



## Legislation Text

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### **Fiscal Note**

The \$208,500 cost of the 2007 audit work during 2008 represents a 13.5% increase over the amount originally contracted and an 18% increase over the prior year's actual cost. Of the total audit cost, approximately \$100,000 is charged to general fund agencies, with the remaining costs allocated to the various enterprise agencies and component units operated by the City and included in the audit engagement. Sufficient funds are available within the various budgets of the responsible agencies to fund the increased costs associated with this contract amendment.

### **Title**

Authorizing an amendment to the contract with the City's independent auditors, Virchow Krause & Company, to provide for a fee increase resulting from an expansion of the audit scope for fiscal years 2007 and 2008.

### **Body**

#### **PREAMBLE**

In 2004, following a competitive procurement process, the City contracted with Virchow Krause & Company to provide independent financial audit services. The contract covered a three-year term (fiscal years 2004, 2005 and 2006) with an option for two additional one-year extensions (fiscal years 2007 and 2008). Virchow Krause has successfully completed all work for the initial three years and received authorization last year to commence work on the 2007 audit. It is staff's intention to also authorize commencement of the 2008 audit work later this year, thus completing the original contract term. During the latter part of this year, Comptroller's staff will again seek competitive proposals for a future multi-year audit engagement to begin with the audit of 2009 activities.

Since the current contract was signed in 2004, a number of new audit requirements have caused a significant expansion in the amount of work needed to complete the annual audit. In response to the collapse of Enron and other highly publicized cases of corporate fraud earlier this decade, the Governmental Accounting Standards Board (GASB) has issued a series of new standards and pronouncements requiring additional efforts, particularly in the documentation and testing of internal control systems. This has increased the scope of work and time required of both City staff and the independent auditors to complete the annual audit process beyond the scope of work anticipated in the current audit contract.

In order to secure the timely completion of the current year's audit work, the City Comptroller met with the independent audit firm to discuss renegotiation of the fees for the 2007 and 2008 audits (to be performed during 2008 and 2009). Based on those negotiations, a review of the additional work required and the fee increases experienced by other similar governmental entities, an increase totaling \$31,800 above the 2006 audit cost, or approximately 13.5% above the fees originally anticipated for the 2007 work, appears reasonable and justifiable. A sole source contract amendment of this amount requires the formal approval of the Common Council, and the Comptroller recommends approval of this amendment as the most cost effective way to secure the timely and economical completion of the annual audit process.

WHEREAS, recent changes in the standards and requirements for governmental entity audits has resulted in additional work and costs to complete the annual audit process, and

WHEREAS, after negotiating with the present independent audit firm, the City Comptroller recommends amendment of the current audit contract to allow for a fee increase of approximately 13.5% to compensate for additional staff time required during 2008 to complete the 2007 audit of all funds and operations of the City of

Madison, along with an additional 4% fee increase, consistent with the original audit contract, for completion of the 2008 audit during 2009,

NOW, THEREFORE, BE IT RESOLVED, that the current audit contract with Virchow Krause & Company be amended to authorize total fees of \$208,500 for completion of the 2007 audit during 2008 and of \$216,700 for completion of the 2008 audit during 2009.