grant Compliance Audit requirements.
- g. To provide technical support assistance to the Accounting Division staff in preparing financial statements.

CITY OF SACRAMENTO, CALIFORNIA
REQUEST FOR PROPOSAL
COMPREHENSIVE EXTERNAL AUDIT SERVICES

RECEIVED
CITY CLERKS OFFICE
CITY OF SACRAMENTO
FEB 14 3 59 PM '86

GENERAL PROPOSAL INFORMATION

You are invited to submit a proposal for furnishing financial and compliance audit services to the City of Sacramento. Six copies of all proposals shall be submitted in a sealed package by 10:30 a.m., Tuesday, March 18, 1986, to:

Lorraine Magana, City Clerk
915 I Street, Room 203
Sacramento, California 95814

A pre-proposal conference will be held on February 28, 1986 from 1:30 p.m. to 3:00 p.m. in the City Council Chambers of City Hall. All recipients of this Request for Proposal are invited to attend for the purpose of presenting questions and obtaining any additional required information. Copies of previous audit reports will be available for review at that time. Information requests concerning this pre-proposal conference may be directed to Jack R. Crist, Director of Finance, at 449-5736.

NATURE OF SERVICES REQUIRED

The City of Sacramento requires financial statement audits (with separate audit opinions) for six (6) separate legal entities as follows:

	Previous Opinion

1) City of Sacramento (all funds) including Sacramento Housing & Redevelopment Agency	Unqualified
2) Sacramento Community Center Authority	Unqualified
3) Sacramento City Employees Retirement System	Unqualified
4) Sacramento Capitol Area Development Authority	Unqualified
5) Sacramento Convention and Visitors Bureau	Unqualified
6) Mountain Valley Library System	Unqualified

These six (6) separate legal entities are described in some detail in Exhibit I attached to this proposal. In addition, the City requires compliance audit services and separate compliance reports with respect to the following programs:

Previous Opinion

- | | | |
|-----|--|---|
| 7) | Federal General Revenue Sharing as required by the audit guide and standards for same issued by the Office of Revenue Sharing, U.S. Department of Treasury. | General compliance |
| 8) | Insurance Claims Administration Compliance Audit. The City of Sacramento self-funds its Workers' Compensation (\$5 million retention) and Auto & General Liability. The claims audit should be a study in sufficient depth to determine the effectiveness of claims administration and the adequacy of program reserves. The audit should be directed to the following areas:

a) Compliance with procedures and controls as defined by the City.

b) The degree of promptness and expertise with which claims have been handled.

c) Adequacy of file documentation and proper claim verification.

d) Accuracy of reported payments and reserves.

e) Internal controls surrounding information systems. | General compliance |
| 9) | Six (6) reviews of local non-profit bingo operations for compliance with City ordinance requirements. | General non-compliance |
| 10) | Other:

a) Unscheduled subsequent events reviews and issuance of comfort letters related to short and long term debt issues.

b) Special compliance audit reports related to a few small Office of Criminal Justice Planning Grants (State of California). | Not Applicable

First Time Audit Report |
| 11) | Limited reasonableness review of City officials Conflict of Interest Statements filed with the City Clerk. | General compliance |

DESCRIPTION OF ENTITY AND RECORDS TO BE AUDITED

The City of Sacramento is a charter city operating a full range of services. The entity as well as the other separate legal entities are more fully described in Exhibit I attached.

The centralized City Finance Department is composed of four functional divisions including Administration, Accounting, Budget and Revenue. The City Finance Department acts as accountants for all of the six previously described separate legal entities. Financial records are centrally maintained at the Department, easily facilitating external audit. Systems, with minor exception, are computerized utilizing a Univac 90-80 Central Computer Hardware/Software System, and limited use of outside service firms for such things as payrolls for Capitol Area Development Authority and Convention Bureau, liability insurance claims processing, and treasury management. By Charter, the treasury function is managed by a separate Council-appointed Treasurer who will make treasury records available to the auditor upon request. The City data processing functions are centralized in a separate Data Processing Department which includes both programming staff and hardware. Finally, a two person internal audit staff exists which may be utilized in conjunction with the external audit.

The City prepares its financial reports in accordance with generally accepted accounting principles as promulgated by the American Institute of CPA's and the Governmental Accounting Standards Board.

To date the City has received six (6) Government Finance Officers Association (GFOA) "Certificate of Conformance Awards" for excellence in financial reporting.

The City detailed financial records are generally computerized with automated subsystems covering the following broad categories:

- A) General ledger and chart of accounts;
- B) Budget status, revenue status, expenditure accumulations, encumbrance control, and inception-to-date capital improvement reporting;
- C) Payroll and employee position control;
- D) Utility billing and other billings systems such as special assessments and business tax;
- E) Internal Service Fund billing;
- F) Fixed assets;
- G) Retirement contribution detail; and
- H) Worker's Compensation

Supporting system documentation for all systems is on file in the City Data Processing Department.

