

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

April 28, 2023

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** May 4, 2023 Government Audit and Oversight Committee Meeting

**TABLE OF CONTENTS**

<b>Item</b>	<b>File</b>	<b>Page</b>
3	23-0404 Selection of Independent Auditors - Macias Gini & O'Connell LLP - Not to Exceed \$6,806,424.....	1

<p><b>Item 3</b> <b>File 23-0404</b></p>	<p><b>Department:</b> Controller's Office (Controller)</p>
--	--

**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution would approve an independent auditing services contract between the Controller’s Office and Macias Gini & O’Connell LLP (MGO) for an initial term of four years, from July 2023 through June 2027, and an amount not to exceed \$6,806,424.

**Key Points**

- In March 2022, the Controller’s Office issued a Request for Proposals (RFP) for independent auditing services, which included 12 audit group categories. MGO, which had been one of the City’s existing audit providers, was the highest scoring proposer in four competitive categories and the only proposer in five categories.
- Under the proposed contract, MGO would provide the following annual audits: (1) Annual Comprehensive Financial Report (ACFR); (2) General City; (3) San Francisco General and Laguna Honda Hospitals; (4) Single Audit; (5) Treasure Island Development Authority (TIDA); (6) San Francisco Employees’ Retirement System (SFERS); (7) Office of Community Investment and Infrastructure (OCII, or Redevelopment Successor Agency); (8) Health Service System (HSS); (9) Port of San Francisco; (10) San Francisco Finance Corporation; (11) State of California Project Grants; and (12) San Francisco Retiree Health Care Trust Fund. The proposed resolution notes that the Controller’s Office orders these audits.
- The contract budget also includes \$180,000 annually for as-needed services, if the Controller’s Office requests additional accounting or reporting services outside of the contract’s financial statement reporting scope of work.

**Fiscal Impact**

- The proposed contract would have a total amount not to exceed \$6,806,424 over the initial four-year term. Billing rates range from \$104 to \$380 per hour.
- Specific department audits, such as those for the hospitals, Port, or Health Service System, are funded by those department budgets. The ACFR is funded by the General Fund; the General City Audit is funded by the Board of Supervisors; the Single Audit is funded by the Department of Public Health, Human Services Agency, and General Fund; and TIDA is funded by the General Fund.

**Recommendation**

- Approve the proposed resolution.

**MANDATE STATEMENT**

City Charter Section 2.115 states that the Board of Supervisors shall select a firm or firms of independent accountants to audit and report upon the annual financial statements of the City and County.

**BACKGROUND**

In March 2022, the Controller’s Office issued a Request for Proposals (RFP) for independent auditing services. The RFP included 12 audit group categories. Macias Gini & O’Connell LLP (MGO), which has been one of the City’s existing audit providers, responded to 10 of the 12 audit group categories. Of the 10 categories, MGO was the highest scoring proposer in four competitive categories and the only proposer in five categories.<sup>1</sup> The proposers and scores in the four competitive categories are shown in Exhibit 1 below.

**Exhibit 1: RFP Proposals and Scores in Competitive Audit Group Categories<sup>2</sup>**

<b>Proposer</b>	<b>Score (Out of 200 Points)</b>
<i>Group 1 (Annual Comprehensive Financial Report, General City, San Francisco General and Laguna Honda Hospitals, Single Audit, and Treasure Island Development Authority)</i>	
MGO	177.50
Crowe LLP	165.00
<i>Group 2 (San Francisco Employees’ Retirement System)</i>	
MGO	175.25
Crowe LLP	168.00
<i>Group 4 (Health Service System)</i>	
MGO	175.50
Crowe LLP	161.75
<i>Group 11 (Retiree Health Care Trust)</i>	
MGO	176.00
Crowe LLP	164.00

Source: Controller’s Office

The Controller’s Office awarded an auditing contract to MGO for the nine groups in which it was the highest scoring or only proposer.

<sup>1</sup> The five financial audit categories for which MGO was the only proposer were: (1) Port, (2) Public Utilities Commission, (3) State grants, (4) OCII, and (5) the San Francisco Finance Corporation, a legally separate entity from the City that uses tax-exempt debt to purchase equipment.

<sup>2</sup> The evaluation panel for Group 1 included a Manager III from the Controller’s Office, a Finance Manager from the Department of Technology (DT), a Finance Manager from the Human Services Agency (HSA), and a Manager from the Department of Public Health (DPH). The evaluation panel for Groups 2, 4, and 11 included a Financial Systems Supervisor from the Controller’s Office, a Finance Manager from the Retirement System, a Chief Financial Officer from the Health Service System, and a Finance Manger from the Office of Community Investment and Infrastructure.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an independent financial auditing services contract between the Controller's Office and MGO for a term of four years from July 2023 through June 2027 and an amount not to exceed \$6,806,424.

