



City of Palo Alto

City Council Staff Report

(ID # 12106)

Report Type: Consent Calendar

Meeting Date: 4/12/2021

Summary Title: Financial Audit Contract Extension

Title: Approval of Amendment Number 2 to Contract Number CC16161769 With Macias, Gini, & O'Connell for External Audit Services, to Extend the Term for one Year and add \$175,000, for a new Total Not-to-Exceed Amount of \$1,050,569

From: City Manager

Lead Department: City Auditor

Recommended Motion

The City Auditor recommends approval of amendment no. 2 to Contract No. C16161769 with the accounting firm of Macias, Gini & O'Connell LLP (MGO), for external financial audit services, to extend the term of the contract by one additional year, ending February 28, 2022, and to increase the total maximum compensation by \$175,000.00, from \$875,569 to \$1,050,569 (Attachment A).

Discussion

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual financial audit, and report the results of the audit, in writing, to the City Council. The City's original contract with MGO included the provision of external audit services through January 21, 2021 and was approved by the City Council on April 4, 2016 ([Staff Report](#)). Contract amendment no. 1, approved and executed by the City Manager per PAMC 2.30.290 (b), extended the contract term by six months, through July 21, 2021, at no added cost to the City (Attachment B). Contract amendment no. 2 will extend the contract term through February 28, 2022, and add \$175,000 to the not-to-exceed amount, for a new total not to exceed \$1,050,569. Contract amendment no. 2 will enable the provision of external auditing services to cover the City's fiscal year ending June 30, 2021.

Due to extraordinary circumstances caused by the COVID-19 pandemic and the timing and selection of a new service delivery for the City Auditor role, the City Auditor and City staff expect that going out to a new competitive solicitation is impractical at this time. If a new provider were to be awarded the contract, engaging a new financial audit firm would cause significant logistical challenges for City staff under the current circumstances. The first year of a new audit engagement requires significant interaction with and education of the new financial

audit team to understand the City's finances and accounting practices. Due to the current remote work environment, critical vacancies in the City's accounting team (most notably the Finance Manager), and the expectation that remote work will be on-going when preliminary audit work is expected to begin (April/May), the added effort involved in on-boarding new audit staff would exacerbate already challenging circumstances.

According to Section 2.30.360(b)(2) of the Palo Alto Municipal Code (PAMC), an exemption from competitive solicitation applies to situations where solicitation would be "impracticable, unavailing or impossible ... [or] not be useful or produce any operational or financial advantage for the city". As above, a competitive solicitation at this time would cause significant challenges under the current circumstances, sufficient to render such solicitation "impracticable" and "unavailing," as well as being without "operational advantage" for the city.

Under the circumstances, and in accordance with PAMC, the City Auditor initiated a request for exemption from competitive solicitation with the Chief Procurement Officer and City Manager, which was approved. Staff expects to conduct a request to proposal solicitation during this extension and award a new contract for service based on that public process prior to the sunset of this extension.

Given the above, the City Auditor recommends that the City Council authorize this amendment no. 2 to the MGO contract to extend the current contract term by one year, ending February 28, 2022 (for audit of the financial statements for the fiscal year ending June 30, 2021), and to increase the total maximum compensation by \$175,000 from \$875,569 to \$1,050,569.

Additional note: California Government Code Section 12410.6 (b) states that a local agency shall not employ a firm to provide audit services if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for six consecutive fiscal years. In the case of the current financial auditors, the lead audit partner has transitioned in the appropriate time period such that the current team may, consistent with Government Code Section 12410.6 (b), perform an audit of the financial statements for the fiscal year ending June 30, 2021.

For reference, amendment no. 1 to this contract extending the contract for a six-month term to complete the FY 2020 Single Audit of Federally Funded Programs is Attachment B. The total not-to-exceed compensation was not increased in amendment no. 1, which was approved and executed by the City Manager per PAMC 2.30.290 (b). The original City Council approval can be found here: <https://www.cityofpaloalto.org/civicax/filebank/documents/51628> after a formal Request for Proposal (RFP) and competitive procurement process.

Resource Impact

This contract amendment no. 2 increases total maximum compensation of the existing contract by \$175,000. That figure is comprised of two components. First, to perform the same procedures as have been performed in prior years, audit fees total \$163,725, which is inclusive

of a \$10,000 discount offered by MGO.

The second component of the total increase to compensation is included in the anticipation of the need to perform audit procedures over a second major program under the Single Audit. Note that definition of a major program lies in the amount of funding received by the City through Federal grants, and is not determined by the actions of the City itself.

Funding for this contract amendment no. 2 is subject to City Council approval through the annual budget process.

Environmental Impact

The action recommended is not a project for the purposes of the California Environmental Quality Act.

