



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
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### CITY COUNCIL STAFF REPORT

Meeting: June 21, 2023

#### Subject

Consider authorizing the City Manager to execute a Professional Services Agreement with The Pun Group, LLP for professional auditing services.

#### Recommended Action

1. Award a Professional Services Agreement for auditing services from June 2023 through June 2025 in a total not to exceed contract amount of \$420,859, with an option to extend the contract for two additional years in the amount of \$316,813 for a total contract amount of \$737,672, to The Pun Group, LLP;
2. Authorize the City Manager to execute a Professional Services Agreement with The Pun Group, LLP, when all conditions have been met; and
3. Authorize the City Manager to extend the contract for up to two years.

#### Reasons for Recommendation

At the May 31, 2023, Audit Committee Special Meeting, the Audit Committee accepted External Auditor Selection Subcommittee's recommendation to award The Pun Group, LLP a professional auditing services contract and forward to City Council for approval. The City's municipal code section 2.88.100 lists the Audit Committee's Powers and Function and includes "To recommend appointment of auditors."

#### *Background*

The City and Crowe, LLP, the City's previous auditors, recently completed a five-year professional auditing services contract with an additional one-year extension, spanning fiscal years 2016-17 to 2021-22. Government Code section 12410.6(b) requires audit partners, individuals responsible for the audit engagement and its performance, to rotate in a six-year cycle; providing a "fresh look" by a newly involved partner might turn up financial reporting issues that the prior partner had ignored or missed. Although the cycle rotation does not require changing audit firms, some experts argue that changing firms allows for an auditor's advice to remain unbiased; enhanced independence, objectivity, and professional skepticism; and an opportunity to tailor new engagements based on the client's changing needs.

Following industry best practices, the City prepared a Request for Proposal (RFP) for Auditor Services. The City established the External Auditor Selection Subcommittee (Subcommittee), comprised of the two Audit Committee Members and City staff, to evaluate proposals and firms. On February 3, 2023, the RFP was distributed and posted on the City's Business Opportunities website.

As a result of the RFP, City staff received seven proposals by the March 3 submittal deadline. The seven proposals were received from the following firms:

- Badawi & Associates
- Crowe, LLP
- Eide Bailly, LLP
- Macias, Gini, and O'Connell, LLP
- Maze and Associates
- Moss, Levy & Hartzheim, LLP
- The Pun Group, LLP

The Subcommittee evaluated the proposals for technical qualifications (expertise, experience, and audit approach), using a point formula to score each proposal against the criteria outlined in the RFP. The Subcommittee agreed to interview the top three firms: Crowe, LLP; Maze and Associates; and The Pun Group, LLP ("Pun Group"). Interviews were conducted the week of May 8.

### **Firm Selection**

Considering the proposal evaluations and interviews, the Subcommittee recommends awarding the professional auditing services contract to The Pun Group. While the top three firms offer well-qualified services, the recommendation gives heavy weight to receive a fresh look at the City's financial reports and processes. Additional factors considered with the recommendation of The Pun Group include the use of artificial intelligence to enhance (not as a replacement for) sample selection and a workflow management software solution that will allow City staff to easily track the progress of each audit.

The Pun Group has a solid track record in providing services to local municipalities and provided a highly qualified engagement team to provide the City with the required governmental auditing experience and technical capabilities to successfully complete timely and accurate audits and reports.

### **Sustainability Impact**

No sustainability impact.

Fiscal Impact

Funds for this agreement include Professional Auditing Services for Fiscal Years 2022-23 through 2024-25, with two optional one-year extensions.

<b>Fiscal Year</b>	<b>Amount</b>
FY 2022-23	133,500
FY 2023-24	140,175
FY 2024-25	147,184
<b>Total</b>	<b>\$420,859</b>

<b>Fiscal Year (Optional)</b>	<b>Amount</b>
FY 2025-26	154,543
FY 2026-27	162,270
<b>Grand Total Five Years</b>	<b>\$737,672</b>

California Environmental Quality Act

Not applicable.

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Prepared by: Jonathan Orozco, Finance Manager

Reviewed by: Kristina Alfaro, Administrative Services Director

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Draft Agreement