ASSISTANCE AVAILABLE TO PROPOSER

The previous audits have been conducted by Price Waterhouse, Sacramento. Audit workpapers are on file and available for review at their office (455 Capitol Mall) with prior consent and approval. All 1984-85 fiscal year audit opinions were unqualified.

The Finance Department includes professional and paraprofessional personnel that are available to the external auditors for purposes of preparing schedules, reproducing documents, pulling documents, etc. The City staff prepares financial statement drafts, footnotes, statistical schedules, etc. and anticipates assistance from the auditor in preparing a quality annual report which includes final typing and printing.

REPORT REQUIREMENTS

External audit firms are, by Charter, selected annually by the City Council of the City of Sacramento. Audit opinions should be addressed to the City Council and the selected audit firm will occasionally be expected to appear before a Committee of the Council to answer questions. Financial statement audits will be comprehensive, full-scope audits in accordance with generally accepted auditing standards. Separate compliance audit reports should include an opinion as to specific findings related to compliance with applicable laws, regulations, etc. Specific compliance exception findings should be included in the report to assist the City staff in implementing corrective action.

Finally, the City expects to receive a "Management Letter" for each of the six (6) separate financial report opinions within a reasonable period of time after the financial audit is completed. In this regard, the City has in the past requested that the external auditor perform internal control reviews of fiscal operations in two different operating departments annually.

TIME CONSIDERATIONS

Following is the current calendar of audit events:

Tuesday, February 4, 1986	Council Budget and Finance Committee reviews draft request for audit proposals.
Tuesday, February 11, 1986	City Council approves draft "Request for Proposal" and proposed audit contract.
Friday, February 14, 1986	Request for Proposal mailed to prospective bidders.
Friday, February 28, 1986	Pre-proposal Conference, City Council Chambers, City Hall, 915 I Street, Sacramento, CA 95814.

Tuesday, March 18, 1986	Six (6) copies of proposals due back to City from bidders by 10:30 a.m. in City Clerk's Office.
March 18-27, 1986	Proposals evaluated by Evaluation Panel and finalists selected for interview. Non-finalists notified.
Friday, March 28, 1986	Finalists notified of interview time and place.
Tuesday, April 7-17, 1986	Finalists interviewed by Selection Panel.
Tuesday, April 29, 1986	Budget and Finance Committee reviews and approves panel recommendation.
Tuesday, May 6, 1986	City Council approved recommendation.
Wednesday, May 7, 1986	Finalist notified by mail of Council selection.
Friday, May 16, 1986	Audit planning meeting held with selected firm.
June 30, 1986	End of fiscal year.

CONTRACTUAL ARRANGEMENTS

Exhibit II attached is the City's current audit contract. While this document is subject to negotiation once the final firm is selected, individual proposals should indicate whether or not the external audit firm would be willing to sign this contract. If not, please indicate those specific areas or section that your firm would like to negotiate change and what those changes would be. The contract is a one-year contract with City option to renew for four subsequent years. Subsequent year fee increases, if any, cannot exceed the base year (1985-86) fee adjusted for cost-of-living increases as measured by the San Francisco Bay Area Consumer Price Index.

REPORT OPINION AND MANAGEMENT LETTER REVIEW

It is expected that the audit firm will review drafts of audit opinions, compliance report findings, and management letters with designated staff prior to issuance of the final reports.

MINIMUM INFORMATION TO BE REQUESTED FROM THE PROPOSER

A. Title Page

Show the Request for Proposal subject, the name of the proposer's firm, local address, telephone number, name of the contact person, and the date.

B. Table of Contents

Include a clear identification of the material by section and by page number.

C. Letter of Transmittal

Limit to one or two pages.

1. Briefly state the proposer's understanding of the work to be done and make a positive commitment to perform the work within the time considerations previously outlined.
2. State the all-inclusive fee.
3. Give the names of the persons who will be authorized to make representations for the proposer, their titles, addresses, and telephone numbers.

D. Profile of the Proposer

1. State whether the firm is local, national, or international.
2. Give the location of the office from which the work is to be done and the number of partners, manager, supervisors, seniors, and other professional staff employed at that office.
3. Describe the range of activities performed by the local office, if any, such as audit, accounting, tax service, or management services (including computer audit capabilities).
4. Describe the local office's computer capability, including the numbers and classifications of personnel skilled in computer sciences who will work on the audit.
5. Give the physical location of firm partner "in charge" of the City of Sacramento audit.

E. Summary of the Proposer's Qualifications

1. Identify the senior staff who will work on the audit, including staff from other than the local office. Resumes for each supervisory person to be assigned to the audit should be included. (The resumes may be included as an appendix.)
2. Describe recent local and regional office auditing experience similar to the type of audit requested and give the names and telephone numbers of client officials responsible for three of the audits listed.

F. Scope Section

Clearly describe the proposer's scope of the services, technical approach and audit work plan including hours.

G. Schedule

Briefly outline the proposer's planned work schedule and sequence of events.

