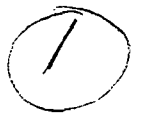




CITY OF SACRAMENTO



DEPARTMENT OF FINANCE

915 I STREET
ROOM 112

SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-5736

JACK R. CRIST
DIRECTOR OF FINANCE

ROBERT C. LELAND
ASSISTANT DIRECTOR

February 19, 1985

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

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

SUMMARY

Due to specialized accounting and auditing services currently being performed by Price Waterhouse in connection with Light Rail and the Cash and Investment Accountability Task Force, it is deemed prudent and necessary to extend the current external audit services agreement one additional year. The staff therefore proposes to retain Price Waterhouse, Certified Public Accountants as our external auditors for auditing services for Fiscal Year 1984-85.

RECOMMENDATION

It is recommended that the Budget and Finance Committee review and approve the attached report and forward to City Council for approval and resolution adoption.

Respectfully submitted,

JACK R. CRIST
Director of Finance

RECOMMENDATION APPROVED:

SOLON WISHAM, JR.
Assistant City Manager

Attachments



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,

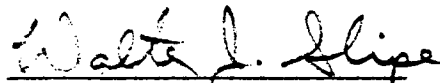
cc: Jerrold Hunt
Price Waterhouse



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

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

10

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