Chair Kniss called the meeting to order at 11:03 A.M. via Teleconference using Zoom, 250 Hamilton Avenue, Palo Alto, California.

Participating Remotely: Cormack, Filseth, Kniss (Chair)

Absent:

Oral Communications

Chair Kniss inquired if there were any speakers for Oral Communications.

Jessica Brettle, Assistant City Clerk asked members of the public to raise their hand if they were interested in speaking or to press *9 if participating by phone. There were three attendees, but none wished to speak.

Agenda Items

1. Request for Proposals for the City Auditor Function: Key Decision Points for Scope of Services, Proposer Requirements, and Process Steps.

Chair Kniss read the title for Agenda Item Number 1 into the record and said this information was available in email and if anyone wished, it was going to be shown as a PowerPoint at a later time. She noted that under the City Charter, this Scope of Service was a way to allow the audit function to continue.

Cassie Coleman, Assistant City Attorney remarked that there was a question about the legality under the City Charter about the auditing function and whether it was able to be contracted out; it was legal. The auditing function was able to be contracted or there could be an employee in the position as City Auditor.
Chair Kniss remarked that Council Member Filseth was working with outside applicants.

Council Member Filseth concurred and said it was the direction of the Palo Alto City Council (Council) to prepare the issuance of a Request for Proposal (RFP) to engage auditor services. Per the previous Council Appointed Officer’s Committee (Committee) meeting, the Committee moved forward with Management Partners (MP) as a consultant. The Committee was meeting to review a draft of work.

Greg Larson, Management Partners thanked the Committee, introduced his team and stated his credentials. Regarding the RFP, he coordinated with Staff from the administration and from the Attorney’s Office, which both were very clear that this was the direction of the Council. Staff was very responsive to his work as this was a fast-moving project. It was helpful that the Committee was also comprised of an Ad Hoc Committee (Council Member Filseth) to serve as a point of reference during the preparation and launch of the project. The direction from the Council last February, 2020 was to have the Committee develop and issue a specification for the City Auditor function, which focused on consideration of firms. The focus today was to provide direction on the process going forward, including having the action from this meeting go back to the full Council while the RFP was being circulated to perspective firms. The process considerations were going to be discussed at the beginning of the Matrix and primarily dealt with evaluation and action on the proposals. The Council was clear that the Committee provide direction on the issuance of an RFP, which was the second piece of work he wanted to include at this meeting. He said every RFP included a Process Discussion and a Substance Discussion; the RFP was going to include the Committee’s process recommendations, with the note that the process recommendations were subject to Council review and approval. On February 10, 2020 the Council set a 90-day timeline for this Item to return to Council, which needed to include responses to the RFP. Due to the contract RFP, the recruitment process of his firm and the COVID-19 pandemic, the May 10, 2020 deadline was no longer achievable. As a result, he suggested having the Council act on the Outside Auditor contract on June 29, 2020, which was the last meeting before the Council Summer Break. This allowed the outside Auditor Services to begin as early as July 5, 2020. Part of the Council action was recognizing the contract was not going to come back until June 29, 2020. He wanted the Committee to be aware of these changes. He targeted the award of the contract to June 29, 2020 with the goal of having the Committee review key decision points in the meantime. He started drafting the easy parts of the RFP, which were the standardized portions, and then he wanted to release the RFP by end of day
Monday, or Tuesday April 20/21, 2020. It was most helpful for the Committee to continue their delegation to the Ad Hoc Subcommittee for a final review of the RFP to ensure all aspects of the Committee’s direction were incorporated. Following the issuance of the RFP, Council direction in late April, early May, 2020 was going to include a pre-proposal meeting and questions from proposers. Proposals were going to be due mid-May, 2020, which allowed four weeks for a response. He was hopeful, in light of the pandemic, that this was a manageable timeline. His firm broadened some of the search criteria to ensure the Council had two to three proposals. Following the Committee’s direction at this meeting, he wanted to allow for discussion at the end of the meeting as changes affected the schedule.

Council Member Cormack said there was no Council meeting scheduled for April 27, 2020.

Mr. Larson replied that this was the earliest Council direction could occur otherwise direction was not really needed until closer to May 13, 2020, when the RFP’s came in.

Council Member Cormack suggested shifting the meeting out by one week.

Chair Kniss wanted confirmation on whether the Council was going to meet on April 27, 2020.

Monique LeConge Ziesenhenne, Assistant City Manager confirmed the Council was not meeting on that date.

Chair Kniss restated that the April 27, 2020 deadline was not going to happen.

Mr. Larson wanted to return the discussion to the Decision Matrix. He discussed the organization of the Matrix and said the columns were a general description of the Item; items that were bolded needed Committee direction. Column two were items the firm prepared for Committee consideration and then the Management Partners recommendation was the Action listed in the Report. He noted that the Action was intended to launch the Council discussion, but it was fully up to Committee discretion. The last column included considerations that led the firm to the recommendations, as well as some information on other options. The rows indicated each of the key elements of the RFP before they were able to draft a proposal. Much of the RFP was based on the City’s standard RFP template, which included the
nine established criteria listed in the City’s Municipal Code, and 10 open-ended criteria. They tried to replicate the City’s purchasing process.

Chair Kniss wanted clarification that the Council was not going to meet on June 29, 2020.

Beth Minor, City Clerk stated that the Council’s last meeting before their break was June 22, 2020.

Chair Kniss did not want June 29, 2020 as a contract award date.

Mr. Larson remarked that the schedule was going to be discussed at the end of this meeting. Per the direction of Council Member Filseth, the bigger issues were moved to the front of the Matrix so there was ample time for discussion. There were many items that were not bolded because they were for Committee information only and might affect other elements in this discussion; there was not much discretion before the Committee on the un-bolded items, given the City’s policies and practices and the Municipal Code.

Council Member Cormack suggested establishing an order for the points of discussion and wanted a format, as there were 25 Options to discuss.

Chair Kniss asked Council Member Filseth to begin.