H. Compensation

Estimate the total hours, the estimated out-of-pocket costs, and the all-inclusive maximum fee. Break the maximum fee down into the component amounts allocated to the separate six legal entities and the individual compliance reports. See Exhibit III for current fees.

I. Additional Data

Give any additional information considered essential to the proposal in this section. (Example: publications of the proposer, such as directories, articles, and lists of clients.) If there is no additional information to present, state in this section, "There is no additional information we wish to present".

CRITERIA FOR SELECTION AND AWARD OF CONTRACT

The external audit firm will be selected based on the following general categories:

1. Quality of "Request for Proposal" response.
2. Professional qualifications and experience, both individual and firm, in auditing municipalities such as Sacramento.
3. Audit firm's demonstrated understanding of Sacramento's audit requirements.
4. Firm commitment to locally servicing the City of Sacramento audit.
5. Computer auditing capabilities and experience.
6. Price.

AFFIRMATIVE ACTION

The City shall follow the provisions of Federal Executive Order 11246 as amended relating to Equal Employment Opportunity. It is also the policy of the City that no firm shall be hired if the City determines that the hiring or business practices of such firm violate the provisions of said Executive Order 11246.

RIGHT OF REFUSAL

The City retains the right to reject any and all proposals without cause.

DESCRIPTION OF ENTITIES TO BE AUDITED

1. CITY OF SACRAMENTO (all funds)

The City of Sacramento is a charter City providing a wide range of services to citizens. The fiscal 1985-86 budget totaled \$226.9 million of which \$31.7 million was related to capital improvement projects. Approximately 65% of the remaining 195.2 million dollars operating budget (\$127.6 million) relates to employee services costs. City employees total 3,300 of which 1,300 are public safety.

The City operates nine (9) self-supporting user fee based Enterprise Fund operations for the following services:

- | | |
|-------------------|---------------------|
| a) Water | e) Parking |
| b) Sewer | f) Golf |
| c) Waste Removal | g) Boat Harbor |
| d) Storm Drainage | h) Community Center |
| | i) Camp Sacramento |

The City maintains approximately 100 separate legal funds to account for the transactions of the City.

Accounting Methods

The accrual basis of accounting is followed for Enterprise, Internal Service, nonexpendable trusts and pension trust funds. All other funds utilize the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

- 1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are

not received at the normal time of receipt.

Following are material individual revenue sources considered susceptible to accrual and therefore recorded on the accrual basis:

General Fund

- a) Property Taxes;
- b) Sales Tax;
- c) Interest on Investments;
- d) State Motor Vehicle in Lieu Taxes;
- e) Fines, Forfeitures, and Penalties;
- f) Utility Users Tax; and
- g) Cigarette Tax.

Special Revenue Funds

- a) General Revenue Sharing;
 - b) Fines, Forfeitures, and Penalties - Traffic Safety.
- 2) Expenditures are recorded on an accrual basis except for interest on long-term debt which is recorded as an expenditure when due, and
- 3) Inventories are stated at weighted average cost.

2. SACRAMENTO COMMUNITY CENTER AUTHORITY

The Sacramento Community Center Authority was established by the Joint Powers Agreement between the County of Sacramento and the City of Sacramento on November 25, 1969. The agreement provided for the acquisition of land for, and the financing, constructing, operating and leasing of the Sacramento Community Center. The fiscal records of the Authority are maintained by the City of Sacramento on the accrual basis of accounting.

The accounting transaction of the Authority are minimal during the year and consist primarily of servicing the debt outstanding as well as receiving lease payments from the City.

3. SACRAMENTO CITY EMPLOYEES RETIREMENT SYSTEM

At June 30, 1985, the City of Sacramento Employees' Retirement System included several plans as follows:

1. Charter Section 399 Plan - This defined benefit plan was established effective January 1, 1977, to provide retirement, disability and death benefits substantially identical to those of the preceding Equal Shares Plan. Approximately 1682 active employees were participating in this plan at June 30, 1985, contributing at a rate established in 1969, based upon entry age and type of employment. The City is required to fund all costs in excess of employees' contributions.
2. Equal Shares Plan - This defined benefit plan was established July 1, 1970, to provide retirement, disability and death benefits to all City employees electing coverage at the date and to all employees who were hired from that date through January 1, 1977. Three active employees were participating in this plan as of June 30, 1985 contributing at a rate (based upon entry age and type of employment) which became effective April 23, 1977 based on an actuarial valuation as of June 30, 1985. The City is required to match employee contributions.
3. Charter Section 175 Plans - These defined benefit plans were established in 1953 and provide for retirement, disability or death benefits at a lower amount than the successor Equal Shares Plan. At June 30, 1985, 93 active employees participated in these plans. The City is contributing sufficient amounts to fund plan benefits and costs in excess of employee contributions. Members' normal rates of contributions shall be changed by the Board on the basis of periodical actuarial valuations and investigations.
4. Charter Section 173 and Prior Service Plans - These non-contributory defined benefit plans include only retired City employees who were not covered under Section 175 and successor plans. The City is required to fund all benefits for these plans.
5. Cost-of-Living Plan - This plan, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Benefits are payable to retirees and beneficiaries after one year of retirement. As of June 30, 1985, members contribute to this plan at a rate of 6.7% of their normal retirement contributions, and the City is required to fund all costs in excess of members' contributions.