Attachments:

- Attachment A - Amendment No. 2 to Contract No. C16161769 with Macias Gini & O'Connell LLP
- Attachment B - Amendment No. 1 to Contract No. C16161769 with Macias Gini & O'Connell

**AMENDMENT NO. 2 TO CONTRACT NO. C16161769
BETWEEN THE CITY OF PALO ALTO AND
MACIAS GINI & O'CONNELL LLP**

This Amendment No. 2 (this "Amendment") to Contract No. C16161769 (the "Contract" as defined below) is entered into as of April 5, 2021, by and between the CITY OF PALO ALTO, a California chartered municipal corporation ("CITY"), and MACIAS GINI & O'CONNELL LLP, a limited liability partnership, located at 2121 N. California Blvd., Suite 750, Walnut Creek, California, 94596 ("CONSULTANT"). CITY and CONSULTANT are referred to collectively as the "Parties" in this Amendment.

RECITALS

A. The Contract (as defined below) was entered into by and between the Parties hereto for the provision of external auditing services, as detailed therein.

B. The Parties now wish to amend the Contract in order to extend the term, and to increase the total maximum compensation by \$175,000.00 from \$875,569.00 to \$1,050,569.00, as detailed herein.

NOW, THEREFORE, in consideration of the covenants, terms, conditions, and provisions of this Amendment, the Parties agree:

SECTION 1. Definitions. The following definitions shall apply to this Amendment:

- a. **Contract.** The term "Contract" shall mean Contract No. C16161769 between CONSULTANT and CITY, dated April 11, 2016, as amended by:

Amendment No.1, dated January 15, 2021

- b. **Other Terms.** Capitalized terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Contract.

SECTION 2. Section 2, "TERM," of the Contract is hereby amended to read as follows:

SECTION 2. TERM. The term of this Agreement shall be from the date of its full execution through February 28, 2022, unless terminated earlier pursuant to Section 19 of this Agreement."

SECTION 3. Section 4, "NOT TO EXCEED COMPENSATION," of the Contract is hereby amended to read as follows:

"SECTION 4. NOT TO EXCEED COMPENSATION. The compensation to be paid to CONSULTANT for performance of the Services described in Exhibit "A," including both payment for professional services and reimbursable expenses, shall not exceed per year as follows:

2016 – 2017 \$149,925.00

2017 – 2018 \$154,423.00

2018 – 2019 \$159,055.00

2019 – 2020 \$163,827.00

2020 – 2021 \$168,742.00

2021 – 2022 \$163,725.00

Total compensation for services and reimbursable expenses shall not exceed Nine Hundred Fifty Nine Thousand Six Hundred Ninety Seven Dollars (\$959,697.00). In the event Additional Services are authorized, the total compensation for Services, Additional Services, and reimbursable expenses shall not exceed One Million Fifty Thousand Five Hundred Sixty Nine Dollars (\$1,050,569.00). The applicable rates and schedule of payment are set out at Exhibit "C-1," entitled "HOURLY RATE SCHEDULE," which is attached to and made a part of this Agreement.

Additional Services, if any, shall be authorized in accordance with and subject to the provisions of Exhibit "C." CONSULTANT shall not receive any compensation for Additional Services performed without the prior written authorization of CITY. Additional Services shall mean any work that is determined by CITY to be necessary for the proper completion of the Project, but which is not included within the Scope of Services described at Exhibit "A."

SECTION 4. The following exhibit(s) to the Contract is/are hereby amended or added, as indicated below, to read as set forth in the attachment(s) to this Amendment, which is/are hereby incorporated in full into this Amendment and into the Contract by this reference:

- a. Exhibit "A" entitled "SCOPE OF SERVICES", AMENDED, REPLACES PREVIOUS.
- b. Exhibit "B" entitled "SCHEDULE OF PERFORMANCE", AMENDED, REPLACES PREVIOUS.
- c. Exhibit "C" entitled "COMPENSATION", AMENDED, REPLACES PREVIOUS.
- d. Exhibit "C-1" entitled "HOURLY RATE SCHEDULE", AMENDED, REPLACES PREVIOUS.

SECTION 5. Legal Effect. Except as modified by this Amendment, all other provisions of the Contract, including any exhibits thereto, shall remain in full force and effect.

SECTION 6. Incorporation of Recitals. The recitals set forth above are terms of this Amendment and are fully incorporated herein by this reference.

SIGNATURES OF THE PARTIES

IN WITNESS WHEREOF, the Parties have by their duly authorized representatives executed this Amendment effective as of the date first above written.

CITY OF PALO ALTO

MACIAS GINI & O'CONNELL LLP

City Manager

By:

Name:

Title:

B937904B31F148B
David Bullock
DocuSigned By: David Bullock

David Bullock

Partner

APPROVED AS TO FORM:

City Attorney or designee

Attachments:

- EXHIBIT "A": SCOPE OF SERVICES (AMENDED, REPLACES PREVIOUS)
- EXHIBIT "B": SCHEDULE OF PERFORMANCE (AMENDED, REPLACES PREVIOUS)
- EXHIBIT "C": COMPENSATION (AMENDED, REPLACES PREVIOUS)
- EXHIBIT "C-1": HOURLY RATE SCHEDULE (AMENDED, REPLACES PREVIOUS)

EXHIBIT "A"
SCOPE OF SERVICES, AMENDMENT NO. 2
(AMENDED, REPLACES PREVIOUS)

