



## AGENDA MEMORANDUM

Future Item for the City Council Meeting of May 31, 2016  
Action Item for the City Council Meeting of June 14, 2016

**DATE:** May 31, 2016

**TO:** Margie C. Rose, Acting City Manager

**FROM:** Constance P. Sanchez, Director of Finance  
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### External Audit Firm Service Agreement

**CAPTION:**

Motion authorizing the City Manager or his designee to execute a service agreement with Padgett Stratemann & Co. L.L.P. ("PS&Co.") of San Antonio, Texas, to provide professional auditing services for a total contract value of \$601,000, inclusive of an allowance of \$36,000 for bond examination reports/statements and comfort letters that may be requested by the City during the term of this Agreement in accordance with Request for Qualifications No 66. The agreement is established for a three year period, subject to the approval of the City Manager or designee and the contractor.

**PURPOSE:**

The City of Corpus Christi's charter requires an independent annual audit. Article II, Section 27 of the City reads, in part, as follows: "The council shall provide for an independent annual audit for all city accounts and may provide for such more frequent audits as it deems necessary."

**BACKGROUND AND FINDINGS:**

Request for Qualifications (RFQ) Event No. 66 for External Auditing Services was issued on October 31, 2015. The Selection Committee (comprised of the Director of Financial Services, Assistant Director of Financial Services, Controller, Chief Accountant, Senior Buyer, Assistant City Attorney, and City Auditor) assigned preliminary rankings to each qualified firm. The top four firms were presented to the Audit Committee on January 12, 2016, and each firm made a short presentation to the Audit Committee. After the presentations, the Audit Committee and Selection Committee ranked each firm by a score of 1 to 10 which was added to the preliminary scores. The final scoring follows:

1. Weaver and Tidwell, L.L.P. - 159 points
2. Collier, Johnson & Woods P.C. - 157 points
3. Padgett Stratemann & Co., L.L.P. - 155 points
4. BKD, L.L.P. - 142 points

Weaver and Tidwell's cost proposal was then opened in the meeting and cost read aloud. A question was raised about whether the cost included the preparation of the CAFR, which was an option in the pricing. Calls were placed to Weaver and Tidwell to clarify and Staff was asked to

bring back the results and to discuss whether the pricing proposed was fair and reasonable.

At the February 9<sup>th</sup> meeting, the Selection Committee presented to the Audit Committee clarifications on issues raised since the January meeting - including bid pricing, historical cost of the City's external audits, and confirmation of independence from Weaver and Tidwell, L.L.P ("Weaver") to conduct the City's external audit. Weaver and Tidwell's pricing did include the preparation of the CAFR and therefore Weaver provided a split out of the costs so Staff could examine just the cost of the Audit alone. Staff was then able to determine that Weaver's cost were in line with what Staff expected and had spent on past Audits. Staff recommended the Audit Committee move forward with the selection of Weaver for RFQ Event No. 66. However, the Audit Committee made a decision to delay making a final decision on the external audit firm due to concerns over Weaver not being a local firm and asked to re-interview two of the top four firms that were invited to present to the Audit Committee at the January 12<sup>th</sup> meeting. Legal recommended that Weaver be allowed to continue in the process also. The three firms that were invited to return and re-interview were Padgett Stratemann and Collier, Johnson & Woods P.C and Weaver.

At the March 8<sup>th</sup> meeting, the Audit Committee was given the opportunity to ask each of the three highest ranked firms additional questions. The firms were then ranked again exclusively by the Audit Committee based upon these discussions, and Padgett Stratemann was determined to be the highest ranked firm. Staff was directed to then negotiate the proposed costs with Padgett Stratemann to see if a fair and reasonable value could be reached for the Services.

Staff met with Padgett Stratemann on March 10, 2016 and discussed the proposed costs. Costs were compared to both last year's expenses for the Audit and benchmarked against Weaver's proposed costs that were previously opened and read publicly at the January 12, 2016 meeting. Management hours to conduct the audit were also evaluated and compared to traditional hours for this level of effort. At the conclusion of this negotiation, Staff feels a fair and reasonable cost was reached of \$183,000 for year 1, \$188,000 for year 2 and \$194,000 for year 3 for a total contract value of \$565,000. This was a reduction of \$53,000 from what was proposed.

At the April 12<sup>th</sup> meeting, The Selection Committee presented to the Audit Committee the negotiated proposed costs with Padgett Stratemann on March 10, 2016. Staff asked the Audit Committee to vote on a recommendation to the City Council to authorize the award of a contract to Padgett Stratemann utilizing a local firm by Ernest R. Garza and Company P.C. ("Ernest R. Garza"), of 40% participation. The Audit Committee determined the negotiated proposed costs to be fair and reasonable and motion to take the recommendation to the City Council for final approval with Padgett Stratemann to perform the external audit firm for fiscal years 2016 – 2018.

**ALTERNATIVES:**

N/A

**OTHER CONSIDERATIONS:**

N/A

**CONFORMITY TO CITY POLICY:**

This conforms to Procurement Procedure P-11, Selection of Professional Services as clarified by the Audit Committee on October 13, 2015 and discussed with Legal at the February 9<sup>th</sup> meeting when the decision was made to depart from the process outlined in the RFP.

**EMERGENCY / NON-EMERGENCY:**

N/A

**DEPARTMENTAL CLEARANCES:**

Financial Services Department  
City Auditor's Office

**FINANCIAL IMPACT:**

X Operating       Revenue      X Capital       Not applicable

| <b>Fiscal Year: 2015-2016</b> | <b>Current Year</b> | <b>Future Years</b> | <b>TOTALS</b>      |
|-------------------------------|---------------------|---------------------|--------------------|
| Line Item Budget              | 463,950.00          | 0                   | 463,950.00         |
| Encumbered / Expended Amount  | 377,494.81          | 0                   | 377,494.81         |
| This item                     | 18,000.00           | 583,000.00          | 601,000.00         |
| <b>BALANCE</b>                | <b>\$68,455.19</b>  | <b>\$0</b>          | <b>\$68,455.19</b> |

Fund(s): General Fund and applicable CIP Funds for cost of comfort letters

**Comments:** The \$601,000 financial impact shown above represents the cost of the total contract value. Of this amount, \$565,000 for the financial audit will be paid from the General Fund, and the remaining \$36,000 for the issuance of up to 6 “comfort letters” at a cost of \$6,000 each will be paid from bond proceeds, if applicable.

The amount of the contract to be paid in FY2015-2016 is \$18,000 from the General Fund. The remaining contract balance will be funded through future fiscal years.

**RECOMMENDATION:**

Staff recommends approval of the Motion.

**LIST OF SUPPORTING DOCUMENTS:**

Service Agreement- Auditing Services