

Capitola City Council

Agenda Report



Meeting: April 25, 2024
From: Finance Department
Subject: Agreement for Auditing Services

Recommended Action: Authorize the City Manager to execute a five-year agreement for professional auditing services with Chavan & Associates, LLP, certified public accountants, to conduct the 2023-24 through 2027-28 fiscal year audits and required reports in an amount not to exceed \$51,000 annually, for a total contract amount not to exceed \$255,000.

Background: After six years of partnership with Eide Bailly, the City of Capitola concluded its contract with the firm upon the completion of FY 2022-23 financial statements and reports. Generally Accepted Accounting Principles (GAAP) regarding auditor objectivity and rotation recommend a change of auditors periodically as a best management practice. The impact of the Sarbanes-Oxley Act (SOA) of 2002 has led many local government agencies to change financial audit services every 5 to 7 years. Section 203 of the SOA requires a five-year rotation cycle for the external lead and reviewing audit partners. Similarly, a California Society of Municipal Financial Officers survey of cities revealed that most rotate their audit firm on average every 5 years.

Discussion: On February 7, 2024, the Finance Department issued a Request for Proposals (RFP) for Professional Auditing Services. The RFP was sent electronically to 12 audit firms, with 5 highly qualified firms submitting proposals for consideration. The proposals were evaluated by Finance Department staff, who considered services offered, audit team experience, level of support, and cost. The top two ranked firms were invited to participate in an interview. Reference checks were utilized for gathering further information regarding the top firm.

Both of the top firms are highly regarded within the governmental audit industry. After reviewing the proposal, conducting an interview, and taking into account the overall cost of services, staff agreed that Chavan & Associates, LLP offered the best value to the City. The following table summarizes the Audit and Comprehensive Annual Financial Report costs as well as the cost for all optional services quoted by each of the firms:

Firm	Avg. Annual Cost	Total Cost
Badawi & Associates, LLP	\$ 50,861	\$ 254,307
Chavan & Associates, LLP	\$ 51,000	\$ 255,000
Eide Bailly	\$ 73,918	\$ 369,588
Lance, Soll & Lunghard, LLP	\$ 78,628	\$ 393,141
Rodgers, Anderson, Malody, & Scott, LLP	\$ 58,063	\$ 290,315

Based on an analysis of the proposals and associated costs, staff recommends contracting with Chavan & Associates, LLP as our new auditors for the City financial audits beginning in FY 2023-24 and continuing through FY2027-28.

Fiscal Impact: The adopted 2023-24 fiscal year budget for auditing services is \$54,000. The total new contract cost for auditing and all optional services is \$ 51,000 annually which includes \$2,000 of services that staff does not anticipate will be needed. The costs associated with the audits in subsequent years under this agreement will be included in the proposed annual budgets subject to City Council approval each year.

Attachments:

1. Professional Services Agreement

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Gautho, City Clerk, Samatha Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager