



COUNTY OF SANTA CRUZ

AUDITOR-CONTROLLER'S OFFICE

701 OCEAN STREET, ROOM 100

SANTA CRUZ, CA 95060

(408) 454-2500

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GARY A. KNUTSON, AUDITOR-CONTROLLER

Chief Deputy Auditor-Controllers

Pam Silbaugh, Accounting

Suzanne Young, Audit and Systems

Kathleen Hammons, Budget and Tax

May 26, 1999

AGENDA: June 8, 1999

BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

SUBJECT: CONTRACT FOR EXTERNAL AUDIT SERVICES

Dear Members of the Board:

The County contracts with an independent CPA firm to perform mandated audits of the County's financial statements and the Single Audit of all federally funded activities, Redevelopment Agency, Sanitation District, Treasury Compliance, and audits of state grant programs. The HRA Child Development Program, Office of Criminal Justice Planning, Department of Insurance and Department of Justice grants comprise the state grants that will be audited.

The Auditor-Controller's Office conducted a request for proposals and received two proposals. The Audit Committee reviewed the proposals and selected the CPA firm of Vargas, Lopez and Company, the lowest bidder. The CPA firm, a regional firm with offices in San Jose and Oakland, is very well qualified; this firm has performed the County's audits in prior years.

We are requesting approval of the three-year contract with Vargas, Lopez and Company to conduct the County's external audits for the fiscal years ending June 30, 1999 through 2001. It is necessary to execute this contract now so that the auditors can start performing field work before the end of the fiscal year. Funding for the first year of the contract has been included in the proposed budget for fiscal year 1999-00.

Board of Supervisors/External Audit Services
May 26, 1999
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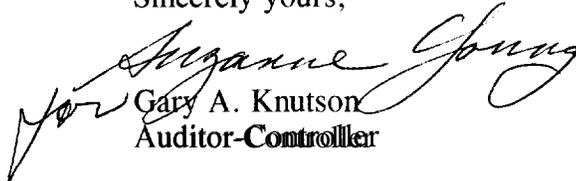
The costs for audit services for fiscal year 1998-99 will be lower than the costs for the audit services in fiscal year 1997-98. Costs for the three years are as follows:

Fiscal Year:	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>All Years</u>
Countywide	\$26,000	\$27,200	\$28,200	\$81,400
Redevelopment Agency	5,000	5,300	5,800	16,100
Sanitation District	3,000	3,300	3,500	9,800
Treasury Compliance	4,000	4,000	4,100	12,100
State Grants	<u>11,000</u>	<u>11,900</u>	<u>12,700</u>	<u>35,600</u>
TOTAL	<u>\$49,000</u>	<u>\$51,700</u>	<u>\$54,300</u>	<u>\$155,000</u>

IT IS THEREFORE RECOMMENDED that your Board:

- (1) Approve the three-year contract with Vargas, Lopez and Company for \$155,000, and
- (2) Authorize the Auditor-Controller to execute the contract.

Sincerely yours,


 Gary A. Knutson
 Auditor-Controller

RECOMMENDED:


 Susan A. Mauriello
 County Administrative Officer

GK:SY
Attachment - Contract

cc: County Administrative Office
Redevelopment Agency
Sanitation District
Auditor-Controller

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Contract No. _____

INDEPENDENT CONTRACTOR AGREEMENT

THIS CONTRACT is entered into this _____ day of _____, 1999, by and between SANTA CRUZ COUNTY hereinafter called COUNTY and VARGAS, LOPEZ AND COMPANY, hereinafter called CONTRACTOR. The parties agree as follows:

1. DUTIES. CONTRACTOR agrees to exercise special skill to accomplish an audit of the fiscal year ended June 30, 1999 as set forth in Exhibit "A", attached hereto and incorporated herein by this reference. CONTRACTOR shall report all findings to the Audit Committee and the Auditor-Controller of the County of Santa Cruz, hereinafter called AUDITOR. The CONTRACTOR shall also appear before the Audit Committee to confer with its members and report as to the progress of the tasks and all other matters pertaining thereto, when requested by the COUNTY.