CONSULTANT to provide Auditing Services per the following:

PROJECT SPECIFICATIONS

Unless otherwise noted, all audit services cover the City's fiscal years ending on June 30, 2016, through June 30, 2021. The audit services are to be performed in accordance with generally accepted auditing standards; the standards for financial audits set forth in the United States Government Accountability Office's Government Auditing Standards (2011 revision, or subsequent revisions); the provisions of the federal Single Audit Act of 1984, as amended in 1996; and the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Generally accepted accounting principles provide for certain required supplementary information, such as Management's Discussion and Analysis to accompany the City's basic financial statements. CONSULTANT shall apply certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation, which the City shall affirm to the CONSULTANT in the City's Management Letter. Please note that all dates cited will be confirmed each year during the entrance conference.

Basic Audit Services Required

CONSULTANT shall audit the City's financial statements and prepare the City's federal and state tax returns for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2016, through June 30, 2021. In providing these services, CONSULTANT shall:

- A. Prior to year-end, and preferably during March and April, the CONSULTANT shall perform interim work to test the internal controls of accounting processes.

Deliverables:

- 1) No later than the last working day in May of each year, provide the City Auditor and the Director of Administrative Services with a draft management letter of the issues identified.
 - 2) Within three weeks after receiving the City's response to any issues in the draft management letter (the Accounting Division in the Administrative Services Department will respond in a written memo), provide written comments to the response to the City Auditor and the Director of Administrative Services.
- B. Use the City's worksheet and template to prepare the Comprehensive Annual Financial Report (Annual Report), including the entity wide statements. The Annual Report should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility.

NOTE: The City of Palo Alto may transition during the contract period to preparing the Annual Report itself. If it does, this item would no longer be a required service, and the contract price would be adjusted accordingly.

Deliverables:

- 1) No later than the fifteenth (15th) day of November of each year, provide the electronic data used to prepare the Annual Report to the Administrative Services Department.
- C. Audit the basic financial statements and supplementary entity-wide combining and individual fund financial statements included in the City's Annual Report, including all funds under the jurisdiction and control of the City, and render a professional opinion thereon.

Deliverables:

- 1) No later than the 15th day in November of each year, provide a complete electronic version of the Comprehensive Annual Financial Report, including the opinion letter and the Single Audit Report, in a website-compatible format, to the City Auditor and the Director of Administrative Services.
 - 2) No later than the fifteenth (15th) day of November of each year, provide fifteen (15) color and ten (10) black and white bound copies of the Comprehensive Annual Financial Report, including the opinion letter and the Single Audit Report, to the City Auditor.
- D. Audit the City's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including the 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract.

Deliverables:

- 1) See deliverables under Item C above.
- E. Prepare a management letter to the City Council that includes observations and recommendations identified during the audit. This may include:
- issues regarding internal control structure (e.g., information systems, functions, and procedures)
 - items concerning compliance with laws, rules, and regulations
 - opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the City
 - other matters of interest to the City Council and management

Deliverables:

- 1) One week after completing field work each year, provide a draft management letter for completed field work to the City Auditor and the Director of Administrative Services.
- 2) No later than the fifteenth (15th) day of November of each year, provide the final comprehensive management letter to the City Auditor and the Director of Administrative Services.

- F. Audit the financial statements of the Regional Water Quality Control (RWQC) Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the Cities of Palo Alto, Mountain View, and Los Altos for Acquisition, Construction, and Maintenance of a Joint Sewer System," and all addenda thereto.

Deliverables:

- 1) No later than the last working day in October of each year, provide an electronic copy of the draft RWQC report to the City Auditor and the Director of Administrative Services.
- 2) No later than the fifteenth (15th) day of November of each year, provide an electronic copy of the final RWQC report to the City Auditor and the Director of Administrative Services.

- G. Audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the City has created to finance construction of specific facilities and prepare their applicable federal and state informational and tax returns.

Deliverables:

- 1) No later than the last working day in October of each year, provide an electronic copy of the draft Public Improvement Corporation report to the City Auditor and the Director of Administrative Services.
- 2) No later than the last working day of November of each year, provide an electronic copy of the final Public Improvement Corporation report to the City Auditor and the Director of Administrative Services.
- 3) No later than the fifteenth (15th) day of February of each year, provide an electronic copy of the federal and state tax returns to the City Auditor and the Director of Administrative Services.

- H. Audit the City's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable state requirements.

Deliverables:

- 1) No later than the last working day in October of each year, provide an electronic copy of the draft financial assistance program report to the City Auditor and the Director of Administrative Services.
- 2) No later than the fifteenth (15th) day of November of each year, provide an electronic copy of the final financial assistance program report to the City Auditor and the Director of Administrative Services.

- I. Perform agreed-upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required.

Deliverables:

- 1) No later than the last working day in May of each year, provide an electronic copy of the Gann Limit letter to the City Auditor and the Director of Administrative Services.

- J. Audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, County of San Mateo, and County of Santa Clara.

Deliverables:

- 1) No later than the fifteenth (15th) day of November of each year, provide an electronic copy of the cable report to the City Auditor and the Director of Administrative Services.

