



Office of the City Manager

CONSENT CALENDAR  
May 21, 2013

To: Honorable Mayor and Members of the City Council  
From:  Christine Daniel, City Manager  
Submitted by: Robert Hicks, Director, Finance  
Subject: Contract: Badawi & Associates, Certified Public Accountants for Professional Auditing Services

RECOMMENDATION

Adopt a Resolution ratifying the Mayor's decision to select Badawi & Associates as the auditing firm to perform annual financial audits of the City's financial statements and perform annual compliance audits required by the Single Audit Act of 1984 (as amended in 1996), for the period of May 22, 2013 through June 30, 2016, in the amount of \$432,263; and to authorize the execution of a three-year contract with Badawi & Associates, with an option to extend the contract for two additional years.

FISCAL IMPACTS OF RECOMMENDATION

This three-year contract will cost a total of \$432,263 for all funds, which is \$125,487 less than the \$557,750 total cost expended for all funds in the previous three years (FY 2010, FY 2011 and FY 2012).

If the City decides to extend the contract for the two additional option years, the total cost for the five-year period will be \$728,997, which is \$165,753 less than the \$894,750 total cost expended for all funds in the previous five years (FY 2008, FY 2009, FY 2010, FY 2011 and FY 2012).

Contract funding for the full 3-year term is as follows:

General Fund total cost of \$366,773 (010-9701-410-3033):

- \$118,020 in FY 2014
- \$122,216 in FY 2015
- \$126,537 in FY 2016

General Fund total budget of \$480,000 (010-9701-410-3033):

- \$160,000 in FY 2014
- \$160,000 in FY 2015
- \$160,000 in FY 2016

Other Revenue Funds total cost and budget of \$65,490:

- Business Economic Development Fund (480-8705-465-3033): \$5,830 in FY 2014; \$5,830 in FY 2015; and \$5,830 in FY 2016; and
- Community Block Grant Development (CDBG ) Fund (370-7903-463-3033): (\$16,000 in FY 2014; \$16,000 in FY 2015; and \$16,000 in FY 2016)

### CURRENT SITUATION AND ITS EFFECTS

Article VI, Section 24 of the City Charter requires the City of Berkeley to have an annual audit performed, and gives the Mayor sole authority to select the firm that will perform the audit. In addition, the City is required to perform an audit in conformance with the Federal Single Audit Act of 1984, as amended in 1996. The Mayor established a five-person Auditor Selection Committee consisting of himself, the Chief of Staff to the Mayor, the City Auditor, the Audit Manager, and a Berkeley resident who is a Certified Public Accountant. The Committee was staffed by the Finance Department, primarily the Director of Finance.

The Auditor Selection Committee reviewed and evaluated the proposals submitted by nine Certified Public Accounting firms in response to the City's Request for Proposal (Badawi & Associates; MGO; Maze & Associates; Chavan & Associates; Vavrinek, Trine, Day & Co., LLP; Burr Pilger Mayer, Inc.; Gallina LLP; Brown Armstrong; and JJA CPA.) In addition, a member of the Auditor Selection Committee checked the references identified by the firms, and contacted other clients of the firms that were not listed as references, to determine the quality of the firms' performances on other similar engagements. After the review of the proposals submitted, three firms were selected for oral interviews on April 25, 2013: Badawi & Associates; Chavan & Associates; and Vavrinek, Trine, Day & Co., LLP.

The Mayor's Auditor Selection Committee recommended, and the Mayor selected, the proposal of Badawi & Associates as the most favorable to the City based on the evaluation criteria identified in the RFP.