2. COMPENSATION. In consideration for CONTRACTOR accomplishing said result, COUNTY agrees to compensate CONTRACTOR in an amount not to exceed \$49,000, and as componentized as set forth in Exhibit "B" attached hereto and incorporated herein by this reference. This amount will be compensation in full for all services to be provided and all costs incurred by CONTRACT-OR under this Agreement, including but not limited to the examination and expenses incidental to the typing and preparation of the required reports. CONTRACTOR shall bill the COUNTY the cost for each component as set forth in Exhibit "B", only after completion and delivery of the reports required for that component.

3. TERM. The term of this contract shall be: June 1, 1999 to May 31, 2002. The term of this agreement shall be automatically extended for two additional one-year periods, June 1, 2000 to May 31, 2001, and June 1, 2001 to May 31, 2002, respectively, unless COUNTY, in its sole and exclusive right, gives the CONTRACTOR a written notice of termination on or before April 1, 2000, or April 1, 2001, respectively.

4. EARLY TERMINATION. Either party hereto may terminate this contract at any time by giving 30 days written notice to the other party.

5. INDEMNIFICATION FOR DAMAGES, TAXES, AND CONTRIBUTIONS. CONTRACTOR shall exonerate, indemnify, defend, and hold harmless COUNTY (which for the purposes of paragraphs 5 and 6 shall include without limitation, the officers, agents employees and volunteers of the County of Santa Cruz) from and against:

- A. Any and all claims, demands, losses, damages, defense costs, or liability of any kind or nature which the COUNTY may sustain or incur or which may be imposed upon it for injury to or death of persons, or damage to property as a result of arising out of, or in any manner connected with the CONTRACTOR's

performance under the terms and conditions of this agreement, excepting any liability arising out of the sole negligence of COUNTY. Such indemnification includes any damage to the person(s), or property(ies) of CONTRACTOR and third persons.

- B. Any and all Federal, State and local taxes, charges fees, or contributions required to be paid with respect to CONTRACTOR and CONTRACTOR's officers, employees and agents engaged in the performance of this agreement (including, without limitation, unemployment insurance, social security and payroll tax withholding).

6. INSURANCE. CONTRACTOR, at its sole cost and expense. for the full term of this Agreement (and any extensions thereof). shall obtain and maintain at minimum compliance with all of the following insurance coverage(s) and requirements, Such insurance coverage shall be primary coverage as respects the County of Santa Cruz and any insurance or self-insurance they maintain shall be excess of CONTRACTOR's insurance coverage and shall not contribute to it.

If CONTRACTOR utilizes one or more subcontractors in the performance of this Agreement, CONTRACTOR. shall obtain and maintain Independent Contractor's Insurance as to each subcontractor or otherwise provide evidence of insurance coverage for each subcontractor equivalent to that required of CONTRACTOR in this Agreement. unless CONTRACTOR and COUNTY both initial here ____/____.

A. Types of Insurance and Minimum Limits

(1) Automobile Liability Insurance for each of CONTRACTOR's vehicles used in the performance of this Agreement, including owned, non-owned (e.g. owned by . . . CONTRACTOR's employees), leased or hired vehicles, in the minimum amount of \$500,000 combined single limit per occurrence for bodily injury and property damage. This insurance coverage shall not be required if vehicle use by CONTRACTOR is not a material part of performance of this Agreement and CONTRACTOR and COUNTY both certify to this fact by initialing here . ____/____

(2) Worker's Compensation in the minimum statutorily required coverage amounts. This insurance coverage shall not be required if the CONTRACTOR has no employees and certifies to this fact by initialing here ____/____.

(3) Comprehensive or Commercial General Liability Insurance coverage in the minimum amount of \$1,000,000. combined single limit, including coverage for: (a) bodily injury, (b) personal injury, © broad form property damage, (d) contractual liability, and (e) cross-liability.

(4) Professional Liability Insurance in the minimum amount of \$1,000,000 combined single limit.