- K. Prepare the Annual Financial Transactions Report and Annual Street Report in accordance with instructions from the California State Controller's Office.

NOTE: The City of Palo Alto may transition during the contract period to preparing these reports itself. If it does, this item would no longer be a required service, and the contract price would be adjusted accordingly.

Deliverables:

- 1) No later than the second Friday in September of each year, provide an electronic copy of the Annual Street Report to the Director of Administrative Services for signature and mailing, with a courtesy copy to the City Auditor.
- 2) No later than the fifteenth (15th) day of October of each year, provide an electronic copy of the Annual Financial Transactions Report to the Director of Administrative Services for signature and mailing, with a courtesy copy to the City Auditor.

- L. Audit and issue a report on the financial statements of the Palo Alto Library Bond Fund, and perform agreed-upon procedures on the Library Bond Fund and issue a report of compliance as required.

NOTE: We are anticipating that activity in this fund will cease at some point during the contract period. If it does, this item would no longer be a required service, and the contract price will be adjusted accordingly.

Deliverables:

- 1) No later than the last working day in October of each year, provide an electronic copy of the library bond report to the City Auditor and the Director of Administrative Services.
- 2) No later than the fifteenth (15th) day of November of each year, provide an electronic copy of the library bond report of compliance to the City Auditor and the Director of Administrative Services.

- M. CONSULTANT is required to attend the following meetings, at no additional cost, during each audit engagement period:

- Entrance Conference – Prior to conducting interim work, CONSULTANT shall meet with the City Auditor and the Director of Administrative Services or their designees, to establish timelines for completing required tasks.
- CONSULTANT shall meet regularly with the City Auditor and the Assistant Director of Administrative Services or their designees to report on the progress of CONSULTANT'S examinations and on the preliminary audit findings and recommendations.

- CONSULTANT shall meet with the City Auditor or designee independently to review internal control issues identified during the audit. This will include reportable conditions, if applicable, reflected in the draft management letter.
 - CONSULTANT shall hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff upon completion of the audit. CONSULTANT will present the financial statements and draft management letter at this meeting.
 - CONSULTANT shall attend a Council Finance Committee meeting to present and discuss the audit results and the management letter.
- N. Provide training for City staff, at no additional cost, regarding important industry developments and technical matters:
- Proactive guidance on complying with any GASB pronouncements and/or other requirements that may significantly impact the City's financial reporting over the next several years.
 - Provide formal training regarding industry developments and new accounting regulations.
- O. Assist the City in the transition to comply with any new Governmental Accounting Standards Board (GASB) pronouncements. To the extent possible, this assistance should be provided during the interim work, and may include reviewing reports, transactions, and Management Discussion and Analysis.
- P. CONSULTANT will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by CONSULTANT, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the GASB, the Government Finance Officers Association (GFOA), and the United States Government Accountability Office (GAO). Examples of these publications include:
- AICPA Professional Standards
 - AICPA State and Local Governments – Audit and Accounting Guide
 - FASB Accounting Standards
 - GASB Codifications of Governmental Accounting and Financial Reporting Standards
 - GFOA publications related to governmental accounting, auditing and financial reporting
 - GAO's Government Auditing Standards

ASSISTANCE TO BE PROVIDED TO CONSULTANT AND REPORT PREPARATION

Administrative Services Department (ASD) and Clerical Assistance

ASD staff and responsible management will be available during the audit to assist the firm by providing information, documentation and explanations. ASD staff will prepare statements and schedules for CONSULTANT as requested.

Report editing and compilation shall be the responsibility of CONSULTANT. ASD staff will print copies, as needed, of the electronic reports provided by CONSULTANT.

Work Area, Photocopying, and Parking

The City will provide CONSULTANT with reasonable workspace and access to a copying machine/scanner and parking for CONSULTANT’S staff, taking into consideration the on-going pandemic and safety restrictions.

TIME REQUIREMENTS

Audit schedule (exact dates to be confirmed at the entrance conference each year):

Interim Work Completed: May 31 – for subsequent years, it is anticipated that draft management letter interim work be completed in March and April

Field Work Completed: October 15

Initial Draft Report: November 1

Final Report: November 15

Presentation of Audit Results: Third Tuesday in November to Finance Committee

EXHIBIT "B"
SCHEDULE OF PERFORMANCE, AMENDMENT NO. 2
(AMENDED, REPLACES PREVIOUS)

CONSULTANT shall perform the Services so as to complete each milestone by the dates specified below. The time to complete each milestone may be increased or decreased by mutual written agreement of the project managers for CONSULTANT and CITY so long as all work is completed within the term of the Agreement. See also the "Time Requirements" section of Exhibit A (Scope of Services).