Mr. Larson started with the discussion of Item 1, approval of the RFP prior to the issuance. The Committee had the authority to authorize the release of the RFP. There were two options following today’s direction, one was for the Ad Hoc Subcommittee and Management Partners to take the key consideration points from the Committee direction and include them in the RFP, and then they were going to release the RFP. The second alternative was for the Committee to come back and review the final RFP, which would include all the legal documents in detail at a subsequent meeting; he noted that would delay the process. Council Members did not typically review most RFP’s but this one was different because it was for the City Auditor Position. He suggested having the Ad Hoc Subcommittee do a final review before it was released.

Council Member Filseth interpreted this information as the Committee would meet as a group again and review the final RFP and then provide feedback. This Item did not have to come back to the Committee, it could go straight to the full Council on Consent.
Chair Kniss noted that as the Ad Hoc Committee Member, Council Member Filseth was able to make some decisions but she wanted to hear from Council Member Cormack first.

Council Member Cormack was comfortable with Option A and she had complete faith that Council Member Filseth was an appropriate person to review the RFP.

Chair Kniss agreed and reiterated that Council Member Filseth would review the RFP and the Committee would move on to the next step.

Council Member Filseth was comfortable with that.

Chair Kniss did not think the Committee needed a Motion.

Mr. Larson recommended there be a Motion made at the end of the meeting that encompassed all the Committee direction. Those Motions were to be used to draft the remaining portions of the RFP.

Chair Kniss understood.

Mr. Larson went onto discussing Item 2. He pointed out that there was typically a Staff driven process regarding the City’s Purchasing Process. This included washing out proposals that did not meet requirements in terms of documentation; his firm was going to be involved with that process. There was no direction needed from the Committee on Item 2 because it was part of the City’s standard process.

Chair Kniss agreed and asked if there was any disagreement.

Mr. Larson continued with Items 3, 4, 5 and 6, which were more of the substance of the process. These were broken up into discreet elements, but they did overlap in some parts. He started with the Council appointment of the City Auditor. Pursuant to the City Charter, a City Auditor needed to be appointed by the City Council, even if it was the appointment of a firm to contract out the auditing services. It was a potential Closed Session Item, should the Council interview prospective candidates for the auditing services, either at the start of the Proposal Evaluation Process, or at the end. This language stemmed from the Charter. A Closed Session was scheduled after the proposal deadline where the Council interviewed all proposed Auditor candidates. The Council then screened down the options to a favorite. The
Committee was then to review the proposals in detail. Another possibility was the Council would not interview any prospective Auditor’s but have a slow contract review process. In this scenario one or more were to come before the Council at the end of the process for contract award. His recommendation was for the Council to interview one or more candidates in Closed Session, as recommended by this Committee. The recommendation was balanced, it had Council involvement in the review and approval of the designated City Auditor, but it also took in the benefit of a Professional Contract Evaluation Process. This was described more fully in the “Key Considerations” portion of his outline.

Chair Kniss wanted Committee input.

Council Member Filseth felt this process was the best and most consistent for him as it was how other Council Appointed Officer’s (CAO) were appointed and it struck a balance between the two Options proposed.

Chair Kniss confirmed Council Member Filseth was talking about Option B.

Council Member Filseth confirmed he was talking about Option B. It was the most natural Option in accordance with how the Council assessed other roles.

Council Member Cormack agreed and was in favor of balance. It was not just the Council’s process, other regional boards she sat on used a similar process. She was also very comfortable with Option B. The range of options presented made selecting an option far easier. This was a thorough matrix with just the right amount of detail.

Chair Kniss felt the Committee agreed with Option B but interviewing all the candidates was going to be a problematic session for the Council to have. On the other hand, the Council needed to do one or more interviews because she did not think it satisfactory, with respect to the Council or the Public.

Mr. Larson went on to discuss Item 4, the independent evaluation of the written proposals to recommend one or more to the City Council. His firm provided a range of options subject to Committee review. One option was for the Committee to review one or all of the proposals in a public meeting, like what was done with the Interim Auditor. A second option (Option B) was to appoint an Evaluation Team, consisting of whomever the Committee selected. This was a more common option in the City’s Purchasing process where there was a Staff level evaluation of RFP responses and assigned
Chair Kniss inquired if Management Professionals expected there to be five or six applicants.

Mr. Larson responded that the auditing services were a narrow market and there was a dominant player in the Bay Area. He was trying to draw out as many proposals as possible because that made the strongest purchasing process for the City, and it did not preclude consideration of anyone. He thought they would get two or three, but if they received four to six, that was aggressive.

Council Member Filseth thought forming more screening teams added more complexity. Three was just about the right threshold but if there was a dozen, there was work to be done. He inquired about a third party associate appointed by the Committee and wanted to know what kind of person that would be.

Mr. Larson replied that there did not have to be three people on the Selection Committee, but given the timing, there was going to need to be authorization from the Chair and Ad Hoc Committee to make the appointment. He was thinking of former Council Members or a local auditor that was not a competitor. He did not suggest the Selection Committee member be a Council Member, as then the Item may as well go back to Council; the third appointee was to be subject to the Committee. It was possible to just have two members perform the selection, such as a member of Management Partners and a member of the Committee, but most Evaluation Committees typically had an odd number and an independent party as part of the process. He was trying to follow the Purchasing Best Practices, but this was not required by the Municipal Code.

Council Member Cormack was interested in Option B, mainly due to the third-party element. This allowed an experienced member of the public to participate in the process, early on. However, a team was better for the
Evaluation Committee because if there were fewer applicants, then the Committee was doing the selecting; she inquired about the scoring the RFP.

Mr. Larson responded that scoring was typically done at the Staff level, not by Council. Since this was a unique situation, Management Professionals was making themselves available to support the Committee in this portion of the process. He said they would use the scoring process set out in the Municipal Code. If things were done this way, the process was going to need to be done in a public setting, and the Committee was going to score the applicants individually, and then collectively. When hiring took place for the Interim City Auditor, a blind scoring took place. Identifying information was masked from the proposal for the sake of public discussion. That method was challenging for this scale of an RFP, but he would need to seek attorney advice over the intervening period on how to structure that process.

Pete Gonda, Management Partners added that there needed to be a briefing beforehand and a basic instructional document provided by Management Partners, with the assistance of Council and Staff. The briefing walked the Committee through the elements of the evaluation program.

Council Member Cormack reiterated the scoring process and said if there were two proposals, they would be sent to the Committee in advance, the Committee did their own scoring, Management Partners coached the Committee on what was and was not appropriate to say and then the numbers were shared in a public Committee meeting where the Committee tried to calibrate their scores.