B. Other Insurance Provisions

(1) If any insurance coverage required in this Agreement is provided on a "Claims Made" rather than "Occurrence" form, CONTRACTOR agrees to maintain the required coverage for a period of three (3) years after the expiration of this Agreement (hereinafter "post agreement coverage") and any extensions thereof. CONTRACTOR may maintain the required post agreement coverage by renewal or purchase of prior acts or tail coverage. This provision is contingent upon post agreement coverage being both available and reasonably affordable in relation to the coverage provided during the term of this agreement. For purposes of interpreting this requirement, a cost not exceeding 100% of the last annual policy premium during the term of this Agreement in order to purchase prior acts or tail coverage for post agreement coverage shall be deemed to be reasonable.

(2) CONTRACTOR agrees to provide its insurance broker(s) with a full copy of these insurance provisions and provide COUNTY on or before the effective date of this Agreement with Certificates of Insurance shall be delivered or sent to:

AUDITOR-CONTROLLER
County of Santa Cruz
701 Ocean Street, Suite 100
Santa Cruz, CA 95060

(3) All required insurance policies shall be endorsed to contain the following clause:

"This insurance shall not be canceled until after thirty (30) days prior written notice has been given to:

AUDITOR-CONTROLLER
County of Santa Cruz
701 Ocean Street, Suite 100
Santa Cruz, CA 95060

(4) All required Automobile and Comprehensive or Commercial General Liability Insurance shall be endorsed to contain the following clause:

"The County of Santa Cruz, its officials, employees, agents and volunteers are added as an additional insured as respects the operations and activities of, or on behalf of the named insured performed under Agreement with the County of Santa Cruz."

7. EQUAL EMPLOYMENT OPPORTUNITY. During and in relation to the performance of this Agreement, CONTRACTOR agrees as follows:

A. The CONTRACTOR shall not discriminate against any employee or applicant for employment because of race, color, religion, national origin, ancestry, disability, medical condition (cancer related and genetic characteristics), gender, pregnancy, marital status, sex, sexual orientation, age (over 18), veteran status or any other non-merit factor unrelated to job duties. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship. The CONTRACTOR agrees to post in conspicuous places available to employees and applicants for employment, notices setting forth the provisions of this non-discrimination clause.

B. If this Agreement provides compensation in excess of \$50,000 to CONTRACTOR and if CONTRACTOR employs fifteen (15) or more employees, the following requirements shall apply:

(1) The CONTRACTOR shall, in all solicitations or advertisements for employees placed by or on behalf of the CONTRACTOR, state that all qualified applicants will receive consideration for employment without regard to race, color, creed, religion, national origin, ancestry, disability, medical condition (cancer related and genetic characteristics), marital status, sex, sexual orientation, age (over 18), veteran status, gender, pregnancy or any other non-merit factor unrelated to job duties. In addition, the CONTRACTOR shall make a good faith effort to consider Minority/Women/Disabled Owned Business Enterprises in CONTRACTOR's solicitation of goods and services. Definitions for Minority/Women/Disabled Owned Business Enterprises are available from the COUNTY General Services Purchasing Division.

(2) The CONTRACTOR shall furnish COUNTY Equal Employment Opportunity Office information and reports in the prescribed reporting format (PER401 2) identifying the sex, race, physical or mental disability, and job classification of its employees and the names, dates and methods of advertisement and direct solicitation efforts made to subcontract with Minority/Women/Disabled Owned Business Enterprises.

(3) In the event the CONTRACTOR's non-compliance with the non-discrimination clauses of the Agreement or with any of the said rules, regulations or orders said CONTRACTOR may be declared ineligible for further agreements with the COUNTY.

(4) The CONTRACTOR shall cause the foregoing provisions of this Subparagraph 7B to be inserted in all subcontracts for any work covered under this Agreement by a subcontractor compensated more than \$50,000 and employing more than fifteen (15) employees, provided that the foregoing provisions shall not apply to contracts or subcontracts for standard commercial supplies or raw materials.