For fiscal years 2015–2016 through 2020–2021, CONSULTANT’s schedule of performance is as follows:

AUDIT TIMELINE - CITY	
Planning	DATES
Client expectations meeting	After contract is awarded
Perform planning procedures	5/2/2016 - 5/6/2016
Interim Fieldwork	
On-site interim fieldwork	5/9/2016 - 5/27/2016(**)
Report interim management letter and provide the client participation schedule for year-end	5/31/2016
Year End Fieldwork	
Obtain final client trial balances and prepared by client (PBC) items	9/6/2016
On-site year-end financial statements fieldwork	09/19/2016*-10/14/2015
Reporting	
Deliver Gann limit letter	05/31/2016
Receipt of draft MD&A, financial statements, notes and other RSI for the City	09/19/2016
Receipt of draft MD&A, financial statements, notes and other RSI for the other reports	09/19/2016
Review Annual Street Report	09/9/2016
Review Annual Financial Transactions Report	9/30/2016
Review of draft CAFR and other reports with the City	10/24/2016
Deliver and submission of Annual Street Report	9/16/2016
Deliver and submission of Annual Financial Transactions Report	10/14/2016
Deliver CAFR and Single Audit Reports to the City	11/02/2016
Deliver all other reports (including Required Communication to City Council)	11/02/2016
Deliver Federal and State tax returns for the Palo Alto Public Improvement Corporation	02/15/2017
Communication	
Weekly status meetings	09/12/2016-10/31/2016
Exit conference: review with Management the results of the engagement	11/15/2016
On-Going Services	
Meet and consult with the City Auditor and City management throughout the year on business and accounting issues.	On-going

* Year-end fieldwork starts two weeks after receipt of agreed-upon PBC items.
 ** interim fieldworks for subsequent years are anticipated to be completed by April 30.

(CONTINUED ON THE NEXT PAGE.)

For fiscal year 2021–2022, CONSULTANT’s schedule of performance is as follows:

AUDIT TIMELINE - CITY OF PALO ALTO	
	DATES
Planning	
Client expectations meeting	Upon execution of contract
Perform planning procedures	4/19/2021 - 4/30/2021
Interim Fieldwork	
On-site interim fieldwork	5/3/2021 - 5/21/2021
Report interim management letter and provide the client participation schedule for year-end	6/4/2021
Year End Fieldwork	
Obtain final client trial balances and prepared by client (PBC) items	9/7/2021
On-site year-end financial statements fieldwork	09/13/2021*-10/15/2021
Reporting	
Receipt of draft MD&A, financial statements, notes and other RSI for the City	9/20/2021
Receipt of draft MD&A, financial statements, notes and other RSI for the other reports	9/20/2021
Review Annual Street Report	10/8/2021
Review of draft Comprehensive Annual Financial Report and other reports with the City	10/15/2021
Deliver and submission of Annual Street Report	10/29/2021
Deliver Comprehensive Annual Financial Report and Single Audit Reports to the City	10/29/2021
Deliver all other reports (including Required Communication to City Council)	10/29/2021
Review Annual Financial Transactions Report	1/7/2021
Deliver and submission of Annual Financial Transactions Report	1/31/2022
Deliver Federal and State tax returns for the Palo Alto Public Improvement Corporation	02/15/2022
Communication	
Weekly status meetings	09/13/2021-10/29/2021
Exit conference: review with Management the results of the engagement	10/29/2021
On-Going Services	
Meet and consult with the City Auditor and City management throughout the year on business and accounting issues.	On-going

* Year-end fieldwork starts two weeks after receipt of agreed-upon PBC items.

EXHIBIT "C"
COMPENSATION, AMENDMENT NO. 2
(AMENDED, REPLACES PREVIOUS)

The CITY agrees to compensate the CONSULTANT for professional services performed in accordance with the terms and conditions of this Agreement based on the hourly rate schedule attached as Exhibit C-1.

The compensation to be paid to CONSULTANT under this Agreement for all services described in Exhibit "A" ("Services") and reimbursable expenses shall not exceed \$959,697.00. CONSULTANT agrees to complete all Services, including reimbursable expenses, within this amount. In the event CITY authorizes any Additional Services, the maximum compensation shall not exceed \$1,050,569.00. Any work performed or expenses incurred for which payment would result in a total exceeding the maximum amount of compensation set forth herein shall be at no cost to the CITY.

REIMBURSABLE EXPENSES

The administrative, overhead, secretarial time or secretarial overtime, word processing, photocopying, in-house printing, insurance, and other ordinary business expenses are included within the scope of payment for services and are not reimbursable expenses. CITY shall reimburse CONSULTANT for the following reimbursable expenses at cost. Expenses for which CONSULTANT shall be reimbursed are: None

However, if CITY authorizes reimbursable expenses, all requests for payment of expenses shall be accompanied by appropriate backup information. Any expense shall be approved in advance by the CITY's project manager.

ADDITIONAL SERVICES

The CONSULTANT shall provide additional services only by advanced, written authorization from the CITY. The CONSULTANT, at the CITY's project manager's request, shall submit a detailed written proposal including a description of the scope of services, schedule, level of effort, and CONSULTANT's proposed maximum compensation, including reimbursable expenses, for such services based on the rates set forth in Exhibit C-1. The additional services scope, schedule and maximum compensation shall be negotiated and agreed to in writing by the CITY's Project Manager and CONSULTANT prior to commencement of the services. Payment for additional services is subject to all requirements and restrictions in this Agreement.