At June 30, 1985, 1417 retirees were receiving pension benefits under the

various plans of the City Employees' Retirement System.

The fiscal management of the system is vested in a five-member Board consisting of the City Manager, Director of Finance, City Treasurer, and two public members (one having financial experience).

Participant contribution rates and the method of computing benefits are generally fixed at the amounts existing prior to the last electorate approved Charter change - November 2, 1976. The City assumes primary responsibility for the financing of all plan costs in excess of employee contributions. The manner in which the City costs are funded is determined by the five-member Board in accordance with actuarial advice and strict funding guideline. The system's unfunded liabilities are (by Charter) being amortized over a 28-year period.

City employees hired after January 1977 are required to join the Public Employees' Retirement System of the State of California (PERS). As of June 30, 1985, 1204 employees have joined the State's system.

At June 30, 1985, active members accumulated contributions including interest (for all plans) totaled \$58,268,049. For the fiscal year ending June 30, 1985, interest was credited to members contributions at the rate of 11.0%.

Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation:

All accounting and personnel records are maintained by the City of

Sacramento for the Retirement System. Financial reports are prepared on the accrual basis of accounting.

The System financial statements present the accumulated assets which are available for the payment of benefits to participants of the various Retirement plans of the City of Sacramento Employees' Retirement System.

Investments:

Investments are recorded at amortized cost. Premium and discount on bonds and mortgage loans are amortized over the term of the applicable investment. Bonds and cash of the system are invested and managed by the City Treasurer of the City of Sacramento. Stocks and stock options are managed by outside counselors. All investment transactions are approved by the Administration, Investment, and Fiscal Management Board.

Actuarial Assumpitons and Valuation

On November 19, 1979, the Administration, Investment and Fiscal Management Board accepted an actuarial valuation as of June 30, 1985 prepared by independent actuaries. The valuation estimated that the total actuarial obligation and the unfunded obligation had changed from \$333,100,000 and \$139,100,000 respectively at June 30, 1984 to \$351,400,000 and \$136,700,000 respectively at June 30, 1985. This latest valuation recommends that the City's contribution for the amortization of the unfunded obligation be 9.42% of total payroll through June 30, 2007.

The actuarial method utilized in the valuation was the entry-age normal-

cost method. Significant assumptions utilized by the actuarial firm in the preparation of the report were as follows:

1. Interest on investments at 7% compounded annually.
2. Compensation increases of 5% in 1979 and thereafter.
3. Consumer Price Index increases of 3% per year.
4. Social Security wage base increases of 4%.

5. CAPITOL AREA DEVELOPMENT AUTHORITY

The Capitol Area Development Authority was created, pursuant to Article I of Chapter 2.8 of Division I of Title 2 of the Government Code of the State of California, by Resolution of the City Council No. 78-478, dated July 11, 1978 and by agreement No. 78-009, dated July 1, 1978, between the City of Sacramento and the State of California. The Capitol Area Development Authority serves as "Master Developer" of the capitol area to coordinate and implement efforts of the City and State governments, to manage 60 State-owned commercial and 750 residential properties, and to finance the construction of State-owned parking garages. Although the Capitol Area Development Authority did not begin operations until October 1, 1978, it was officially formed July 1, 1978. The Authority is governed by a five-member board appointed by the City and the State of California.

Accounting Methods

The fiscal records of the Authority are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

- 1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are

not received at the normal time of receipt. No such material revenues were accrued at June 30, 1985.

2) Expenses are recorded on the accrual basis.

6. SACRAMENTO CONVENTION AND VISITORS BUREAU

The Sacramento Convention and Visitors Bureau was chartered to do business in the State of California under Title 12, Part 4 of Division I of the Civil Code of State of California on the 31st day of May, 1927. The Articles of Incorporation were amended on October 24, 1932, and again on April 16, 1969, and November 30, 1976.

The Sacramento Convention and Visitors Bureau, under its charter was formed for the purposes of encouraging, promoting and directing tourist travel into the Sacramento area.

The Sacramento Convention and Visitors Bureau is funded through contributions by member organizations, as well as contractual agreements with the City of Sacramento, County of Sacramento, and by its Charter is governed to do any and all things necessary in carrying out the objectives above.

The Sacramento Convention and Visitors Bureau is governed by a fifteen-member Board of Directors, elected annually by the membership.

Accounting Methods

The fiscal records of the Bureau are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting. Modifications from the accrual basis are as follows:

- 1) Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are not received at the normal time of receipt.
- 2) Expenditures are recorded on the accrual basis.