8. INDEPENDENT CONTRACTOR STATUS. CONTRACTOR and COUNTY have reviewed and considered the principal test and secondary factors below and agree that CONTRACTOR is an independent contractor and not an employee of the County of Santa Cruz. CONTRACTOR is responsible for all insurance (workers compensation, unemployment, etc.) and all payroll related taxes. CONTRACTOR is not entitled to any employee benefits. COUNTY agrees that CONTRACTOR shall have the right to control the manner and means of accomplishing the result contracted for herein.

PRINCIPAL TEST: The CONTRACTOR rather than the COUNTY has the right to control the manner and means of accomplishing the result contracted for.

SECONDARY FACTORS: (a) The extent of control which, by agreement, the COUNTY may exercise over the details of the work is slight rather than substantial; (b) CONTRACTOR is engaged in a distinct occupation or business; (c) In the locality, the work to be done by CONTRACTOR is usually done by a specialist without supervision, rather than under the direction of an employer; (d) The skill required in the particular occupation is substantial rather than slight; (e) The CONTRACTOR rather than the COUNTY supplies the instrumentalities, tools and work place; (f) The length of time for which CONTRACTOR is engaged is of limited duration rather than indefinite; (g) The method of payment of CONTRACTOR is by the job rather than by the time; (h) The work is part of a special or permissive activity, program, or project, rather than part of the regular business of the COUNTY; (i) CONTRACTOR and COUNTY believe they are creating an independent contractor relationship rather than an employer-employee relationship; and (j) the COUNTY conducts public business.

It is recognized that it is not necessary that all secondary factors support creation of an independent contractor relationship, but rather that overall there are significant secondary factors which indicate that CONTRACTOR is an independent contractor.

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By their signatures to this Agreement, each of the undersigned certifies that it is his or her considered judgment that the CONTRACTOR engaged under this Agreement is in fact and independent contractor.

9. NONASSIGNMENT. CONTRACTOR shall not assign or subcontract its obligations under this Agreement without the prior written consent of the COUNTY.

10. RETENTION AND AUDIT OF RECORDS. CONTRACTOR shall retain records pertinent to this Agreement for a period of not less than five (5) years after final payment under this Agreement or until a final audit report is accepted by COUNTY, whichever occurs first. CONTRACTOR hereby agrees to be subject to the examination and audit by the AUDITOR, the Auditor General of the State of California, or the designee of either for a period of five (5) years after final payment under this Agreement.

11. ENTIRE AGREEMENT. This agreement constitutes all the terms and conditions agreed to by the CONTRACTOR and COUNTY. All prior and contemporaneous terms. and conditions are incorporated herein.
12. MODIFICATIONS. No alterations or variations of this agreement shall be valid unless made in writing and signed by both parties hereto.
13. SCHEDULE OF WORK. CONTRACTOR shall commence the required audit and will pursue the same diligently until completed. The CONTRACTOR will provide AUDITOR, by June 30, 1999. an "Audit Plan and Schedule."
14. ACCESS TO INFORMATION. CONTRACTOR shall have access to and will be permitted to use figures. tabulations. statistical schedules. and other data already assembled or prepared by the AUDITOR or the personnel of that office for County purposes.
15. RECORD KEEPING. CONTRACTOR agrees to keep complete detailed records of the time expended by each member of the auditing staff engaged in said audit? and such records shall be open to the COUNTY at all times.
16. RECORD OF UNFORESEEN CONDITIONS. In the event that audit develops irregularities or unforeseen conditions requiring investigation beyond the scope of the regular audit, prompt report of such conditions shall be made by CONTRACTOR to COUNTY. In the event unforeseen circumstances prevent CONTRACTOR from the timely completion of the audit, an extension may be granted by COUNTY. Any such extension granted shall be in writing and signed by the Auditor-Controller of the COUNTY. The CONTRACTOR should report such circumstances as soon as CONTRACTOR is aware of any possibility that deadlines may not be met.
17. REPORT TO COUNTY. When the final report is submitted. CONTRACTOR shall also submit written recommendations to COUNTY relative to the activities of the offices, institutions, departments. and judicial districts which he believes should be encompassed within the next annual audit by the COUNTY. CONTRACTOR shall deliver the audit opinions, management letters and other reports as specified in Exhibit "A". In addition. two copies of each section of findings and recommendations applicable to each department shall be presented to the department, office. institution, or judicial district affected.
18. DEADLINES. CONTRACTOR shall complete the work and deliver reports to the AUDITOR, or others as specified, by the due dates as set forth in Exhibit "C", attached hereto and incorporated herein by this reference.