**EXHIBIT “C-1”
HOURLY RATE SCHEDULE, AMENDMENT NO. 2
(AMENDED, REPLACES PREVIOUS)**

For fiscal years 2017–2018 through 2020–2021, CONSULTANT’s hourly rate schedule is as follows:

Task	Description of Deliverables	Labor Category	Hourly Rate	Estimated Hours	Extended Cost by Labor Category	Total Cost per Task
A	City's Comprehensive Annual Financial Report, including basic financial statements, required supplementary information, and other supplementary information.	Partners	\$ 300	60	\$ 18,000	\$ 98,725
		Senior Manager	\$ 210	90	\$ 18,900	
		IT Consultants	\$ 240	15	\$ 3,600	
		Senior Auditors	\$ 140	180	\$ 25,200	
		Staff Auditors	\$ 110	290	\$ 31,900	
		Support staff	\$ 75	15	\$ 1,125	
B	Management letter and required communications to the City Council that includes observations and recommendations identified during the audit.	Partners	\$ 300	5	\$ 1,500	\$ 3,185
		Senior Manager	\$ 210	5	\$ 1,050	
		Senior Auditors	\$ 140	4	\$ 560	
		Support staff	\$ 75	1	\$ 75	
C	Regional Water Quality Control Plant financial statements	Partners	\$ 300	8	\$ 2,400	\$ 10,245
		Senior Manager	\$ 210	11	\$ 2,310	
		Senior Auditors	\$ 140	17	\$ 2,380	
		Staff Auditors	\$ 110	28	\$ 3,080	
		Support staff	\$ 75	1	\$ 75	
D	Palo Alto Public Improvement Corporation financial statements, including the federal and state tax returns	Partners	\$ 300	4	\$ 1,200	\$ 5,955
		Senior Manager	\$ 210	5	\$ 1,050	
		Senior Auditors	\$ 140	11	\$ 1,540	
		Staff Auditors	\$ 110	19	\$ 2,090	
		Support staff	\$ 75	1	\$ 75	
E	Single Audit (one major program)	Partners	\$ 300	5	\$ 1,500	\$ 9,290
		Senior Manager	\$ 210	6	\$ 1,260	
		Senior Auditors	\$ 140	22	\$ 3,080	
		Staff Auditors	\$ 110	30	\$ 3,300	
		Support staff	\$ 75	2	\$ 150	
F	Transportation Development Act Program financial statements	Partners	\$ 300	1	\$ 300	\$ 2,125
		Senior Manager	\$ 210	2	\$ 420	
		Senior Auditors	\$ 140	4	\$ 560	
		Staff Auditors	\$ 110	7	\$ 770	
		Support staff	\$ 75	1	\$ 75	
G	Gann Appropriations Limit agreed-upon procedures	Partners	\$ 300	1	\$ 300	\$ 1,315
		Senior Auditors	\$ 140	2	\$ 280	
		Staff Auditors	\$ 110	6	\$ 660	
		Support staff	\$ 75	1	\$ 75	
H	Cable Television Franchise Statement of Franchise Revenues and Expenditures	Partners	\$ 300	3	\$ 900	\$ 4,375
		Senior Manager	\$ 210	3	\$ 630	
		Senior Auditors	\$ 140	8	\$ 1,120	
		Staff Auditors	\$ 110	15	\$ 1,650	
		Support staff	\$ 75	1	\$ 75	
I	Preparation of the Annual Financial Transactions Report and the Annual Street Report	Senior Manager	\$ 210	8	\$ 1,680	\$ 10,045
		Senior Auditors	\$ 140	16	\$ 2,240	
		Staff Auditors	\$ 110	55	\$ 6,050	
		Support staff	\$ 75	1	\$ 75	
J	Palo Alto Library Bond Fund financial statements and agreed-upon procedures on compliance	Partners	\$ 300	3	\$ 900	\$ 4,665
		Senior Manager	\$ 210	5	\$ 1,050	
		Senior Auditors	\$ 140	11	\$ 1,540	
		Staff Auditors	\$ 110	10	\$ 1,100	
		Support staff	\$ 75	1	\$ 75	
TOTAL (Initial Year)					\$	149,925

Fees for subsequent years shall be adjusted to reflect increases in the consumer price index, up to a maximum of 3% per year. After the initial year, the maximum annual fee amount, if a 3% increase is granted, shall be:

2017 – 2018 \$154,423.00

2018 – 2019 \$159,055.00

2019 – 2020 \$163,827.00

2020 – 2021 \$168,742.00

See following page regarding fiscal year 2021-2022 fees.

(CONTINUED ON THE NEXT PAGE.)