7. MOUNTAIN VALLEY LIBRARY SYSTEM

The Mountain Valley Library System (MVLS) is a group of 20 cooperating library jurisdictions located in 10 counties surrounding, and including, Sacramento County. Participants include 13 City and County libraries, six college and university libraries and one special library.

The purpose of the cooperative system is to provide a framework so that any library in the System may use the materials and services of the other System libraries for the benefit of their clientele.

At the present time, Mountain Valley provides its members with the following services:

- a. Information network which includes teletype, telephone, TWX communication.
- b. Workshops and in-service programs.
- c. Educational and recreational films
- d. Consultant services for general library services
- e. Administration of System activities and services
- f. Development of new programs and studies
- g. Development of cooperation among all types of libraries.

In addition, the MVLS members cooperate with two contiguous northern California library systems, North Bay and North State, in a tri-System

agreement. This enables the clients of most public libraries in northern California to have access to materials and services of other public libraries in this large geographic area.

System policy and financial matters are controlled by the System Executive Council, which consists of the head librarian of each member library. These librarians govern the System, authorized by resolutions passed by their governing jurisdictions.

The System programs are funded from three sources; State funds (California Library Services act); Federal funds (Library Services and Construction Act); and some local cost sharing by our public library members. The City of Sacramento acts as fiscal agent for the System.

Accounting Methods

The fiscal records of the Library System are maintained by the City of Sacramento as an agency fund on the modified accrual basis of accounting.

Modifications from the accrual basis are as follows:

1. Revenues are recorded when received in cash except for material revenues susceptible to accrual and material revenues that are not received at the normal time of receipt. No such material revenues were accrued at June 30, 1979.
2. Expenditures are recorded on the accrual basis.



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE
 915 I STREET
 ROOM 112

SACRAMENTO, CALIFORNIA 95814
 TELEPHONE (916) 449-5738

February 20, 1985
 FA:84445:JRC:KMF

JACK R. CRIST
 DIRECTOR OF FINANCE

ROBERT C. LELAND
 ASSISTANT DIRECTOR

City Council
 Sacramento, California

Honorable Members in Session:

SUBJECT: External Audit Services Agreement for Fiscal Year 1984-85

SUMMARY

The City of Sacramento proposes to retain Price Waterhouse, Certified Public Accountant as our external auditors. Attached is a proposed:

- o Resolution (Exhibit I) and
- o Agreement (Exhibit II)

for auditing services for Fiscal Year 1984-85 (year six). It is recommended that the City Council approve the Resolution and Agreement.

BACKGROUND

In February 1978, the City Council adopted the policy guideline for retention of external audit firms. The adopted 1978 policy requires that the City change external auditors every five years. Once a firm is selected, a master agreement is signed which includes options to renew in each of the subsequent four years assuming satisfactory performance for the previous year.

Price Waterhouse has performed the City's External Audit for the past five years (FY 1979-80 through FY 1983-84). The firm's performance has been satisfactory. This report addresses a proposed sixth year extension based on special circumstances.

Currently City Council policy requires that Price Waterhouse be terminated as the City's auditors and that this service be rebid with the City changing external auditors for another prospective five year period. However, due to specialized accounting and auditing services currently being performed by Price Waterhouse in connection with the Light Rail Transit Project as well as the Cash and Investment Accountability Task Force, it is deemed prudent and necessary to extend the current external audit services agreement one additional year after which it would automatically be terminated.

The recommended one year extension is justified because:

1. Price Waterhouse is currently assisting City staff in evaluating and reporting the financial condition of the Sacramento Light Rail Transit Project. Changing external auditors in the middle of this important task would be disruptive and inefficient.
2. Price Waterhouse has been intimately involved in the current evaluation of the City's Cash and Investment Accountability systems. This project will require another twelve months to complete.

Since Price Waterhouse has participated in this process and has made important recommendations for changing the existing system, it would be extremely helpful to the City staff if they were retained an additional twelve months.

FINANCIAL

Exhibit III attached is a five year comparison of audit fees previously paid and the proposed fees for the 1984-85 audit. While the audit services rendered have been modified slightly, the proposed General Fund audit program is unchanged. The fee is proposed to increase from \$65,850 to \$69,000 or 4.8%.

In total the audit of all City programs is proposed to increase from \$104,100 to \$111,900 or 7.5%. The majority of this increased cost is attributable to additional Light Rail project audit requirements.

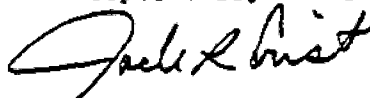
These amounts, if approved, will be budgeted in the FY 1985-86 Budget.

RECOMMENDATION

It is recommended that the City Council approve the attached Resolution authorizing the City Manager to sign an audit services agreement with Price Waterhouse for FY 1984-85.

