

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of the Outside Auditor's Performance and Agreement

In 2009, the City Council authorized an Agreement with Macias Gini & O'Connell (MGO) to audit the City's financial statements for fiscal years 2009 through 2013. In approving the Agreement, the City Council directed the IBA to review and evaluate MGO's performance after the financial statement audits for fiscal years 2009 and 2010 had been completed. This report is provided in response to that direction and to assist the Audit Committee in fulfilling their City Charter responsibility to monitor the engagement of the City's outside auditor.

The IBA evaluated MGO's performance under the current Agreement which covers the City's financial statement audits for fiscal years 2009 and 2010. Our evaluation included the following:

- A review of MGO's performance with staff from the 1) Office of the City Comptroller who produce the annual financial statements and frequently interact with MGO during the course of each audit and 2) Office of the City Auditor who administers the City's Agreement with MGO.
- A discussion with MGO that in part covered certain criteria developed by audit experts to assist audit committees in evaluating the performance of outside auditors.
- A review of commitments made by MGO in their 2009 proposal to the City which have been incorporated into the current Agreement.

Despite unanticipated City delays in the availability of the FY 2010 financial statements, MGO has been responsive and timely in performing audit work for the City. The City staff we interviewed favorably evaluated MGO's performance to date under the current Agreement. MGO passed their 2009 Peer Review which offers a professional external review of their quality control systems for audits. In evaluating MGO against auditor review criteria developed by professional accounting and audit organizations, the IBA did not find anything that would cause us significant concern.

We understand that a recent news story raised questions about what a financial statement audit should reasonably be expected to catch. After discussing this issue with other auditors and MGO, we acknowledge that this can be a difficult question to answer. Public expectations related to audits often exceed professional audit requirements; however, we believe these are reasonable questions to be addressed by the Audit Committee and MGO. Senior representatives of MGO will be present at the September 12th Audit Committee meeting to respond to questions.

In conclusion, the IBA believes MGO has performed well for the City to date. We commend their willingness to adjust to changing audit circumstances, meet aggressive timelines, make themselves available to the Audit Committee and provide training to City staff and City Council.