Mr. Gonda said yes and clarified that after each Committee member was done scoring, they would send their scores to Management Professionals to compile, which would be summarized. The summary was then brought back in a rank order for further discussion.

Council Member Cormack added that each proposal was brought back with an average.

Mr. Gonda clarified that it was brought back to the Committee as a raw or a weighted score.

Chair Kniss strongly recommended Option C. The City had gone without an Auditor for some time, and as a result, the City was some distance behind. She reiterated that there was a narrow field of auditor’s in the area. Palo Alto was attractive but not a City that everyone wanted to serve. She
wanted this process to be completed soon, as a very important part of the City’s function was auditing. She wanted to know which Option Council Member Filseth preferred.

Council Member Filseth felt that if there was a small pool of applicants, the Committee could do the vetting themselves. There was enough expertise, between the Committee and Management Partners to get all the right things done. He noted that the Committee would be accessing each individual firm, but each firm could be a Chief Auditor for the City. He wanted to know if this process was going to allow consideration for each firm. For example, if Firm A scored higher than Firm B, if the Committee really liked Firm B, did the Committee have the opportunity to optimize the qualities between two firms.

Mr. Larson remarked that was why there was a Process Discussion early on in the process because qualities were included in the RFP, as part of the scoring criteria. The Municipal Coded allowed for a “factor as appropriated,” in particular cases and allowed for that assessment; City Auditor appointees compatibility and performance was most likely a scorable quotient.

Mr. Gonda added that the importance of the interview process was often times raw scores did change. For example, a firm looked better on paper but when interviewed directly, they were able to get a much better sense. Scores almost always changed.

Ed Shikada, City Manager repeated what Council Member Filseth said about if the Committee liked a key person on one team in comparison with a company on another team. He did not want the Committee to be confused about taking a person from one team and placing them on another. This was out of bounds with the procurement process. The teams were their teams and the selection was based off what each team presented.

Council Member Filseth wanted total authority.

Chair Kniss proposed a situation: if there were proposals from three different companies, was the person representing each firm in the interview going to be the representative that interacted with the City later, should that firm be hired.

Mr. Larson responded that the City could request that the future designee be part of the interview. The difference between the Committee and the Council interview was the proposers were possibly going to send additional staff representatives to the Committee interview, which they were not able to do
at the Closed Session Interview. Only the City Auditor designee was able to attend the City Council Closed Session Interview.

Chair Kniss continued her question and hypothetically said, if the Council hired Firm ABC, and Don Brown interviewed, was there any security that Don Brown was going to be seen by the Council once hired.

Mr. Larson answered that there was a later part of the RFP that explained what was going to happen if there was a change from representative Don Brown, as an example. There was a recommendation later in the Staff Report that included language that allowed for other possibilities or changes in the future. It was possible to designate Don Brown, as an example, to be the designated City Auditor.

Chair Kniss asked what Item the Committee was on.

Mr. Larson answered Item 4. This Item asked for Committee direction on which of the three Options were going to be decided on; he felt it was going to depend on how many proposals were received. He wanted to know if the Committee wanted to be more involved in the direct scoring if there were fewer proposals, or if they wanted to be involved in all.

Chair Kniss was interested in Option C. The Committee was able to handle the challenge. Her concern was time, as the City has been without an Auditor for two years or so.

Council Member Filseth concurred.

Council Member Cormack was not afraid of doing the extra work, having worked with Mr. Larson. She wanted the public to be able to share their thoughts and wanted to rely on the public being able to provide comments on the proposals at open Committee meetings when the scoring happened. She thought Option C was an appropriate.

Chair Kniss wanted to move onto the next Item because the Committee agreed that they were not going to make Motions as they went along.

Mr. Larson mentioned that if the City did get, say, six proposals and under the direction of Option C there needed to be an Evaluation Team setup, he was going to ask the Committee to appoint the third member of the Evaluation Team so the Ad Hoc Subcommittee was prepared to move
quickly. Next was Item 5, which was to review the summary scoring and determine the rank of proposals of the Committee, whether it be the Committee or a separate Evaluation Team. All items were to come back to the Committee so a finalist could be selected, based on the evaluation of the written proposals, and then to determine which firms to interview. He recommended Option B, which was, assuming the Committee was evaluating or hearing the evaluations, to determine which firms to call in for interviews in Closed Session.

Council Member Filseth clarified the interviews were going to happen, one in open session, where the firm made a presentation, and then a second interview, with the top candidates in a Closed Session.

Mr. Larson answered yes. He was anticipating either of those outcomes but wanted to leave this as a future decision for the Committee, based on how many proposals they got and what the evaluation was of those proposals. This gave the Committee discretion when the time came to interview.

Council Member Filseth said this was something the Committee did not have to make a final decision on until they saw the number and nature of proposals.

Mr. Larson agreed and said as has often happened with review and selection of personnel or purchasing proposals, until the Committee saw the proposals and evaluated them, they were not going to know the natural break in the scoring. For example, the review process was going to show if there was one candidate that was just a little above the rest, if there was a big drop between two candidates or if there were three top candidates. Once the Committee saw the materials and evaluated them, then they needed to decide what was needed for the interview process, which determined the final ranking. This was separate from what was discussed earlier regarding having the Council select one to three City Auditor candidates in a Closed Session.

Chair Kniss remarked that leaving the review and selection portion open meant leaving this Option open and not deciding at this time.

Mr. Larson concurred but said the more clarity he got today, the easier it was to make the timelines. For example, if the Committee was prepared to say one, two or three candidates to interview, as part of the Committee evaluation process, it was possible to schedule those dates now. Another option was to bring the scoring back to the Committee and then determine
who to interview, but that would cost an additional week of meetings for the Committee.

Council Member Cormack wanted confirmation that Item 5 was going to happen at the end of Action 4. For example, assuming the Committee was in Scenario C, which was three or fewer candidates to interview, was there a formal meeting where the Committee was comparing all their scores, then at the end of that meeting, was the Committee going to decide which firms to interview. A decision tree from that was the Committee had the option to interview them as a Committee first; the benefit to that was the candidates were able to bring more of their firms’ staff to the process and the Committee was able to meet more of the people on their team. After that, the full Council was to interview the final candidates. She was leaning toward the Committee interviewing the firms because it gave the Committee the opportunity to meet them more than once, which was good.