Respectfully submitted,

cc: Jerrold Hunt
Price Waterhouse



JACK R. CRIST
Director of Finance

- Attachments:
1. Resolution - Exhibit I
 2. Agreement - Exhibit II
 3. Audit Fee Analysis - Exhibit III
 4. General Provisions - Exhibit IV

RECOMMENDATION APPROVED:



WALTER J. SLIRE
City Manager

EXHIBIT I

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION AUTHORIZING AUDITING SERVICES TO BE PERFORMED BY PRICE WATERHOUSE FOR FISCAL YEAR 1984-85

WHEREAS, the City entered into an auditing services Agreement No. 79215 on March 1980 with an option to renew the agreement; and

WHEREAS, said agreement was renewed in January 1981, April 1982, September 1983, and May 1984, and

WHEREAS, Price Waterhouse has satisfactorily performed audit services for fiscal years 1979-80, 1980-81, 1981-82, 1982-83 and 1983-84;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the attached Agreement is hereby approved for fiscal year 1984-85 auditing services; and
2. That the City Manager is hereby authorized to execute said Agreement for auditing services for fiscal year 1984-85, for a price not to exceed \$111,900.

MAYOR

ATTEST:

CITY CLERK

AMENDMENT TO AUDITING SERVICES
AGREEMENT

THIS AGREEMENT is made at Sacramento, California, as of _____, 1985 and amends the Agreement dated March 18, 1980, by and between the CITY OF SACRAMENTO, a municipal corporation ("City") and PRICE WATERHOUSE ("Auditor").

1. Services. Subject to the terms and conditions set forth in this Agreement, Auditor shall provide to City the service of examining the accounts of the City for the fiscal year July 7, 1984 to June 30, 1985; such service shall include, but not be limited to, performance of the following duties:

(a) Auditor shall examine and submit an audit report (as required by Section 117 of the Sacramento City Charter) of the financial statements of all funds of City; such audit report will cover the following entities/activities:

Financial Audit:

City of Sacramento (All Funds)

Sacramento City Employees Retirement System

Sacramento Community Center Authority

Sacramento Capitol Area Development Authority (Subject to possible deletion)

Sacramento Convention and Visitors Bureau

Mountain Valley Library System

Sacramento Transit Development Agency

Compliance Audit:

Limited Review of City Conflict of Interest Statements

City Code Section 18.100 Bingo Compliance Reviews

Sacramento Transit Development Agency
Federal "Attachment P" Grant Compliance Review

Comfort Letter in Conjunction with the Annual TRANS Official Statement and other borrowings as may occur from time to time.

Two (2) Surprise Cash and Securities Verifications

Insurance Claims Review

Revenue Sharing Compliance Audit

(b) The purpose of the engagement with Auditor is to examine the City's financial statements for the fiscal year ended June 30, 1985, and evaluate the fairness of presentation of the statement in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The examination will be conducted in accordance with generally accepted auditing standards which will include a review of the system of internal control and tests of transactions to the extent believed necessary. Accordingly, it will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although their discovery may result.

It is recognized that City has the responsibility for the proper recording of transactions in the books of account, for the safeguarding of assets and for the substantial accuracy of the financial statements. Such statements are the representations of City and will be typed and printed by the City.

The objective of the examination is the expression of an opinion on the City's financial statements. The ability of Auditor to express that opinion and the wording of that opinion will of course be dependent on the facts and circumstances at the date of that opinion. If the opinion is other than unqualified, the reasons therefor will be fully disclosed.

(c) Auditor shall submit a report of its comments and recommendations concerning City's accounting system based upon observations made during the course of auditor's examination of City's financial statements, records and internal procedures for the fiscal year ending June 30, 1985.

Auditor shall prepare and deliver to City ten (10) copies of the above report within 30 days after the City audit report date provided, however, that no report shall be delivered to City later than December 31, 1985. This date will be extended as determined under the third paragraph of point 4 if delivery date of Auditor's report is extended.

2. Payment. City shall pay Auditor for services rendered pursuant to this agreement a total sum of up to \$111,900 for the 1984-85 audits. Payment of the total sum may be made by City to Auditor by monthly payments based upon the work performed by Auditor during the preceding month. The determination of the amount of work performed by Auditor and the amount of the partial payment to be made by City shall be within the sole discretion of the Finance Director of City but it is agreed that said approval for progress payments shall not be withheld unreasonably.

The payment of the last 10% of the total sum shall be made after performance of the work of Auditor and only after all services required under this Agreement has been satisfactorily performed.

City shall make no payments for any extra, further or additional service pursuant to this agreement unless such extra service and the price therefor is agreed to in writing executed by the City Manager prior to the time such extra service is rendered.