For fiscal year 2021–2022, CONSULTANT’s hourly rate schedule is as follows:

City of Palo Alto Audit Assurance Services Fee Proposal - FY 2021						
Task	Description of Deliverables	Labor Category	Hourly Rate	Estimated Hours	Extended Cost by Labor Category	Total Cost per Task
A	City's Comprehensive Annual Financial Report, including basic financial statements, required supplementary information, and other supplementary information.	Partner/Director	\$ 340	60	\$ 20,400	\$ 114,305
		Manager	\$ 235	90	\$ 21,150	
		IT Consultant	\$ 270	15	\$ 4,050	
		Auditor In Charge	\$ 165	180	\$ 29,700	
		Staff Auditors	\$ 130	290	\$ 37,700	
		Support staff	\$ 87	15	\$ 1,305	
B	Management letter and required communications to the City Council that includes observations and recommendations identified during the audit.	Partner/Director	\$ 340	5	\$ 1,700	\$ 3,622
		Manager	\$ 235	5	\$ 1,175	
		Auditor In Charge	\$ 165	4	\$ 660	
		Support staff	\$ 87	1	\$ 87	
C	Regional Water Quality Control Plant financial statements	Partner/Director	\$ 340	8	\$ 2,720	\$ 11,837
		Manager	\$ 235	11	\$ 2,585	
		Auditor In Charge	\$ 165	17	\$ 2,805	
		Staff Auditors	\$ 130	28	\$ 3,640	
		Support staff	\$ 87	1	\$ 87	
D	Palo Alto Public Improvement Corporation financial statements, including the federal and state tax returns	Partner/Director	\$ 340	4	\$ 1,360	\$ 6,907
		Manager	\$ 235	5	\$ 1,175	
		Auditor In Charge	\$ 165	11	\$ 1,815	
		Staff Auditors	\$ 130	19	\$ 2,470	
		Support staff	\$ 87	1	\$ 87	
E	Single Audit (one major program)	Partner/Director	\$ 340	5	\$ 1,700	\$ 10,814
		Manager	\$ 235	6	\$ 1,410	
		Auditor In Charge	\$ 165	22	\$ 3,630	
		Staff Auditors	\$ 130	30	\$ 3,900	
		Support staff	\$ 87	2	\$ 174	
F	Transportation Development Act Program financial statements	Partner/Director	\$ 340	1	\$ 340	\$ 2,467
		Manager	\$ 235	2	\$ 470	
		Auditor In Charge	\$ 165	4	\$ 660	
		Staff Auditors	\$ 130	7	\$ 910	
		Support staff	\$ 87	1	\$ 87	
G	Gann Appropriations Limit agreed-upon procedures	Partner/Director	\$ 340	1	\$ 340	\$ 1,537
		Auditor In Charge	\$ 165	2	\$ 330	
		Staff Auditors	\$ 130	6	\$ 780	
		Support staff	\$ 87	1	\$ 87	
H	Cable Television Franchise Statement of Franchise Revenues and Expenditures	Partner/Director	\$ 340	3	\$ 1,020	\$ 5,082
		Manager	\$ 235	3	\$ 705	
		Auditor In Charge	\$ 165	8	\$ 1,320	
		Staff Auditors	\$ 130	15	\$ 1,950	
		Support staff	\$ 87	1	\$ 87	
I	Preparation of the Annual Financial Transactions Report and the Annual Street Report	Partner/Director	\$ 340	0	\$ -	\$ 11,757
		Manager	\$ 235	8	\$ 1,880	
		Auditor In Charge	\$ 165	16	\$ 2,640	
		Staff Auditors	\$ 130	55	\$ 7,150	
		Support staff	\$ 87	1	\$ 87	
J	Palo Alto Library Bond Fund financial statements and agreed-upon procedures on compliance	Partner/Director	\$ 340	3	\$ 1,020	\$ 5,397
		Manager	\$ 235	5	\$ 1,175	
		Auditor In Charge	\$ 165	11	\$ 1,815	
		Staff Auditors	\$ 130	10	\$ 1,300	
		Support staff	\$ 87	1	\$ 87	
Total FY2021 fees, based on 3% COLA increase from FY 2020 fees						\$ 173,725
Less: One-time fee reduction in response to adverse financial impact of COVID-19						(10,000)
Total FY2021 fees, adjusted						\$ 163,725

Fees for subsequent years may, by agreement of the parties, be adjusted to reflect increases in the consumer price index, up to a maximum of 3% per year.

**AMENDMENT NO. 1 TO CONTRACT NO. C16161769
BETWEEN THE CITY OF PALO ALTO AND
MACIAS GINI & O'CONNELL LLP**

This Amendment No. 1 (this "Amendment") to Contract No. C16161769 (the "Contract" as defined below) is entered into as of January 15, 2021, by and between the CITY OF PALO ALTO, a California chartered municipal corporation ("CITY"), and MACIAS GINI & O'CONNELL LLP, a limited liability partnership, located at 2121 N. California Blvd., Suite 750, Walnut Creek, California, 94596 ("CONSULTANT"). CITY and CONSULTANT are referred to collectively as the "Parties" in this Amendment.

RECITALS

A. The Contract (as defined below) was entered into by and between the Parties hereto for the provision of external auditing services, as detailed therein.

B. The Parties now wish to amend the Contract in order to extend the term by six months, from the original contract end date of January 21, 2021 through July 21, 2021, with no change to the maximum compensation payable under the Contract.