Mr. Larson agreed but after the Committee interviews, he suggested another scoring to come up with a top ranked candidate that the Committee was to propose.

Council Member Cormack understood and repeated that there was an interim step. She repeated that the Committee would do the written scoring, then they would meet and decide to interview x number of candidates, say thee, then the Committee would score again and decide which of the three would move on.

Chair Kniss brought out that the Committee had never met via Zoom before and that made things were a little more difficult when vetting and interviewing a new City Auditor. She wanted to make sure they were going in the right direction because if there were 15 people on a Zoom screen, it was going to be more difficult. She was comfortable with Option B, but it also sounded like the process was in flux at some point.

Mr. Larson recommended that the Committee interview the firms, as part of the deliberation process, which was Option B. He did want to recognize that if there were three strong candidates and it was coming down to the Council’s preference as the Auditor candidate, then the Item could go straight to Closed Session and the Committee could decide not to interview. It was hard to make a definitive decision at this time, but it was important for him to know the Committee’s preference, so that could be reflected in the RFP, so the proposers knew their possible process ahead.
Council Member Filseth thought that was helpful. Option B says the Committee prepares to do this but depending on eventualities on the ground at that time, the Committee might decide to skip that step and go straight into a Closed Session.

Chair Kniss understood the same. She inquired of Council Member Cormack.

Council Member Cormack was good with Option B.

Council Member Filseth agreed and said the plan of record was Option B, subject to further discussion as the Committee approached that date.

Mr. Larson relayed that Items 5 and 6 were directly linked and thought the Committee’s direction on Item 5 covered Item 6. He suggested moving onto Item 7 but wanted to highlight Item 8. Based on the Council’s prior discussion, it was clear that the cost per audit was an important issue to the Council and the community. As a result, he inserted an evaluation criterion that dealt with that subject specifically, which was to require proposers to include their cost per audit and entries on past projects. He struggled with how to do that on a prospective basis. It was hard because the scale of contracts varied so significantly. As an example, someone was doing a Parking Audit, and if it were simply an audit, and the returns from parking meters, that was a narrow scope audit, but if it were a comprehensive audit of the entire parking enforcement department, it was a different scale audit. It was hard prospectively scale items proposers could propose against. Regarding Item 8, he recommended input from past historical data for the Committee Evaluation Team to use in their evaluation, which connected to Item 7. One of the criteria in the Municipal Code was the “Cost of Work Provided.” This was easy to sort out in a construction bid environment, but it was harder in a case of certain audits. As a result, Option A was what he recommended a certain amount of money designated as available, then ask firms what they would deliver to the City with that amount.

The Committee took a break from 12:05 P.M. and returned at 12:15 P.M.

Council Member Filseth continued with Agenda Item 7.

Mr. Larson repeated that Item 7 was now being discussed, which was pricing evaluation. There were four options to specify a dollar amount in the RFP. Option A was for proposers to submit services based on the dollar amount. Option B was to provide the same budgeted amount but to award the proposer the full points because they would be using those funds, and to
focus the evaluation on the preferred auditor qualifications. The third approach was to receive pricing proposals and evaluate those separately using the standard City of Palo Alto methodology, and then there was Option D, which was to accept pricing proposals and assign points during the evaluation of the written proposals. He recommended that all firms submit hourly rates in the proposal, provide contract recommended cost specifications for increases and decreases, including any renewals and extensions approved by the City. He noted that proposals could also include services and cost alternatives for additional or innovative services. This was allowed in the standard RFP template. The recommendation was to go with Option A because it was good to have a City Auditor comparison against what was being proposed. For example, if firm A said they would do 27 audits, and firm B said they would be able to do three audits, that showed what the firms were capable of. This was why his firm recommended a budgeted amount and to have proposers specify in a structured format what they would be able to provide for that certain amount. Another reason for this recommendation was the fiscal reality of the City. In the next year or two, many cities were going to be looking at budget reductions given the reality of the pandemic, and this Option created an opportunity of a rising City Auditor cost of $1 million or more to instead be allocated $750,000, for example. The Committee was able to choose a fixed amount and propose what they were able to do with that funding. Additionally, the Council was also able to add additional funding if there was additional audit work required. In any of the proposals, he recommended asking the firms to separate out, at least in the first year, some fixed pieces of work that was certain. For example, it says in the City Charter that firms needed to coordinate the Individual Financial Audit Process. There was also a Risk Assessment every other year that could be a fixed cost. It was the best practice amongst the Local Government Auditors that internal auditors be audited themselves, as part of an evaluation process. It was possible to have participation in that process be specified in the document. Serving as the City Auditor advisor appointee in the transition work was probably going to be specified in the contract. He recommended breaking down the costs that could be broken down, (on the performance audit piece,) have the firms present, in their most aggressive way possible, how they would perform those duties and maximize the City resources. His firm tried to simply this complex process as best they could.

Council Member Filseth thought the historical cost of audits was a good discussion because it was good of the firm to inform the Committee, but it was very hard to specify one thing for all Committee Members. The firm’s way of splitting up priorities was interesting because the priorities were split into process and substance, and it seemed that substance had three
components: 1) cost; 2) what they were going to do; and 3) how it was going to get done. Some of the other RFP’s went into a lot of detail regarding process and cost, but this proposal took a different direction in that the company told the Committee how they were going to do it and then the Committee thought about it. He thought this format might be appropriate because essentially the Committee was micromanaging the decisions. It was going to require the City Council to have some idea of what their budget was going to be, as the Council was going over the full Budget the following week. Historically, about $1.25 million was spent for the Auditor function for the City, but given the circumstances surrounding COVID-19, the Committee needed to come up with some target budget for this process. He thought the hourly rates for Staff made a lot of sense, time and materials needed to be considered; and rather than the Committee telling the firm how they were going to bill, he wanted to know how the firm was going to bill.

Chair Kniss wanted clarification if the future auditor would reside in the City building or be there on occasion.

Mr. Larson asked the proposers to propose that. He looked at other auditor functions where there was permanently assigned Staff on site, but given recent legal cases, that was difficult with the definition of an independent contractor and this was clearly an independent consulting contract. Later there was going to be a presentation about how the chosen auditor was going to show compliance as an independent consulting auditor.

