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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** May 23, 2008

**IBA Report Number:** 08-56

**City Council Docket Date:** May 27, 2008

**Item Number:** 331

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# Amendment to Agreement with the Outside Auditor

## OVERVIEW

On May 27, 2008, the City Council will be asked to approve an additional appropriation of \$1.38 million for the Agreement with Macias, Gini & O'Connell, LLP (Macias). Macias has served as the City's outside auditor for Fiscal Years 2004 through 2007. In that capacity, they have audited the annual financial statements for the City and its component units. To date, total funding of \$4.04 million has been authorized for audit work for all four fiscal years. Funding in the amount of \$979,800 is requested from the General Fund Appropriated Reserve, with the balance of \$400,200 contributed from other benefiting City funds. Upon approval of this action, total authorized funding for Macias will reach \$5.42 million.

On May 19, 2008, the City Council authorized the transfer of \$2.5 million from the Unallocated Reserve to replenish the Appropriated Reserve, in part, to provide funds for this anticipated action. If this action is approved, the balance of the Appropriated Reserve will be \$1.59 million.

## FISCAL/POLICY DISCUSSION

On April 22, 2008, the City Council discussed and received the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2006 and the related Single Audit and Yellow Book Reports. The Comptroller anticipates completing the CAFR for Fiscal Year 2007 in June 2008. If so, Macias will likely complete their audit work in July 2008. The Comptroller's Office has informed the IBA that Macias invoices for audit work performed for Fiscal Years 2004 through 2006, including cost overruns, have been paid in full.

As noted in the Comptroller's memorandum dated April 11, 2008, an additional appropriation of \$1.38 million is requested for the Macias Agreement to cover cost overruns associated with unanticipated work for Macias. In their letter dated March 10, 2008, Macias explains their reasons for incurring cost overruns, which include the re-opening of the Fiscal Year 2005 audit. The Comptroller's Office has informed the IBA it became apparent in September 2007 that the appropriation to complete the audit work for Fiscal Year 2007 would be insufficient. Lacking better detail on the total expected additional audit costs, a decision was made to wait until these costs could be better ascertained before seeking additional authorization from the City Council. It was hoped this would eliminate the need to seek further authorizations at a later date.

The IBA understands the circumstances that led to the Macias cost overruns over original estimates; however, we believe that this information should have been shared with the City Council sooner. This request was intended to be scheduled for discussion at the Audit Committee meeting of May 12, 2008, however that meeting was subsequently canceled. As the next Audit Committee meeting is scheduled for June 9, 2008, it was not feasible to first discuss this action with the Audit Committee and then docket for City Council approval prior the end of the current fiscal year (June 30, 2008). The status of the annual audits is a standing item on the agenda for each Audit Committee meeting. Updates regarding potential cost overruns related to the agreement with the outside auditor should be discussed as part of these status reports.

The IBA recommends that, in the future, information concerning potential audit cost overruns be shared with the Audit Committee and the City Council as soon as possible. In addition to allowing for better resource planning, ongoing communication would avoid the perception that work may have been permitted, without proper authorization or the identification of sufficient funding.

## CONCLUSION

The IBA recommends approval of the action to authorize funds in the amount of \$1.38 million for the Macias Agreement, with \$979,800 to be funded from the Appropriated Reserve. In addition, the IBA recommends that, in the future, information concerning potential audit cost overruns be shared with the Audit Committee and the City Council as soon as possible.

**[SIGNED]**

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Jeff Kawar  
Fiscal & Policy Analyst

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Elaine DuVal  
Fiscal & Policy Analyst

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APPROVED: Andrea Tevlin  
Independent Budget Analyst