Said agreed to service shall be billed to the City based on the following hourly rate plus cost-of-living increases as described above:

Partner	\$120/Hour
Manager	70/Hour
Senior Accountant	50/Hour
Staff Accountant	28/Hour

3. Facilities and Equipment. Except as provided below, Auditor shall, at its sole cost and expense, furnish all facilities and equipment which may be required for furnishing services pursuant to this Agreement. City shall furnish physical facilities such as desks, filing cabinets, and conference space, as may be reasonably necessary for Auditor's use while consulting with City employees and reviewing records and information in possession of City. The location, quantity and quality and time of furnishing said physical facilities shall be in the sole discretion of City. In no event shall City be obligated to furnish any facility which may involve incurring any direct expense, including but not limiting the generality of this exclusion to, long-distance telephone or other communication charges, vehicle, and reproduction facilities.

4. Time for Performance: Liquidated Damages. Time is of the essence in the efficient and effective completion of the examination and delivery of the Auditor's report. It is the intent of the Auditor and the City to issue the financial statements of the City no later than December 1, 1985. Certain acts, set forth below, must chronologically precede the issuance. The City will deliver to the Auditor on or before the specified dates the following items:

<u>Items</u>	<u>Dates</u>
Completed working papers for all funds (Except cash reconciliation and adjustments)	September 16, 1985
Complete and accurate reconciliations of all cash accounts and investment accounts along with completed and recorded cash adjustments as necessary	October 1, 1985
A complete draft of financial statements which are reasonably accurate as to amounts, classification and narrative	November 1, 1985

In the event that all of the above items are delivered on or before the specified dates, the auditor will deliver a signed report, suitable for printing, to the City on or before November 15, 1985. In the event that any of the items are not provided by the City on or before the specified dates, the number of consecutive days (including weekends and holidays) which they are individually late will be added to November 15, 1985 and the derived date will become the delivery date of the Auditor's report.

Damages for the Auditor and the City which would be caused by failure of either party to meet required delivery dates are extremely difficult at this point to foresee and would be costly, difficult and inconvenient to prove. Therefore, the Auditor and City agree that for every week or partial week which either the City or the Auditor fails to meet the required delivery dates, liquidated damages equal to 1% of the total contract price will be assessed against the party which fails to deliver, not to exceed 10% of total contract price. The foregoing amount is a reasonable and good faith attempt to specify in advance what actual damages would be.

Liquidated damages can only be waived by written consent of the beneficiary of the damages and must be granted each week prior to the week the damages accrue.

4.a. Arbitration. Any dispute under this agreement shall be submitted to binding arbitration with the arbitrator(s) to be selected by the City and the Auditor jointly.

6. Policy. It is the City's policy to change external auditors at least every five years. Accordingly, it is anticipated that the agreement will not be renewed after the June, 1985 audit completion (fiscal year 1984-85). The City would, however, consider Price Waterhouse as an eligible firm after one intervening firm change.

7. General Provisions. The general provisions are set forth in Exhibit IV, which is attached hereto and by this reference incorporated herein. In the event of any inconsistency between said general provisions and any other terms or conditions of this agreement, the other term or condition shall control insofar as it is consistent with the general provisions.

Executed as of the date first above stated.

ATTEST:

CITY OF SACRAMENTO
A Municipal Corporation

CITY CLERK

WALTER J. SLIPE

APPROVED AS TO FORM:

CITY ATTORNEY

PRICE WATERHOUSE

EXHIBIT III

	ACTUAL 82-83	APPROVED 83-84	PROPOSED 84-85
	-----	-----	-----
City of Sacramento	\$ 31,000	\$ 32,500	\$ 34,000
Conflict of Interest	1,100	1,150	1,200
Retirement	-0-	6,200	6,500
Bingo Audits	10,000(a)	14,700(a)	14,700(a)
TRANS Borrowing	6,500	6,800	7,100
COPS Borrowing	-0-	3,000(b)	4,000(b)
Cash Reconciliation	8,400	-0-	-0-
Surprise Security Counts	-0-	1,500	1,500
	-----	-----	-----
Subtotal General Fund	\$ 57,000	65,850	69,000
	-----	-----	-----
Mt. Valley Library	2,500	2,600	2,700
Community Center Authority	2,500	2,600	2,700
Capital Area Dev. Authority	6,200	6,500	6,800
Convention Bureau	2,500	2,600	2,700
Revenue Sharing	2,500(c)	2,500(c)	2,600(c)
Insurance Claims Review	-0-	8,500(d)	8,900
Sacramento Transit			
Development Agency	2,500	3,600(e)	10,000(e)(f)
Financial Statement Prep.	N/A	9,350(g)	6,500(g)
	-----	-----	-----
Total	\$75,700	\$104,100	\$111,900
	=====	=====	=====

-
- a. This new program is fully supported by user fees.
 - b. This cost to be paid from proceeds of Certificates of Participation borrowing.
 - c. A two year special compliance audit of the Federal Revenue Sharing Program.
 - d. This is a special review of the City's self insurance program.
 - e. This new audit cost is fully recoverable from the Light Rail Transit Development Agency.
 - f. Increase attributable to Grant Compliance Audit requirements.
 - g. To provide technical support assistance to the Accounting Division staff in preparing financial statements.

