



THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: January 26, 2007 REPORT NO: 07-029

ATTENTION: Audit Committee  
Committee of January 29, 2007

SUBJECT: Retention of the City's Independent External Auditor (Macias Gini & O'Connell LLP.) for Fiscal Year 2006 and 2007 Audits

REFERENCE: Comprehensive Annual Financial Reports for the Fiscal Years ending June 30, 2006 and June 30, 2007

REQUESTED ACTION:

1. Approve a sole source agreement with Macias in an amount not to exceed \$888,634 for the audit of the City's Fiscal Year 2006 financial reports outlined in attachment to this report, and forward said recommendation to the City Council for its approval.
2. Approve a sole source agreement with Macias in an amount not to exceed \$930,152 for the audit of the City's Fiscal Year 2007 financial reports outlined in attachment, and forward said recommendation to the City Council for its approval.

STAFF RECOMMENDATION:

Approve requested action.

SUMMARY:

On January 27, 2004, the City filed a voluntary financial disclosure concerning, in part, certain errors and correctible statements in the City's Fiscal Year 2002 Comprehensive Annual Financial Report ("CAFR"). As a result, the Fiscal Year 2003, 2004, and 2005 CAFR's have not been finalized and issued.

The City retained Macias, Gini & O'Connell, LLP (Macias) to perform the audits of the City's Fiscal Year 2004 and 2005 basic financial statements, which are included in the CAFR's. Given the continued importance of thorough reviews, the Mayor is requesting that he be authorized and empowered to execute for and on behalf of the City, a sole source agreement with Macias in an amount not to exceed \$888,634 for the audit of the Fiscal Year 2006 reports outlined in attachment. Additionally, the Mayor is requesting that he be authorized and empowered to execute for and on behalf of the City, a sole source agreement with Macias in an amount not to exceed \$930,152 for the audit of the Fiscal Year 2007 reports also outlined in attachment.

Macias is auditing the Fiscal Year 2004 and 2005 financial statements, and it is rational and expedient that Macias would undertake the Fiscal Year 2006 and 2007 audits. While the Fiscal Year 2004 and 2005 audits are not yet finalized pending completion of the City's Fiscal Year 2003 audit (conducted by KPMG LLC.), the City has found Macias to be organized, responsive and thorough in the manner in which they have carried out their responsibilities as the City's independent auditor. The retention of Macias to audit the additional two fiscal periods is consistent with the recommendations contained in the Report of the Audit Committee of the City of San Diego (Report of the Audit Committee of the City of San Diego Page 253). Specifically, the adoption of the recommended action would result in the engagement of Macias to audit the City's basic financial statements for four consecutive fiscal years.

COST OF ACTION:

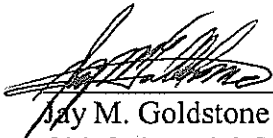
The total cost of the action will be \$1,818,786. The costs related to the requested action will be appropriated in the Fiscal Year 2008 budget. All audit costs will be charged directly to the benefited funds under audit.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The City retained Macias to perform the audit of the Fiscal Year 2004 basic financial statements. Subsequently the city retained Macias to perform the audit of the Fiscal Year 2005 basic financial statements.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

To return to the public finance market the City must issue its basic financial statements. In addition, to continue to be eligible for federal grants in excess of a total of \$500,000 the City must complete its federal single audits.



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Jay M. Goldstone  
Chief Financial Officer

Attachment

**City of San Diego**  
**Scope of Work Fiscal Year 2006-2007**  
**Independent Audit of Financial Statements**

The audit period shall encompass Fiscal Year 2006-2007. The auditor will conduct the audit of relevant statements and schedules sufficient to enable the certified public accounting firm to express an informed written opinion on:

- 1) The fair presentation of the financial position and changes in financial position of the governmental activities, business-type activities, each major fund, the aggregate remaining other fund information, and fiduciary funds in conformity with Generally Accepted Accounting Principles (GAAP) in the United.
- 2) Financial and compliance audits under the Single Audit Act and OMB Circular A-133. The internal accounting and other control systems as required by the Single Audit. Audits will meet required standards as revised by Generally Accepted Audit Standards (GAAS) guidelines and Generally Accepted Governmental Auditing Standards (GAGAS), issued by the Comptroller General of the United States.
- 3) The Auditor may issue a management letter to the extent considered appropriate, or as requested by the City. The auditor may recommend improvement in any areas brought to its attention during the course of the audit.

The auditor will issue its report with respect to the following:

- 1) The City of San Diego Comprehensive Annual Financial Report which includes the basic financial statements, Management's Discussion and Analysis, other Required Supplementary Information, combining and Individual Fund Statements, and Statistical data for the fiscal year ended June 30.
- 2) The City of San Diego Water Utility Annual Financial Report.
- 3) The City of San Diego Sewerage Utility Annual Financial Report with supplemental separate opinions for the Municipal, Metropolitan, and Clean Water Programs, as required. Including the allocation for billing Metropolitan System of the City of San Diego Sewer Utility.
- 4) City of San Diego Appropriation Limit Worksheet (GANN Limit).

- 5) The Component Unit Annual Financial Report for the following:
- Redevelopment Agency
  - Southeastern Economic Development Corporation
  - Centre City Development Corporation
  - San Diego Convention Center Corporation
  - San Diego Data Processing Corporation
  - City of San Diego-schedule related to Naval Training Center
  - Economic Dev Conveyance
  - San Diego Open Space Park Facilities District 1
  - San Diego Facilities and Equipment Leasing Corporation
  - City of San Diego Metropolitan Transit Development Board Authority
  - Automated Regional Justice Information System
  - Public Facilities Financing Authority of the City of San Diego
  - San Diego Geographic Information Source (SanGIS)
  - Abandoned Vehicle Abatement Authority
  - San Diego Medical Services Enterprise, LLC
  - San Diego Convention Center Expansion Authority

And additional related entity audits, as required, which would be included as part of the comprehensive Annual Audit (fees to be negotiated).

- 6) The Single Audit Act of 1984, Federal Public Law 98-502 and OMB Circular A-133 for the following:

City of San Diego  
Redevelopment Agency

- 7) Audit services performed in order for the audit firm to consent to inclusion of the annual financial statement in the official statements of respective debt issues.

The San Diego Housing Commission will be audited by another outside auditor and will not be included in the scope of work.

In addition, the audit of the San Diego City Employees Retirement System Annual Financial Report will also be conducted by another independent auditor and not included in this scope of work.

Please contact Greg Levin, Acting Deputy Comptroller at (619) 236-6162, [glevin@sandiego.gov](mailto:glevin@sandiego.gov) if you have any questions regarding this draft proposed scope of work for the fiscal year 2006 and fiscal year 2007 financial statements.