



Council Communication

Office of the City Manager

Date May 5, 2008

Agenda Item No. 23
Roll Call No. 08-
Communication No. 08-244
Submitted by: Allen McKinley, Finance
Director/Treasurer

AGENDA HEADING:

Contract renewal for one year with McGladrey & Pullen, LLP for independent auditing services.

SYNOPSIS:

Recommend approval to exercise the City's option for the second of two one-year contract renewals with McGladrey & Pullen, LLP as the city's independent auditor.

FISCAL IMPACT:

Amount: \$127,863

Funding Source: 2008-2009 Operating Budget under:

- \$78,600 GE001 FIN070000 – Finance Accounting
- \$21,794 SP350 HSG040000 – Housing Services Accounting
- \$13,734 EN002 AIR010100 – Airport Administration
- \$13,735 AG251 WRA770166 – WRA Management

ADDITIONAL INFORMATION:

This year's contract price is \$127,863 or 2.2% higher than the contract price for the 2007 audit. Since this is the last renewal option, the City will initiate a new RFP process in January, 2009. The contract for the 2007 audit included a \$20,000 fee for expanded scope of services related to expanded review from 20% to 50% of the Schedule of Expenditures on Federal Awards (SEFA). This was a result of the qualified opinion received in 2004.

The 2008 audit will no longer require this expanded review, however, the American Institute of CPAs (the body that establishes standards for audits of nonpublic entities) approved a sweeping set of new standards that revised many fundamental auditing principles. Though less in scope than the rules for public company audits, these new standards parallel many of the key themes of Sabanes-Oxely, including new requirements that auditors:

- Obtain a more robust understanding about their clients' operations, their business objectives and strategies, and their process for identifying and managing risks to achieving objectives
- Gain a deeper understanding of their clients' internal controls
- Perform a more rigorous assessment of risks of material misstatement of the financial statements, whether due to error or fraud, with clearly documented linkage of the risks of material misstatement to the audit work performed

When new standards are initiated beyond what was known when the initial contract was awarded the contract allows for an adjustment in the audit fee. The cost related to the change in standards is offsetting the reduction of the expanded SEFA review. A table detailing changes from last year's contract pricing follows:

	2007		New		
	<u>Contract</u>	<u>SEFA</u>	<u>Standards</u>	<u>CPI</u>	<u>Final Price</u>
General Audit	\$ 76,845	(\$20,000)	\$20,000	\$1,755	\$ 78,600
WRA	13,426	-	-	309	13,735
Airport	13,425	-	-	309	13,734
Housing	21,794	-	-	490	21,794
Total	\$125,000	(\$20,000)	\$20,000	\$2,863	\$127,863

PREVIOUS COUNCIL ACTIONS:

Date: May 7, 2007

Roll Call Number: 07-881

Action: One-year renewal of contract for independent auditing services with McGladrey & Pullen, LLP. (Council Communication No. 07-281) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: May 17, 2004

Roll Call Number: 04-1033

Action: Selection of McGladrey & Pullen, LLP as the City's independent financial auditor and directing negotiation and execution of a contract for fiscal years ending June 30, 2004, 2005 and 2006, with the option of two one-year renewals. **Moved by Brooks to adopt. Motion Carried 7-0.**

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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