GENERAL PROVISIONS

EXHIBIT IV

1. Independent Contractor. At all times during the term of this Agreement, Auditor shall be an independent contractor and shall not be an employee of City. City shall have the right to control Auditor only insofar as the results of Auditor's services rendered pursuant to this Agreement; however, City shall not have the right to control the means by which Auditor accomplishes services rendered pursuant to this Agreement.

2. Licenses; Permits; Etc. Auditor represents and warrants to City that he has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Auditor to practice his profession. Auditor represents and warrants to City that Auditor shall, at his sole cost and expense, keep in effect at all times during the term of this Agreement any licenses, permits, and approvals which are legally required for Auditor to practice his profession.

3. Time. Auditor shall devote such time to the performance of services pursuant to this Agreement as may be reasonably necessary for satisfactory performance of Auditor's obligations pursuant to this Agreement.

4. Insurance.

(a) Public Liability. During the term of this Agreement, Auditor shall maintain in full force and effect a policy of public liability insurance with minimum coverages as follows: \$100,000.00 for injury to one person in any one occurrence; \$300,000.00 for injury to more than one person in any one occurrence; and \$50,000.00 for property damage. If City so requests, Auditor shall cause City to be named as an additional insured on said policy and shall obtain a waiver of the insurer's right of subrogation against City.

(b) Workman's Compensation. During the term of this Agreement, Auditor shall fully comply with the terms of the law of California concerning workman's compensation. Said compliance shall include, but not be limited to, maintaining in full force and effect one or more policies of insurance insuring against any liability Auditor may have for workman's compensation.

(c) Errors and Omissions. During the term of this Agreement, Auditor shall maintain in full force and effect a policy of errors and omissions insurance. Auditor shall take out and keep in full force and effect during the term of this Agreement a policy in form and content satisfactory to City which shall indemnify City against errors and omissions by Auditor. Said policy or policies shall provide liability coverage in an amount specified by City in its request.

5. Auditor Not Agent. Except as City may specify in writing, Auditor shall have no authority, express or implied, to act on behalf of City in any capacity whatsoever as an agent. Auditor shall have no authority, express or implied, pursuant to this Agreement to bind City to any obligation whatsoever.

City Agreement No. _____

City Agreement No. _____

83206

6. Assignment Prohibited. No party to this Agreement may assign any right or obligation pursuant to this Agreement. Any attempted or purported assignment of any right or obligation pursuant to this Agreement shall be void and of no effect.

7. Personnel. Auditor shall assign only competent personnel to perform services pursuant to this Agreement. In the event that City, in its sole discretion, at any time during the term of this Agreement, desires the removal of any person or persons assigned by Auditor to perform services pursuant to this Agreement, Auditor shall remove any such person immediately upon receiving notice from City of the desire of City for the removal of such person or persons.

8. Standard of Performance. Auditor shall perform all services required pursuant to this Agreement in the manner and according to the standards observed by a competent practitioner of the profession in which Auditor is engaged. All products of whatsoever nature which Auditor delivers to City pursuant to this Agreement shall be prepared in a substantial, first class and workmanlike manner and conform to the standards of quality normally observed by a person practicing in Auditor's profession.

City Agreement No. _____

City Agreement No. 83206

EXHIBIT III

	ACTUAL 82-83 -----	APPROVED 83-84 -----	PROPOSED 84-85 -----
City of Sacramento	\$ 31,000	\$ 32,500	\$ 34,000
Conflict of Interest	1,100	1,150	1,200
Retirement	-0-	6,200	6,500
Bingo Audits	10,000(a)	14,700(a)	14,700(a)
TRANS Borrowing	6,500	6,800	7,100
COPS Borrowing	-0-	3,000(b)	4,000(b)
Cash Reconciliation	8,400	-0-	-0-
Surprise Security Counts	-0-	1,500	1,500
	-----	-----	-----
Subtotal General Fund	\$ 57,000	65,850	69,000
	-----	-----	-----
Mt. Valley Library	2,500	2,600	2,700
Community Center Authority	2,500	2,600	2,700
Capital Area Dev. Authority	6,200	6,500	6,800
Convention Bureau	2,300	2,600	2,700
Revenue Sharing	2,500(c)	2,500(c)	2,600(c)
Insurance Claims Review	-0-	8,500(d)	8,900
Sacramento Transit			
Development Agency	2,500	3,600(e)	10,000(e)(f)
Financial Statement Prep.	N/A	9,350(g)	6,500(g)
	-----	-----	-----
Total	\$75,700	\$104,100	\$111,900
	=====	=====	=====

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- a. This new program is fully supported by user fees.
 - b. This cost to be paid from proceeds of Certificates of Participation borrowing.
 - c. A two year special compliance audit of the Federal Revenue Sharing Program.
 - d. This is a special review of the City's self insurance program.
 - e. This new audit cost is fully recoverable from the Light Rail Transit Development Agency.
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 - g. To provide technical support assistance to the Accounting Division staff in preparing financial statements.