

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** September 19, 2007

**IBA Report Number:** 07-87

**Audit Committee Docket Date:** September 24, 2007

**Item Number:** 5

**Subject:** Discussion related to the Recommendation for a Professional Audit Consultant

### OVERVIEW

On September 10, 2007, the Audit Committee received a recommendation from their designated RFP Technical Evaluation Committee to select the firm of Jefferson Wells to serve as Professional Audit Consultant for the Audit Committee and City Council. The Audit Committee expressed a desire to meet with the proposed Jefferson Wells team and discuss their qualifications/capabilities related to the anticipated scope of work. A motion was adopted directing the IBA to work with Jefferson Wells in order to return to the Audit Committee with a contract and scope of work parameters that could be discussed at the next meeting. This report provides an update on the contemplated contract and provides suggestions for the initial scope of work.

### FISCAL/POLICY DISCUSSION

#### Decision to Utilize an Audit Consulting Firm in lieu of a Hired City Employee

On May 14, 2007, the Audit Committee requested that the IBA report on the considerations associated with the decision to either hire an audit professional as a full-time staff person or, alternatively, to hire an audit consulting firm with designated consultants to assist the City on an as-needed basis. IBA Report #07-56 (Attachment 1) discussed identified considerations, reiterated IBA support for the Audit Committee's decision to hire an independent auditing professional, and concluded that either method of procuring auditing expertise for the Audit Committee was viable. At their meeting on May 21, 2007, the Audit Committee discussed this matter and received input from the City's Independent SEC Consultant (Stan Keller), General Disclosure Counsel (John McNally) and the IBA. A unanimous decision was made to seek a professional audit consulting firm rather than a hired City employee based on the following rationale:

- An outside professional auditing firm provides greater depth and breadth of auditing expertise to support the Committee and City Council as needed.
- Depending on the outcome of proposed Charter reform next June, a City Auditor with staff could be reporting directly to the Audit Committee in FY 09, thereby possibly eliminating the need for additional hired expertise.
- Given some uncertainty with respect to the specific services that might be required in FY 08 and anticipating a short-term need for auditing expertise, utilizing a consulting firm on an as-needed basis provides greater flexibility.
- Mr. Keller noted that it is always easier to move from a consulting firm to a hired employee (should it become necessary to do) than vice-versa. Mr. McNally suggested that as the Audit Committee develops and becomes more efficient at managing the matters before them, they might not require the services of a full-time employee.

#### The Process for Developing the Consultant Contract

In accordance with Section M on page 17 of the Professional Audit Consultant RFP, the resulting consultant contract will be comprised and incorporate all elements of: the City's RFP (in pertinent part, Attachment 2); the consultant's proposal - technical volume and price volume (Attachment 3); and any written commitments or addendums to the submitted proposal (Attachment 4). The RFP provides that "collectively, these documents will be known as 'the Contract Documents' and will constitute the entire agreement between the parties". The Purchasing and Contracting Department has advised the IBA that the scope of work parameters for the contemplated contract are defined and limited by the aforementioned documents.

Jefferson Wells has confirmed to the IBA that they are able to satisfy all of the City's standardized contracting requirements. The price proposal submitted by Jefferson Wells specifies a fully-burdened hourly rate of \$250 for Bob Miranda and \$175 for James Santer in FY 08. In a written addendum to their proposal dated September 7, 2007, Jefferson Wells committed additional expertise from within their firm, if necessary, at a fully-burdened hourly rate not to exceed \$250 per hour. The City Council has already appropriated \$225,000 for professional audit consultant services in the FY 08 Budget. The Audit Committee and the City Council would utilize the contemplated contract on an as-needed basis; there is no specified minimum contract amount.

#### Suggestions for an Initial Scope of Work

In developing the City's RFP for a professional audit consultant, the IBA included an extensive list of requirements and deliverables (see Attachment 2) that could be requested from the selected professional audit consulting firm. The Audit Committee has asked the IBA to suggest tasks that could be initially assigned to the selected audit consulting firm.

Drawing from the list of possible consultant requirements and deliverables identified in the RFP, the IBA suggests that the following tasks could immediately be undertaken and benefit from the insights of the recommended professional audit consultant:

- Assisting the Audit Committee and City Council in analyzing recommended ballot language (or developing alternative language) for proposed City Charter reform, particularly for proposed changes that would impact the Audit Committee, the City Auditor and auditor independence;
- Helping the Audit Committee and the City Council to evaluate and make structural/budgetary recommendations to facilitate the re-establishment of a fully functioning and independent City audit division;
- Working with the new City Auditor to evaluate and provide comment on the citywide risk assessment process that is underway and will be used to develop the annual audit work plan for FY 08 that will ultimately be presented to the Audit Committee for consideration;
- Reviewing the City's past Annual Reports on Internal Controls and independently assessing all City operations from an auditing perspective in order to provide recommendations to the Audit Committee for the development of an appropriate risk-based annual audit work plan;
- Analyzing and commenting on reports/recommendations from the Mayor, the City Attorney, the City's SEC Independent Consultant and Outside Disclosure Counsel that address audit related issues (i.e., internal controls) in order to facilitate compliance with the SEC Order dated November 14, 2006 and other disclosure matters of interest to the Audit Committee;
- Assisting the Audit Committee and the City Council in their understanding of the City's financial statements and reviewing the work of the City's outside auditors;
- Analyzing all of the audit-related items and requests for legislative action that are placed on the Audit Committee or City Council dockets, and advising the Audit Committee and the City Council on these matters;
- Providing ongoing analysis and independent advice to the Audit Committee and the City Council regarding the proposed implementation of audit-related measures described in the Kroll Remediation Plan; and
- Reviewing the best practices of other public and private sector audit committees and recommend practices that could enhance the effectiveness of the City's Audit Committee.

**CONCLUSION**

The proposed day-to-day contacts for the Jefferson Wells team, Bob Miranda and James Santer, will attend the Audit Committee meeting on September 24, 2007. They will be prepared to discuss their individual qualifications and additional professional resources that would be available if needed from Jefferson Wells. They will also be prepared to discuss their ability to address the tasks that the IBA has suggested within this report. It may be helpful for the Audit Committee to refer to the attached Jefferson Wells proposal, the related addendum letter and IBA Report #07-83 in discussing qualifications and capabilities with the firm.

The IBA believes that the proposed professional audit consulting contract represents a prudent expenditure of funds that will quickly provide the Audit Committee and the City Council with independent governmental auditing expertise and needed advice. The RFP Technical Evaluation Committee has judged the firm of Jefferson Wells to be both interested and capable of assisting the Audit Committee and City Council with the scope of work provided in the RFP. If, after discussing qualifications and capabilities, the Audit Committee supports the recommendation to retain Jefferson Wells, the IBA will work with the Purchasing and Contracting Department to execute a contract with the firm.

**[SIGNED]**

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Jeff Kavar  
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APPROVED: Andrea Tevlin  
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Attachments 1-4