Chair Kniss said this addressed whether the hired firm was going to be on-site or not.

Mr. Larson said yes. Santa Clara County used an on-site function under previously existing contracts but there were many that thought that was not possible for future RFP processes, given recent State rulings. The City Attorney was going to make that final determination on behalf of the City Council.

Council Member Cormack confirmed Options 7 and 8 were being discussed together.

Chair Kniss confirmed yes.

Council Member Cormack commented on Option 8 and said it was helpful. In terms of the past projects, a short description was good. Regarding Option
7, she liked Option A, providing a budgeted amount, for two reasons. The first was the current environment as the Council contemplated changes implemented beginning July 1, 2020, and the second was she thought it would force the Council to prioritize the most important thing for the Auditor to work on. She appreciated what was mentioned about what she will call cost, task and method and agreed. Council was able to work with Staff on what they wanted to accomplish, not how they wanted it done, having cost at the top of the list and then prioritizing tasks. She inquired about the Budget amount because she was not sure if there was time for this report to come back to Council.

Chair Kniss wanted clarification on whether Council Member Cormack was asking about listing an amount because listing a precise amount was going to be difficult. She suggested a price range.

Council Member Filseth agreed with the price range idea, there needed to be some kind of span. The last few years the Budget was $1.25 million and if that was slashed by 40 percent, the amount would be $750,000. He did not think it was likely to cut it in half, but this was a likely price range. Something from $800,000 – $1 million was the price range for the RFP.

Council Member Cormack requested Council Member Filseth repeat the amount.

Council Member Filseth said $800,000 - $1 million, give or take.

Council Member Cormack said she was thinking of the same price range.

Chair Kniss wanted to know what Mr. Larson suggested.

Mr. Larson answered that because of the pandemic, he thought Administrative functions and non-frontline services were expected to be taking significant reductions. He suggested a base number of $750,000 - $800,000 in the RFP and to get the second figure in there, he suggested having the Council allocate an additional $200,000 - $250,000 towards audits, so there was a two-tiered approach. Setting this number in the RFP was important, which was to go out next week, so he was looking for Committee direction on this Item; he wanted to qualify the extra tiered amount and have it subject to Council approval. Then he planned on including this process in the Council Process Discussion, which was estimated to be the first meeting in May, 2020. He wanted Council approval
of these suggestions, and if there was a change suggested by the Council, they would notify the proposers at that time.

Chair Kniss wanted to agree on $750,000 with an added $250,000 extension.

Council Member Filseth agreed to that amount but wanted to hear from the City Manager, especially with regard to the Budget process.

Mr. Shikada noted that this process was going to happen in parallel with the procurement process, so the Committee will have an idea of the environment this contract will be landing in. There was the ability to look at the RFP as a scalable service, which was something that would not be available if it were a fixed internal income. The discussion with the proposers needed to be illuminated as to how any variation regarding the available funding would be reflected in their scaling of services provided.

Council Member Filseth thought that was helpful. He wanted to approve Option A.

Chair Kniss reiterated the Committee was for Option A, with the additional $250,000 option. She wanted confirmation.

Council Member Cormack said her and Council Member Filseth were nodding yes.

Chair Kniss repeated that there was Committee agreement and they were now moving onto Option 9, which was duration of contract term and renewal options.

Mr. Larson announced that Options 9-19 were going to be discussed by Mr. Gonda.

Mr. Gonda noted that this section touched on key contract terms, which can be articulated very specifically in the RFP, but they need not be. The first point of discussion was the duration of the contract term, and what the renewal options were. He was providing two options, the initial term could be from 1-2 years, and then some renewals or extensions of up to 5-6 years total. He recommended a two year initial term, with up to three additional years, which was a longer initial option and the flexibility to do something other than 3 additional annual renewals. This signaled to the potential
opponents that a longer-term engagement was possibly desired, they could build in strong off-ramps and termination provisions. The standard term for convenience was in the contract already, including the provision for budget non-appropriation, and if not, it could be added. Additionally, regarding the conversation on Option’s 7 and 8, evaluating for the best value, he thought “performance extensions” or the initial term could be entered, for performance and pricing mile-stones as a main driver for continuing with the agreement.

Chair Kniss thought the two-year initial term was what she desired, with up to three additional years, with the other suggestions woven into that.

Council Member Filseth thought one year was too short because the Council was not going to know how well the experiment was working using one year, and secondarily, a minimum of two years was likely more attractive.

Chair Kniss agreed.

Council Member Filseth continued, regarding five or six years, he did not have strong feelings between those things.

Council Member Cormack thought the first and third bullets for the Key Considerations for the Recommended Options were persuasive. She was fine with the recommendation.

Chair Kniss said this took the Committee off Option 9 and onto discussion of Option 10.

Mr. Gonda agreed, he was ready to discuss Option 10. It was good to have a provision in the contract for replacing the Internal Auditor, who was at-will, which covered any number of scenarios, such as incapacitation, retirement or the Council wanting to replace the Auditor due to performance issues.

Chair Kniss thought this Option was one of the more important.

Mr. Gonda agreed and said he was recommending Options A and B in the contract, which would state under which circumstances the firm can designate a temporary replacement and provide the firm an opportunity to propose a new alternative. This provided mutual beneficence, but also strong provisions for the Council and the City to make an alternative choice.
Chair Kniss wanted to know what the other Committee members thought but this Option appealed to her.

Council Member Cormack requested clarification on “temporary,” was that two months, 10 months or was there a best practice on what that time period was.

Mr. Gonda thought it would be situational, dependent on whatever situation was confronted.

Mr. Larson said there needed to be a replacement clause and would look for the “best practice” and incorporate it here; he thought it was a two to three month window.

Council Member Cormack thought that seemed reasonable.

Council Member Filseth also agreed. He thought this was fairly cut-and-dry and was consistent with the spirit of the City Charter. He wondered if the Council wanted a conventional annual performance evaluation.

Chair Kniss thought this was a good question.

Council Member Filseth remarked that raises were not necessarily given each year based on their performance.

