



County of Santa Cruz

AUDITOR-CONTROLLER'S OFFICE

701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 950604073
(831) 454-2500 FAX (831) 454-2660

GARY A. KNUTSON, AUDITOR-CONTROLLER

Chief Deputy Auditor-Controllers

Pam Silbaugh, Accounting

Suzanne Young, Audit and Systems

Kathleen Harnmons, Budget and Tax

April 11, 2002

AGENDA: April 23, 2002

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 including HRA Child Development Program, Office of Criminal Justice Planning, Department of Insurance and Department of Justice grants. The CPA firm of Vargas and Company, selected through a competitive bidding process and approved by your Board, has conducted the audits for the fiscal years ending June 30, **1999** through 2001.

Since that time, the Government Accounting Standards Board (GASB) has adopted GASB Statement No. 34 which requires certain basic changes to financial statements. Additional work and assistance from our auditors will be needed to make the changes to comply with GASB 34. The County is required to implement these changes for the fiscal year ending June 30, 2002. Because Vargas is familiar with the County's accounting systems and procedures, the firm can assist us with the new reporting requirements and provide the most cost effective audit. For that reason, the County Audit Committee has recommended that we extend our contract with Vargas and Company.

We are requesting your Board's approval of a one year contract with Vargas and Company to conduct the County's external audit for the fiscal year ending June 30, 2002, renewable for the years ending June 30, 2003 and 2004. 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 2002-03.

April 11, 2002

Page 2.

The cost for audit services for the fiscal year ending June 30, 2002 represents a 3% increase over the fiscal year 2001. Costs for the three years are as follows:

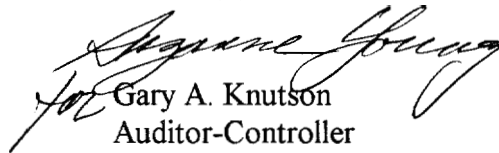
Fiscal Year:	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>All Years</u>
County of Santa Cruz	\$30,700	\$32,300	\$28,200	\$ 96,600
Redevelopment Agency	6,200	6,600	6,700	19,500
Sanitation District	3,900	4,000	4,300	12,200
Treasury Compliance	4,500	4,700	4,900	14,100
State Grants	<u>10,700</u>	<u>11,400</u>	<u>11,500</u>	<u>33,600</u>
TOTAL,	<u>\$56,000</u>	<u>\$59,000</u>	<u>\$61,000</u>	<u>\$176,000</u>

We are also requesting an addition for the first year of the contract for consulting services for the implementation of GASB 34 with its accounting changes and reporting requirements. Vargas and Company will charge us a minimum of \$5,000 for this work. We will do everything possible to minimize the fee, and will return to your Board if it appears that we will need to utilize more consulting time.

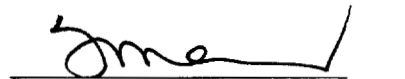
IT IS THEREFORE RECOMMENDED that your Board:

- (1) Approve a three-year contract with Vargas and Company totaling \$176,000,
- (2) Approve an additional \$5,000 in the first year of the contract, and
- (2) Authorize the Auditor-Controller to sign the contract.

Sincerely yours,


 Gary A. Knutson
 Auditor-Controller

RECOMMENDED:


 Susan A. Mauriello
 County Administrative Officer

GK:SY

cc: CAO, County Counsel, RDA
 Sanitation District, Auditor-Controller