### BACKGROUND

Caporicci & Larson, Inc. (A Subsidiary of Marcum LLP, CPAs) was the City's external auditing firm for the period from July 1, 2008 through June 30, 2011. The contract was extended for two additional option years through June 30, 2013. Badawi & Associates purchased the Northern California practice of Caporicci & Larson, Inc. (A Subsidiary of Marcum LLP, CPAs) on March 1, 2012, and recently completed the FY 2012 audit. The auditing contract with the City was through June 30, 2013. Therefore, on February 1, 2013, the City issued an RFP (Specification No. 13-10711-C) for professional auditing services to 26 Certified Public Accounting firms, and posted the RFP on the City's website. The proposal was for qualified Certified Public Accountants to audit the City's financial statements for the three fiscal years ending June 30, 2013, 2014, and 2015, with an option for two additional years. These audits are to be performed in accordance with generally accepted auditing standards, the standards set forth for financial audits in

the U. S. General Accounting Office's *Government Auditing Standards* (December 2011 edition), the provisions of the Federal Single Audit Act of 1984, as amended in 1996, and U. S. Office of Management (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

A pre-proposal conference was held on February 25, 2013, and was attended by nine potential proposers. Nine proposals were received by the due date of March 7, 2013, and a preliminary review and evaluation of the proposals was performed by Finance and City Auditor Department staff, to determine if the firms met the minimum qualifications, and if they were responsive to the City's RFP requirements. All nine firms met the minimum RFP requirements and were considered to be responsive to the City's RFP requirements. Their proposals were reviewed and evaluated by the Mayor's Auditor Selection Committee, based on the following evaluation criteria:

- Expertise and Experience
  1. Partner, supervisory and management staff to be assigned to the engagement; the numbers of hours to be spent on the engagement; and their experience;
  2. Experience of the individual performing the review of the City's information system operations;
  3. Qualifications, experience and training of staff to be assigned to the engagement; and
  4. Similar engagements with governmental entities
- Audit Approach
  1. Understanding of the major tasks and subtasks to be performed;
  2. Approach to be taken to gain and document an understanding of the City's internal control structure;
  3. Approach used to assess control risk;
  4. Approach to be taken in determining laws and regulations that will be subject to audit test work;
  5. The extent to which statistical sampling is to be used on the engagement;
  6. The approach to information systems on the engagement; and
  7. Type and extent of analytical procedures to be used in the engagement

- Planned hours and level of staff to be used for each major task
- Value added to the engagement, in the form of free training to City staff and other free services
- Maximum fee for the engagement

#### RATIONALE FOR RECOMMENDATION

All three of the firms interviewed by the Mayor's Auditor Selection Committee were determined to be sufficiently qualified and experienced to timely perform the engagement; and the reference checks for all three firms were favorable. Badawi & Associates' proposal and oral interview received the panel's highest score, based on the evaluation criteria outlined in the RFP.

#### ALTERNATIVE ACTIONS CONSIDERED

The only alternative was to select one of the other firms, at a significantly higher cost. However, the potential benefits to be received from the selection of any of the other firms did not outweigh the higher cost.

#### CONTACT PERSON

Robert Hicks, Director of Finance, 981-7300

Attachments:

1: Resolution

RESOLUTION NO.        -N.S.

RATIFYING THE MAYOR'S EXECUTION OF A CONTRACT WITH BADAWI & ASSOCIATES TO PROVIDE COMPREHENSIVE PROFESSIONAL AUDITING SERVICES

WHEREAS, a Request for Proposal (Specification No. 13-10711-C) was distributed to 26 Certified Public accounting firms and posted on the City's Website on February 1, 2013; and

WHEREAS, nine proposals were received by the March 7, 2013 deadline; and

WHEREAS, all nine proposals were considered responsive to the City's Request for Proposal requirements; and their proposals were reviewed and analyzed by the Mayor's Audit Selection Committee, based on the evaluation criteria outlined in the Request for Proposal; and their references were checked; and

WHEREAS, three of the nine firms were interviewed; and

WHEREAS, the City Charter gives the Mayor sole authority to select the firm to perform the City's annual audit; and

WHEREAS, the Mayor selected the proposal of Badawi & Associates as the most favorable to the City, based on the recommendation of the Mayor's Audit Selection Committee.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley ratifies the Mayor's selection of Badawi & Associates as the auditing firm to provide professional auditing services for the City for the period May 22, 2013 through June 30, 2016 for an amount not to exceed \$432,263 to be paid from budget codes 010-9701-410-3033, 480-8705-465-3033, and 370-7903-463-3033; and authorizes the execution of a three-year contract with Badawi & Associates, with an option to extend the contract for two additional years.