Council Member Cormack suggested a six-month performance evaluation because it was a new structure. She did not necessarily think an evaluation was necessary, but some sort of check-in was needed after six months; a year was a long time before a formal discussion was had.

Chair Kniss questioned what the usual practice was in this situation.

Mr. Gonda suggested waiting until Option 25, as this was actually a separate Item.

Chair Kniss said they would wait until Option 25 was discussed. She wanted to know if there was anymore discussion on Item 10, or if the Committee agreed.

Council Member Cormack said she gave a thumbs up.
Council Member Filseth said aye.

Chair Kniss mentioned standard contract language for suspension or termination of multi-year agreements was required. She requested feedback but thought it was straightforward.

Mr. Gonda said it was but needed to comment about the budget non-appropriation clause and any other potential termination terms or terminology included in City standard templates.

Ms. Coleman commented that the contract did have a termination clause for convenience, one for cause and one for non-appropriation.

Chair Kniss thought this was straightforward.

Mr. Gonda replied yes.

Chair Kniss wanted to continue to Option 12 and asked for feedback.

Mr. Gonda said these were standard City Charter requirements that needed to be mandatory provisions in the RFP for Options 12 and 13. Regarding Option 14, which discussed the duties the Office of the City Auditor and the City Auditor as prescribed in the Municipal Code, he noted the Council was able to change or modify the Municipal Code requirements. The Council was able to extend the timeline to allow more time to evaluate how things were unfolding.

Mr. Larson heard that the Auditor did move into some extra audit functions, but he thought going back to core requirements of the City Charter and Municipal Code followed the Council’s direction for the position.

Chair Kniss understood and wanted to discuss Options 12, 13 and 14 together.

Council Member Filseth said that was good with him.

Council Member Cormack noted the second part of Option 14 where there was information about modifying the Municipal Code and thought it sounded like work for a later time. She was comfortable moving onto Options 12, 13 and 14.
Chair Kniss said the next section dealt with disclosure requirements.

Mr. Gonda remarked that Options 15-19 covered consideration for minimum requirements, such as disclosure about the potential proposers and anything that needed to be a base minimum in the work scope. Option 15 discussed the minimum experience requirements and the number of years the proposing firm and the proposed City Auditor needed to have. It was standard to have to have a minimum of five years’ experience, which was listed in Option A. Option B covered the addition of private sector entities and the flexibility for firms to demonstrate they can meet the minimum requirements.

Chair Kniss wanted to know if that was different from the standard the City was used to.

Mr. Gonda said no and talked about limiting the potential proposers to a minimum of five years of experience in local and State auditing.

Chair Kniss wanted to know the difference between the public and private sector.

Mr. Gonda responded if proposers were able to demonstrate corollary experience.

Chair Kniss understood.

Mr. Gonda noted that the Kevin Harper Report recommended the Chief Auditing Executive required a minimum of 10 years’ experience, but he believed five years was a solid standard.

Council Member Filseth thought the flexibility was reasonable and helpful. All of this was going to be considered when they went through the screening process. If someone had five years’ experience, all in the private sector, and none in the public sector, then that was going to be considered. As they looked at the candidates and one had 20 years’ experience vs. 5.1 years’ experience, then that was made note of.

Council Member Cormack stated the key was to broaden the pool of potential proposers. This was a consideration but since the Council was trying something new, it was appropriate to cast a wider net.
Chair Kniss did not disagree with Council Member Filseth or Cormack but wanted someone with experience working with a city or something similar. There was agreement on Option 15 and the next point of discussion was Auditing Standards.

Mr. Gonda relayed that the Municipal Code required that the City Auditor be a Certified Public Accountant (CPA), or a Certified Internal Auditor (CIA) and that the audits must be conducted with Governmental Accounting standards. There was an additional note in the December 2019 Kevin Harper Report about other allowable forms of certification, including Certified Governing Auditing Professionals and Certified Information Systems Auditing credentials. He thought those credentials could be included as “nice to have” for an employee, but the main requirements were the CPA and the CIA.

Chair Kniss thought this was straightforward.

Council Member Filseth agreed.

Chair Kniss continued with Item 17, disclosure of current and/or private civil or criminal litigation, investigations not resulting in litigation and contract termination due to default.

Mr. Gonda began by saying this was a typical provision in RFP’s to have prospective candidates disclose if they were judged guilty or liable of offenses for what they would be contracting for. The standard language was “tell us if you were judged guilty or liable” and did not cover instances where proceedings may have been initiated but were stopped. He wanted the Council to know all these things.

Chair Kniss felt this was essential.

Council Member Filseth agreed.

Council Member Cormack was in favor.

Chair Kniss moved to the next item of discussion, which was responsiveness of logistics of requirements in relation to maintaining independent contractor status.

Mr. Gonda said there were some standard provisions in the Municipal Code regarding access to City Reports, data, systems, and the like, which was
necessary for the completion of audits. He recommended the Council ask proposers how they would maintain that independent contract. His team wanted to look to the City Attorney’s input on this Item.

Mr. Larson remarked that this Item addressed a concern Chair Kniss raised earlier, regarding on-site offices and staffing. His approach was to put it on the proposer, as to how they would meet those obligations, then his team and the City Attorney would evaluate those responses.

Ms. Coleman remarked that reference was made to recent State law, along with some court decisions regarding independent contractor, vs. employee status. The plan was to ask the contractor how they proposed maintaining their independent contractor status. Her office was able to help look at the answers and could direct matters if some of the answers did not fit the City’s recommended approach. If that was the case, the City was going to direct the contractor on certain aspects. Regarding having the independent contractor have an office at the City, she proposed them working at their office, unless there was a meeting or a need to be onsite, such as to review files. The Attorney’s Office planned on helping craft these parts of the RFP.

Chair Kniss wanted to know the normal protocol in this situation.

Mr. Gonda remarked that there was standard contract language that appeared in the contract.

Chair Kniss really wanted to know if it was “usual” to have the contractor on site, at some point.

Mr. Gonda said they needed to be onsite, under certain circumstances and at different timeframes.