IN WITNESS WHEREOF, the parties hereto have set their hands the day and year first above written.

SANTA CRUZ COUNTY

CONTRACTOR

By: _____

By: _____

Title: _____

Address: _____

Telephone: _____

Approved as to form:

Harry A. Oberhelman

Harry Oberhelman

Assistant County Counsel

EXHIBIT "A"

SERVICES TO BE PERFORMED

SCOPE OF WORK

The CONTRACTOR shall conduct an examination of Santa Cruz County's financial statements, including component units of the County: in accordance with generally accepted auditing standards and express an opinion on the fair presentation of the County's general purpose financial statements in conformity with generally accepted accounting principles and compliance with provisions of Federal, State, and County statutes, ordinances, rules, and regulations. The examination will be performed in accordance with generally accepted auditing standards (GAAS) established by the AICPA.

TASKS TO BE PERFORMED

I. COUNTY'S CAFR. The CONTRACTOR shall express an opinion on the fair presentation of Santa Cruz County's general purpose financial statements in conformity with generally accepted accounting principles. The CONTRACTOR shall express an "in-relation-to" opinion on the combining and individual fund and account group financial statements and supporting schedules based on the auditing procedures applied during the audit of the general purpose financial statements. At the conclusion of the audit, the CONTRACTOR shall hold an exit conference with the AUDITOR, or his designee(s), to discuss the report and the CONTRACTOR'S management recommendations.

CONTRACTOR shall deliver to the AUDITOR final reports consisting of the following:

1. An opinion (or a clear presentation of the reasons for disclaimer of opinion) on the fairness of the general purpose financial statements of the County of Santa Cruz and an "in-relation-to" opinion on the combining and individual fund and account group financial statements and supporting schedules based on the auditing procedures applied during the audit of the general purpose financial statements. CONTRACTOR shall deliver one original copy to the AUDITOR by the date as set forth in Exhibit "C".
2. A management letter containing comments and recommendations on:
 1. Internal control and financial operation, accounting policies and procedures, adequacy of internal audit procedures, and other matters that come to the attention of the CONTRACTOR during the audit.

generally accepted accounting principles and compliance with provisions of Federal, State, and County statutes, ordinances, rules, and regulations. At the conclusion of the audit, the CONTRACTOR shall hold an exit conference with the Administrator of the Redevelopment Agency, or his designee, to discuss the report and the CONTRACTOR'S management recommendations.

CONTRACTOR shall deliver one unbound original plus up to fifty (50) copies to the Redevelopment Agency of the following:

1. A separate report on the financial statements of the Santa Cruz County Redevelopment Agency by the date as set forth in Exhibit "C".
2. A management letter containing comments and recommendations as described in Section I paragraph 2.

IV. SANITATION DISTRICT. The CONTRACTOR shall conduct a separate audit of the financial statements of the Santa Cruz County Sanitation District (a component unit of the County) and express an opinion on the fair presentation of those statements in conformity with generally accepted accounting principles. At the conclusion of the audit, the CONTRACTOR shall hold an exit conference with the Director of Public Works, or his designee, to discuss the report and the CONTRACTOR'S management recommendations.

CONTRACTOR shall deliver one unbound original plus up to thirty-five (35) copies to the Department of Public Works of the following:

1. A separate report on the financial statements of the Santa Cruz County Sanitation District by the date as set forth in Exhibit "C".
2. A management letter containing comments and recommendations as described in Section I paragraph 2.