The contract has a three-year option to extend through June 2030, which would be subject to Board of Supervisors' approval, and which would increase the contract not to exceed to \$12,190,647 over the total seven-year term.

### Services Provided

Under the contract, MGO would provide the following annual audits: (1) Annual Comprehensive Financial Report (ACFR); (2) General City;<sup>3</sup> (3) San Francisco General and Laguna Honda Hospitals; (4) Single Audit;<sup>4</sup> (5) Treasure Island Development Authority (TIDA); (6) San Francisco Employees' Retirement System (SFERS); (7) Office of Community Investment and Infrastructure (OCII, or Redevelopment Successor Agency); (8) Health Service System (HSS); (9) Port of San Francisco; (10) San Francisco Finance Corporation; (11) State of California Project Grants;<sup>5</sup> and (12) San Francisco Retiree Health Care Trust Fund. The proposed resolution notes that the Controller's Office orders these audits.

Appendix C to the contract includes an audit timeline, with the following issuance deadlines each fiscal year: (1) Financial Statements for the various reporting entities by October 27; ACFR by November 27; (3) Final Management Letter by January 31; and (4) Single Audit by January 31. MGO would bill the Controller's Office at an hourly rate of \$104 to \$380, depending on employee classification, with three percent annual escalation beginning in contract Year 5 (if extended).

### Performance

According to the Controller's Office, because MGO is an independent auditor, the City formally reviews MGO's work papers related to contractor performance, and does not prepare an annual performance evaluation. According to Joyce Kimotsuki, Controller's Office Contracts Manager, the Controller's Office monitors the timely completion of the external auditor's work as per the scope of work, and terms and conditions.

## FISCAL IMPACT

The proposed contract would have a total amount not to exceed \$6,806,424 over the initial four-year term. The annual estimated contract expenditures by task for the initial term are shown in Exhibit 2 below.

<sup>3</sup> The General City audit is comprised of City departments that have created financial transactions that are incorporated into the Financial Statement Audit included in the ACFR.

<sup>4</sup> The Single Audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends at least \$750,000 in federal funds in one year. It is intended to provide assurance to the Federal Government that a non-federal entity has adequate controls in place and is generally in compliance with program requirements.

<sup>5</sup> The project grants are from the California Department of Insurance (DOI), Transportation Development Act Local Transportation Fund (LTF), and Transportation Development Act (TDA) Projects for Department of Public Works.

**Exhibit 2: Estimated Annual Contract Expenditures by Task**

<b>Task</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>Total</b>
ACFR <sup>6</sup>	\$462,860	\$462,860	\$462,860	\$462,860	\$1,851,440
Single Audit	303,120	303,120	303,120	303,120	\$1,212,480
SF General Hospital	115,300	115,300	115,300	115,300	\$461,200
Laguna Honda Hospital	61,190	61,190	61,190	61,190	\$244,760
Retirement System	131,000	131,000	131,000	131,000	\$524,000
OCII	114,280	114,280	114,280	114,280	\$457,120
Health Service System	94,440	94,440	94,440	94,440	\$377,760
Port	119,680	119,680	119,680	119,680	\$478,720
Finance Corp.	23,232	23,232	23,232	23,232	\$92,928
CA State Grants	50,564	50,564	50,564	50,564	\$202,256
Retiree Health Trust	45,940	45,940	45,940	45,940	\$183,760
<i>Subtotal</i>	<i>\$1,521,606</i>	<i>\$1,521,606</i>	<i>\$1,521,606</i>	<i>\$1,521,606</i>	<i>\$6,086,424</i>
As-Needed Services	180,000	180,000	180,000	180,000	\$720,000
<b>Total</b>	<b>\$1,701,606</b>	<b>\$1,701,606</b>	<b>\$1,701,606</b>	<b>\$1,701,606</b>	<b>\$6,806,424</b>

Source: Proposed contract. Totals may not add due to rounding.

The contract fees are consistent for the initial four-year term and escalate three percent annually in the three-year extension term if the option is exercised. The contract budget also includes \$180,000 annually for as-needed services, if the Controller’s Office requests additional accounting or reporting services outside of the contract’s financial statement reporting scope of work.

Specific department audits, such as those for the hospitals, Port, or Health Service System, are funded by those department budgets. The ACFR is funded by the General Fund; the General City Audit is funded by the Board of Supervisors; the Single Audit is funded by the Department of Public Health, Human Services Agency, and General Fund; and TIDA is funded by the General Fund.

**RECOMMENDATION**

Approve the proposed resolution.

<sup>6</sup> Includes the General City audit.