Mr. Larson agreed and used the example of contractor City Attorney’s and Independent Financial Auditors. It was not unusual for contract City Attorney’s to have specified office space, which may be shared. He was talking about a reserved spot for attorney work. Like this example, he thought there could be a reserved spot for City Auditor work. This was different from having an assigned office for an individual, which would look and feel like an employee. A second example was independent financial audits. He proposed that around the September timeframe, the Independent Financial Auditor could command a conference room for two to three weeks, when they did their onsite file review. Those two analogies were going to be used when they discussed this with the City Attorney.
Chair Kniss confirmed the last contractor was onsite.

Council Member Filseth said yes.

Chair Kniss commented the person they may choose was not going to be onsite most of the time.

Mr. Larson looked to the potential contractor to propose what they thought necessary. His firm was going to work with the City Attorney to craft language for the contract that they thought protected the City.

Ms. Minor confirmed the last contract attorney was onsite three days and offsite two days, per week.

Chair Kniss inquired if that could be used as some guidance for this process as well.

Mr. Larson suggested submitting an example like that, but given the timeline, he wanted to put the initial burden on the proposers. This gave his team and the Attorney’s Office time to review this application, in terms of the City’s protection of future employment liability.

Council Member Filseth interjected that this seemed like an interpretation of State Law. He thought this kind of thing would continue to be refined between the RFP process and the Contract award. This was not material and the Council was going to comply with whatever the current interpretation of what the Laws were. It was hard for him to imagine that the State was going to shut down consulting, as an industry. His interpretation of what Mr. Larson said was: get us close enough and then the Council can refine the contract.

Mr. Shikada commented that the current circumstances really turned the assumption of peoples need for Staff to be onsite. The work of the Auditor was a good example of that. For example, what used to be required for a person to be onsite three days a week was no longer necessary. Maintaining flexibility for the new reality, as well as the particular projects they were working on was going to involve more intense presence than at other times. Providing for flexibility was in the City’s interest.

Chair Kniss hoped the hired person would be onsite a sufficient amount of time.
Mr. Shikada agreed. Presence and establishing relationships were an important part of this job, including many of the other roles they had.

Chair Kniss agreed with the City Manager but said if they worked through Zoom all the time, it made City function difficult.

Council Member Cormack wanted to return to a remark Ms. Coleman said about the City making and establishing their own requirements, which was separate from what the proposer wanted. She wanted to ensure that language was in there. She was not convinced of the need for the Contractor to be on-site. She wanted the option in the RFP to say that the City might hold the applicant to a higher standard.

Chair Kniss understood and said they were moving to Option 19, which was the designation of City Auditor within a proposing firm and roles of the proposing company’s staff.

Mr. Gonda spoke to the City Charter requirements of appointing a City Auditor. He wanted to see a separate resume and Curriculum Vitae (CV) for the City Auditor, in addition to professional summaries to support.

Chair Kniss felt this was straightforward.

Council Member Filseth agreed.

Chair Kniss continued with Item’s 20-25.

Mr. Larson confirmed yes. Items 20 and 21 were not bolded Items because there was not much discretion needed, according to the City Charter and Municipal Code.

Chair Kniss confirmed there was no comment from the Committee on Items 20 and 21. The next section discussed providing Risk Assessments in the Proposed Audit Plan.

Mr. Larson noted this Item was bolded because the Council discussed this specifically. One notion was to conduct Risk Assessments in Proposed Audit Plans for Council review and approval every year. An alternative was to conduct the Risk Assessment every other year but have Audit Plans still come forward to the Council for approval every year. The preliminary recommendation was Option B, which was based on receiving the Council
approval on the actual work plan based on the resources available. His concern was devoting scarce resources to a Risk Assessment every single year reduced the actual audit compacity of the contract award, and those Risk Assessments were to last a two year cycle, knowing there will always be emerging issues in the administration that were not covered in the Risk Assessment; this warranted inclusion of a product in the Audit Workplan, outside the Risk Assessment cycle. This was a maximization of resources for audit function. There was potential of an alternating dynamic where one year an auditor provided the Risk Assessment, which provided the workplan for two years, plus new emerging items in year two, and in the last half of year two there was an evaluation of the auditor, according to the Association of Government of Auditor Standards. This was a balancing effort for both budgetary and workload reasons. The Council had the ability to call for a Risk Assessment every year as well.

Council Member Filseth agreed and had not thought about every year vs. every other year. If the Council chose every other year, they needed to do year one, three and five, as it had been a while since one had been done.

Council Member Cormack agreed with Council Member Filseth, especially doing one in year one. She thought it was interesting to take a Risk Assessment from other municipalities.

Chair Kniss felt this was important to some of the other Council Members. The next Item was conducting audits and auditor reporting to the City Council.

Mr. Larson commented on Item 24 and said the Municipal Code called for quarterly updates. He inquired if the Committee wanted to look at Municipal Code Changes regarding the duties of the City Auditor, which could be changed to semi-annual reports, instead of quarterly.

Chair Kniss wanted quarterly reports at the beginning.

Council Member Filseth agreed. Regarding the quarterly reports, he went back and looked at every single quarterly audit report back to 2001 and commented that there was a lot of information that was had from those reports. On the other hand, to have the Auditor meet quarterly with the City Council and each member was better served as an “on-demand” kind of thing.

Chair Kniss thought this was aspirational and time consuming.
Council Member Cormack agreed with quarterly reports, at least for the first year, and as the Council became accustomed to the new person, new methods and new choices of things audited could be looked at.

Council Member Filseth agreed.

Chair Kniss said the next was Item 25, the last Item.

Mr. Larson concurred, unless there were other issues that needed to be raised. Item 25 was the evaluation of the City Auditor. There were two Options for the Committee and he recommended both be implemented into the RFP. Every other year the City Auditor program was going to enter a Peer Evaluation, as provided by the Association of Local Government Auditor Standards, and at least every other year auditor cost will be summarized and compared to benchmark agencies. He thought both followed the Internal Auditor Standard, as well as prior discussion of Council.

Council Member Filseth remarked that this was sensible. He recalled that the Peer Review was done every three years.

Mr. Larson responded that the standard allowed flexibility. He recommended year two because that was when the contractor was coming up with their first possible extension, given a two year base term. He pre-empted the third year evaluation at year two; at that point, if a two year extension was decided on, another one could be done in two years and if the Council decided on a three year extension, hold off the evaluation to year three.

Council Member Cormack thought this was reasonable. She wanted B first, cost in the first year, and then have a Peer Evaluation done in the second year, which informed the decision about an extension.