V. SINGLE AUDIT. The CONTRACTOR shall perform an audit of the COUNTY'S Schedule of Federal Financial Assistance (Single Audit) in accordance with OMB Circular A-133. The examination will be performed in accordance with generally accepted government auditing standards (GAGAS) as promulgated by the General Accounting Office (GAO) publication Government Auditing Standards. The CONTRACTOR shall comply with all pronouncements, interpretations, and guidelines applicable to the performance of the single audit as published by the AICPA, GAO and OMB. The CONTRACTOR shall prepare and provide any and all special reports necessary to comply with this provision, including the Data Collection Form, and shall file all required copies of the single audit and the management letter with the appropriate agency(ies).

CONTRACTOR shall deliver to the AUDITOR one unbound original report, one copy of the Data Collection Form, plus up to seventy-five (75) copies of the Single Audit report by the date as set forth in Exhibit "C".

VI. TREASURY COMPLIANCE. The CONTRACTOR shall perform an audit of the COUNTY's compliance with the Treasury Oversight Commission provisions and articles of Government Code Sections 27130-27137. The report shall include the CONTRACTOR's opinion on compliance, the CONTRACTOR's management recommendations, the COUNTY's *Statement of Investment Policy*, and additional information provided by the County Treasurer. At the conclusion of the audit, the CONTRACTOR shall hold an exit conference with the County Treasurer and the AUDITOR, or their designees, to discuss the report and the CONTRACTOR'S management recommendations.

The CONTRACTOR shall deliver to the AUDITOR one unbound original report plus up to thirty (30) copies of the Treasury Compliance report by the date as set forth in Exhibit "C".

VII. STATE GRANTS. The CONTRACTOR shall perform audits and issue separate reports for state grant programs listed below in accordance with the guidelines provided by the grantor agencies. At the conclusion of the audit, the CONTRACTOR shall meet with the appropriate Department Head, or his/her designee, to discuss the report and any management recommendations. CONTRACTOR shall prepare and provide any and all reports necessary to comply with the grantor's guidelines, and shall file all required copies with the grantor agency when due.

- A. CHILD DEVELOPMENT PROGRAM. CONTRACTOR shall provide ten (10) copies of the report to the Human Resources Agency.
- B. OFFICE OF CRIMINAL JUSTICE PROGRAMS. CONTRACTOR shall provide twenty (20) copies of the report to the AUDITOR.
- C. DEPARTMENT OF INSURANCE. CONTRACTOR shall provide ten (10) copies of the report to the AUDITOR.
- D. DEPARTMENT OF JUSTICE. CONTRACTOR shall provide ten (10) copies of the report to the AUDITOR.

EXHIBIT "B"

COST OF AUDIT SERVICES

	<u>SERVICE</u>	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00-01</u>
1.	County of Santa Cruz	\$20,000	\$20,900	\$21,600
2.	Compilation of CAFR	3,000	3,100	3,200
3.	Redevelopment Agency	5,000	5,300	5,800
4.	Sanitation District	3,000	3,300	3,500
5.	Single Audit	3,000	3,200	3,400
6.	Treasury Compliance	4,000	4,000	4,100
7.	Child Development Program	4,000	4,200	4,300
8.	OCJP	2,000	2,500	2,800
9.	Dept of Insurance Grants	2,500	2,600	2,800
10.	Dept of Justice Grants	<u>2,500</u>	<u>2,600</u>	<u>2,800</u>
	TOTAL	<u>\$49,000</u>	<u>\$51,700</u>	<u>\$54,300</u>

EXHIBIT "C"

TIME REQUIREMENTS - DUE DATES

	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00-01</u>
Audit Plan and Schedule	6/30/99	5/1/00	5/1/01
Compilation of CAFR	Start of field work	Start of field work	Start of field work
Audit Report Due Dates:			
Sanitation District	10/28/99	10/28/00	10/29/01
Redevelopment Agency	11/24/99	11/22/00	11/21/01
County CAFR	12/6/99	12/4/00	12/3/01
Treasury Compliance	1/7/00	1/5/01	1/4/02
Single Audit	1/14/00	1/19/01	1/18/02
DOE Child Development	11/5/99	11/3/00	11/2/01
Other Grant Audits	Grantor specified	Grantor specified	Grantor specified
Management Letter	12/3/99	12/1/00	12/7/01