

**CITY OF SAN ANTONIO
INTERDEPARTMENTAL MEMORANDUM
OFFICE OF THE CITY INTERNAL AUDITOR**

CONSENT AGENDA

ITEM NO. 21

To: Mayor and Council

From: Patricia M. Major CPA, CTP, CGFM, City Internal Auditor

Through: Terry M. Brechtel, City Manager

Copies: City Attorney's Office, Office of the City Internal Auditor; City Clerk; Office of Management and Budget; file

Subject: Approval of a professional services agreement

Date: February 12, 2004

SUMMARY AND RECOMMENDATION

An Ordinance authorizing a professional services agreement with KPMG LLP on terms otherwise consistent with the general terms and conditions of the City's existing audit services contract with KPMG LLP, dated November 21, 2002, and in an amount not to exceed \$165,200.00, including \$127,200 for fees and \$38,000 for reasonable and proper out-of-pocket expenses, for an on-going performance audit of the Enterprise Resource Management (ERM) project through December 2004; appropriating funds; and providing for payment.

Staff recommends approval of this Ordinance.

BACKGROUND

State Statute and the City Charter require that annual audits of the City's financial records be performed by independent certified public accountants. The firms of KPMG LLP; Leal and Carter, P.C.; and Robert J. Williams, CPA were approved in Ordinance 96458, dated September 26, 2002, to perform these services for fiscal years 2002, 2003 and 2004 and for two additional one-year options contingent upon annual budget appropriations. This ordinance, under the same terms and conditions as the existing agreement, authorizes the approval and execution of a separate professional services contract.

At the December 18, 2003, meeting of City Council Governance Committee, the City Internal Auditor presented a recommendation presented for consideration by the Committee to engage of KPMG LLP to conduct an on-going performance audit of the ERM Project. This recommendation was made to use external resources to supplement the internal audit staff resources through calendar year 2004 with verification and review of certain aspects of the project.

Funding for this project will include the approved General Fund sources for this fiscal year, and carried-over funds from the prior fiscal year. These funds are available due to delays in employing replacement staff for the audit department. Even with the all staff, there would be

some information technology risk management and audit skills that would need to be complemented with such highly specialized expertise. The timing is critical because of the present ERM Project implementation schedule.

This engagement will not impair or affect KPMG, Leal and Carter, P.C. or Robert S. Williams' ability to perform and complete the City's annual financial audit as provided in the Audit Services Contract approved by Ordinance No. 96458 on September 26, 2002.

POLICY ANALYSIS

In performing these additional services, and in accordance with SBEDA policy, the firms of Leal and Carter, P.C. and Robert J. Williams, CPA will be able to observe the on-going performance audit processes along with staff from the Office of the City Internal Auditor. This will be specialized training for the external and internal auditors that will enhance their skills for future work with the City or other municipal entities. The external firms will not pay nor will they be paid for their time during this developmental opportunity for specialized training.

FINANCIAL IMPACT

The estimated fees for this engagement will be based upon a fee not to exceed \$127,200 plus reasonable and proper out-of-pocket expenses for travel, lodging and meals not to exceed \$9,500 per quarter through the end of calendar year 2004. It is estimated that this audit will require between 150 and 212 man-hours per month starting in late February 2004 based upon the SAP and IT controls experience of the KPMG LLP personnel. These costs will be paid using approved budget appropriations for the Office of the City Internal Auditor. Expenditures will be made based upon actual costs for services used each month, and related approved expenses, such as travel and housing for KPMG staff.

COORDINATION

Coordination of this item has included the City Council Governance Committee, the Finance Department, the City Attorney's Office, and the Office of the City Internal Auditor.

SUPPLEMENTAL COMMENTS

The ethics disclosure forms required by Ordinance are attached. A proposed engagement letter detailing the work scope and deliverables is also attached.



Patricia M. Major, CPA, CTP, CGFM
City Internal Auditor

City of San Antonio
Discretionary Contracts Disclosure*

*For use of this form, see City of San Antonio Ethics Code, Part D, Sections 1&2
Attach additional sheets if space provided is not sufficient.
State "Not Applicable" for questions that do not apply.*

** This form is required to be supplemented in the event there is any change in the information under (1), (2), or (3) below, before the discretionary contract is the subject of council action, and no later than five (5) business days after any change about which information is required to be filed.*

Disclosure of Parties, Owners, and Closely Related Persons

For the purpose of assisting the City in the enforcement of provisions contained in the City Charter and the Code of Ethics, an individual or business entity seeking a discretionary contract from the City is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any **individual** who would be a party to the discretionary contract:

The Partners and Managing Directors of the KPMG LLP South Texas Business Unit would be parties to the discretionary contract and are as follows:

San Antonio – Rodney Farrell, Park Pearson, Walter Belt, and Fred Bartz
Austin – Stan Sewell, Mike O'Brien, Fred Tedesco, Kelly Logan and Dan Slattery
Houston – William J. Carr

(2) the identity of any **business entity**¹ that would be a party to the discretionary contract:

KPMG LLP

and the name of:

(A) any individual or business entity that would be a **subcontractor** on the discretionary contract;

None

and the name of:

(B) any individual or business entity that is known to be a **partner**, or a **parent** or **subsidiary** business entity, of any individual or business entity who would be a party to the discretionary contract;

None

¹ A **business entity** means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

- (3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

None


Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any current or former member of City Council, any candidate for City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, attorneys, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
None		

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question² as to whether any city official or employee would violate Section 1 of Part B, Improper Economic Benefit, by participating in official action relating to the discretionary contract.

None		
Signature: 	Title: PARTNER Company: KPMG LLP	Date: 1/21/04

² For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

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Disclosure of Parties, Owners, and Closely Related Persons

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(1) the identity of any individual who would be a party to the discretionary contract:

Not Applicable

(2) the identity of any business entity that would be a party to the discretionary contract:

Leal & Carter, P.C.

and the name of:

(A) any individual or business entity that would be a subcontractor on the discretionary contract:

No subcontractors

and the name of:

(B) any individual or business entity that is known to be a partner, or a parent or subsidiary business entity, of any individual or business entity who would be a party to the discretionary contract:

Officers of the corporation are Frank J. Leal, CPA – President/Treasurer and Roberto Carter, CPA – Vice-President/Secretary.

¹ A business entity means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

(3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

None

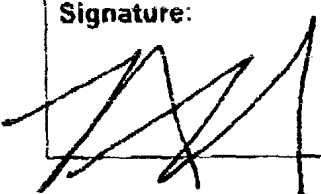
Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any current or former member of City Council, any candidate for City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, attorneys, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
None		

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question² as to whether any city official or employee would violate Section 1 of Part B, Improper Economic Benefit, by participating in official action relating to the discretionary contract.

None		
Signature: 	Title: President Company: Leal & Carter, P.C.	Date: 2/6/04

² For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.