Mr. Larson clarified that the summary would be done at the end of year one.

Chair Kniss asked what the difference between Option A and B was because they looked separate.

Mr. Larson said they were separate. The City had the discretion to do one or the other, but he recommended the City do both. His idea was at the end of year one, the auditor would prepare a summary of their work of the prior year and compare that against benchmark agencies. That flowed into the Independent Performance Audit of the Auditor’s Office, which would likely
start in December or January of year two, where they looked at the systems and procedures of the Auditor's Office. That information was to come to the Committee, bearing on discussion for extension of contract.

Chair Kniss understood.

**MOTION:** Council Member Filseth moved, seconded by Council Member Cormack to approve the following:

A. (Decision Point 1. Option A) Direct CAO Ad Hoc Sub Committee and Management Partners to draft key consideration points for CAO Committee review/direction and obtain approval to finalize and release RFP;

B. (Decision Point 3. Option B) City Council interviews one or more candidates proposed by contractors as the City Auditor in Closed Session, as recommended by the CAO Committee;

C. (Decision Point 4. Option C) CAO Committee unless there are more than three proposals, then the initial screening by an evaluation team appointed by the CAO Committee;

D. (Decision Point 5. Option B and Decision Point 6.) Determine which firms to interview, contingent on direction from Motion, Part B;

E. (Decision Point 7. Option A and Decision Point 8. Option A) Provide budgeted amount of $750,000, with a possible addition of $250,000, in RFP and evaluate submittals based on services proposed also include the following:

   i. Provide hourly rates for staff and other charges;

   ii. Propose contract increase specifications for renewals and extensions, if exercised by the City;

   iii. Proposals can also include service and cost alternatives for additional or innovative services; and

   iv. Require proposers to include cost per audit metrics on past projects;

F. (Decision Point 9.) Recommend a two-year initial contract term with up to three additional annual renewals;

G. (Decision Point 10. Options A and B) Include in the contract a stipulation that the firm designate a temporary replacement if the
position is vacated without enough time for Council to appoint a replacement, as well as a provision that affords the firm an opportunity to propose alternative(s) for Council consideration;

H. (Decision Point 15. Option B) To allow firms to submit who have private auditing experience so long as they can meet the Charter and Municipal Code requirements;

I. (Decision Point 17. Option A) Require disclosures within the last 5 years whether or not the firm was adjudged guilty or liable, and if contract termination procedures were initiated but cured;

J. (Decision Point 19. Options A and B) Provide separate resume as an attachment for individual proposed for appointment as the City Auditor, including relevant experience and certifications; and provide professional summaries and roles for other staff to be assigned or charged to this contract;

K. (Decision Point 22. Option B) Conduct risk assessments every other year and proposed audit plans every year, both for Council review and approval; and

L. (Decision Point 25. Options A and B) At least every other year, the City Auditor program will undergo a peer evaluation as provided by the Association of Local Government Auditors, and at least every other year, the per audit costs will be summarized and compared to benchmark agencies.

Council Member Filseth thanked Management Partners and Staff.

Council Member Cormack looked forward to moving forward with the process.

Chair Kniss thought this was a very thorough look at the proposal. After the vote, the Committee needed to discuss the timeline.

**MOTION PASSED: 3-0**

Chair Kniss wanted to discuss the next steps.
Council Member Filseth related that the Committee just completed milestone two, which was the Committee decision of key RFP decision points. The next task was to issue and finalize the RFP. The schedule called for that to be done April 20, 2020. He was not sure if that was realistic.

Chair Kniss said there was discussion about that, but Management Partners said they were able to get that to the Committee by Monday, April 20, 2020.

Mr. Larson said his office would draft the RFP over the next two days. Next, he was going to ask the City Attorney, the Administrative Services Department (ASD) and the Ad Hoc Subcommittee, consisting of Council Member Filseth, to review it before it was released late Monday, April 20, 2020.

Mr. Gonda clarified that the April 20, 2020 date was a guidepost date and it highlighted the timeline that was needed. It was good to get the RFP out by Tuesday, April 21, 2020 and there was some flexibility in the schedule, especially with reference to Items 11 and 12. He wanted to keep the schedule tight to underscore the timeline and to help people from falling off track. He was going to update the timeline based off of when the RFP was actually released but he wanted to proceed with haste.

Council Member Filseth remarked that the next milestone was Item 4, which was that there was no Council meeting on April 27, 2020. Milestone 3 was to issue and finalize the RFP. He wondered if Council approval was needed to issue the RFP.

Mr. Larson answered that the Council direction was that authority was given to the Committee; the ambiguity lay with what was to be done with the proposals once they came in, as well as the Budget decision, which may need to go back to Council. These decisions occurred the first week of May, 2020 which gave his firm time to inform the potential proposers of any changes. An additional clarification was given the last currently scheduled Council meeting was June 22, 2020, there was a week lost at the end of the process; this was why it was imperative to get the RFP out as soon as possible.

Council Member Filseth wanted specific clarification that Management Partners did not need anything else from the Committee at this meeting.

Mr. Larson responded that one item was if there were over three proposals, the Committee did agree to having an Evaluation Team screen that down to
a fewer number. He suggested a separate Motion to appoint an Evaluation Team, such as someone from Management Partners, and a third party appointed by the Chair.

Chair Kniss confirmed a separate Motion was needed for that.

Mr. Larson answered that it was not included in the first Motion, so he recommended it now.

Council Member Filseth clarified that he was asking for the Committee to appoint an Evaluation Team.

Mr. Larson said yes.

Council Member Cormack suggested Council Member Filseth be the member of the Committee that be on the Evaluation Team.

Chair Kniss said that was mentioned before.

Council Member Filseth said whomever the Chair designated.

**MOTION:** Council Member Filseth moved, seconded by Council Member Cormack to authorize the CAO Committee Chair to appoint an evaluation team, if necessary, consisting of Council Member Filseth, an individual from Management Partners, and a 3rd person to be designated by the CAO Committee Chair.

**MOTION PASSED:** 3-0

Chair Kniss remarked that went along with the rest of the Motion.

Mr. Larson concluded with appreciation to Staff and the City Attorney’s Office.

**Adjournment:** The meeting was adjourned at 1:29 P.M.