NOW, THEREFORE, in consideration of the covenants, terms, conditions, and provisions of this Amendment, the Parties agree:

SECTION 1. Definitions. The following definitions shall apply to this Amendment:

- a. **Contract.** The term "Contract" shall mean Contract No. C16161769 between CONSULTANT and CITY, dated April 11, 2016.
- b. **Other Terms.** Capitalized terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Contract.

SECTION 2. Section 2. "TERM" of the Contract is hereby amended to read as follows:

"SECTION 2. TERM. The term of this Agreement shall be from the date of its full execution through July 21, 2021, unless terminated earlier pursuant to Section 19 of this Agreement."

SECTION 3. Legal Effect. Except as modified by this Amendment, all other provisions of the Contract, including any exhibits thereto, shall remain in full force and effect.

SECTION 4. Incorporation of Recitals. The recitals set forth above are terms of this Amendment and are fully incorporated herein by this reference.

SIGNATURES OF THE PARTIES

IN WITNESS WHEREOF, the Parties have by their duly authorized representatives executed this Amendment effective as of the date first above written.

CITY OF PALO ALTO

DocuSigned by:
Ed Shikada
Ed Shikada

City Manager

MACIAS GINI & O'CONNELL LLP

B937904B31F148B
David Bullock
DocuSigned By: David Bullock

By:
Name: David Bullock
Title: Partner

APPROVED AS TO FORM:

DocuSigned by:
Cassie Coleman
Cassie Coleman

City Attorney or designee

Certificate Of Completion

Envelope Id: 21B4C992C9DA46BF832D2F68EE6E142C	Status: Completed
Subject: Please DocuSign: Amendment #1 C16161769 MGO - Legal Reviewed.pdf	
Source Envelope:	
Document Pages: 2	Signatures: 3
Certificate Pages: 2	Initials: 0
AutoNav: Enabled	Envelope Originator:
Envelopeld Stamping: Enabled	Terry Loo
Time Zone: (UTC-08:00) Pacific Time (US & Canada)	250 Hamilton Ave
	Palo Alto , CA 94301
	Terry.Loo@CityofPaloAlto.org
	IP Address: 199.33.32.254

Record Tracking

Status: Original	Holder: Terry Loo	Location: DocuSign
1/12/2021 4:40:47 PM	Terry.Loo@CityofPaloAlto.org	
Security Appliance Status: Connected	Pool: StateLocal	
Storage Appliance Status: Connected	Pool: City of Palo Alto	Location: DocuSign

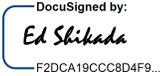
Signer Events

Signer Events	Signature	Timestamp
David Bullock dbullock@mgocpa.com Partner Security Level: Email, Account Authentication (None)	 <p>B937904B31F148B David Bullock DocuSigned By: David Bullock</p> <p>Signature Adoption: Pre-selected Style Using IP Address: 98.35.35.26</p>	<p>Sent: 1/12/2021 4:47:07 PM Viewed: 1/13/2021 12:48:36 AM Signed: 1/13/2021 12:54:47 AM</p>

Electronic Record and Signature Disclosure: Not Offered via DocuSign

Cassie Coleman cassie.coleman@cityofpaloalto.org Assistant City Attorney Security Level: Email, Account Authentication (None)	 <p>DocuSigned by: Cassie Coleman 35B4C582F4964EA...</p> <p>Signature Adoption: Pre-selected Style Using IP Address: 199.33.32.254</p>	<p>Sent: 1/13/2021 12:54:49 AM Viewed: 1/13/2021 10:04:41 AM Signed: 1/13/2021 10:04:56 AM</p>
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Electronic Record and Signature Disclosure: Not Offered via DocuSign

Ed Shikada ed.shikada@cityofpaloalto.org Ed Shikada, City Manager City of Palo Alto Security Level: Email, Account Authentication (None)	 <p>DocuSigned by: Ed Shikada F2DCA19CCC8D4F9...</p> <p>Signature Adoption: Pre-selected Style Using IP Address: 98.42.3.200</p>	<p>Sent: 1/13/2021 10:04:58 AM Viewed: 1/13/2021 11:45:15 AM Signed: 1/13/2021 11:46:02 AM</p>
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Electronic Record and Signature Disclosure: Not Offered via DocuSign

In Person Signer Events	Signature	Timestamp
Editor Delivery Events	Status	Timestamp
Agent Delivery Events	Status	Timestamp
Intermediary Delivery Events	Status	Timestamp
Certified Delivery Events	Status	Timestamp

Carbon Copy Events	Status	Timestamp
Rocelyn Fernando Rocelyn.Fernando@CityofPaloAlto.org Interim Accounting Manager City of Palo Alto Security Level: Email, Account Authentication (None)	COPIED	Sent: 1/13/2021 11:46:04 AM
Electronic Record and Signature Disclosure: Not Offered via DocuSign		

Witness Events	Signature	Timestamp
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Notary Events	Signature	Timestamp
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Envelope Summary Events	Status	Timestamps
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Payment Events	Status	Timestamps
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