



STAFF REPORT

DATE: August 7, 2018

TO: Ronald L. Olson, City Manager

FROM: Jonathan Locke, Executive Director of Finance

SUBJECT: Independent Auditing Services

BACKGROUND AND FINDINGS:

The City's audits are required to be performed in accordance with generally accepted auditing standards set forth in the General Accounting Office's (GAO) Government Auditing Standards, the provisions of the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget (OMB) Circular A-133, and Audits of State and Local Governments.

On May 28, 2017, the City began advertising a Request for Qualifications (RFQ) in which responses were sought from qualified firms to provide independent auditing services. The RFQ requested audit services for the fiscal years ending September 30, 2017 and 2018, with the option of the addition of the three subsequent fiscal years, based upon satisfactory performance and the annual availability of an appropriation.

On June 14, 2017, the City received and opened responses from five firms. A committee consisting of Jonathan Locke, Executive Director of Finance; Karen Evans, Assistant Executive Director of Finance; Judith Tangalin, Accountant; Matthew Grady, Internal Auditor; and Leslie Hinkle, Executive Director of Community Development evaluated the responses; Belt Harris Pechacek, LLLP was chosen as the most qualified responder.

On July 25, 2017, the audit committee met with the audit firm and city staff to discuss the audit process and the firm's experience auditing governmental entities. The audit committee supported the recommendation to award the professional services agreement for independent auditing services to Belt Harris Pechacek, LLLP.

On August 8, 2017, City Council accepted the independent auditing services agreement with Belt Harris Pechacek, LLLP. Belt Harris Pechacek, LLLP conducted the City's audit for the fiscal year ended September 30, 2017 in accordance with all applicable standards, and presented the City Council with the audit in a timely manner. Their examinations of the City's financial records were thorough. They were available for meetings and discussions with City personnel concerning accounting issues and were willing to answer questions and give financial guidance when requested. Additionally, the firm employs a skilled governmental audit staff large enough to adequately perform the annual audit of the City.

THE ALTERNATIVES CONSIDERED:

1. Appoint Belt Harris Pechacek, LLLP to provide independent audit services to the City of Killeen.
2. Do not appoint Belt Harris Pechacek, LLLP and issue a RFQ for independent auditing services.

Which alternative is recommended? Why?

Option number 1 to appoint Belt Harris Pechacek, LLLP is the recommended alternative. Belt Harris Pechacek, LLLP has extensive governmental auditing experience.

CONFORMITY TO CITY POLICY:

City Charter Section 40 states that, prior to the end of each fiscal year, the City Council shall designate qualified Certified Public Accountants who, as of the end of the fiscal year, shall make an independent audit of accounts and other evidences of financial transactions of the city government and shall submit their report to the City Council. Such accountant shall have no personal interest, direct or indirect, in the fiscal affairs of the city government. They shall not maintain any accounts or record of the City business, but, within specifications approved by the city council, shall post-audit the books and documents kept by the department of finance and any separate or subordinate accounts kept by any other office, department, or agency of the city government.

Texas Local Government Code 103.001 states that a municipality shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

	2018	2019	2020	2021
Maximum Price - Audit	\$110,958	\$112,900	\$114,876	\$116,886
Maximum Price - Single Audit*	\$9,615	\$9,784	\$9,955	\$10,129
Maximum Price - PFC Audit & Report	\$9,107	\$9,266	\$9,428	\$9,593
Total Maximum Price - All Inclusive	\$129,680	\$131,950	\$134,259	\$136,608

*One major program.

**The fee estimate for additional single audit major programs is \$7,072, plus a 1.75% increase per year for inflation and regulatory costs.

Is this a one-time or recurring expenditure?

Recurring expenditure, see above.

Is this expenditure budgeted?

The costs related to the FY 2018 audit which will be incurred in FY 2019 will be included in the FY 2019 budget.

If not, where will the money come from?

N/A

Is there a sufficient amount in the budgeted line-item for this expenditure?

Yes

RECOMMENDATION:

Staff recommends that the City Council appoint Belt Harris Pechacek, LLLP to provide independent auditing services to the City of Killeen for the fiscal year ended September 30, 2018.

DEPARTMENTAL CLEARANCES:

Legal

ATTACHED SUPPORTING DOCUMENTS:

Engagement Letter