



COUNCIL APPOINTED OFFICERS COMMITTEE

Staff Report

Report Type: ACTION ITEMS
From: Human Resources

Meeting Date: December 16, 2024
Report #:2412-3842

TITLE

Approval of CAO Committee Recommendation to direct the City Manager, or their designee, and Council Appointed Officers Committee Chair Lauing to negotiate renewal of the contract with Baker Tilly US, LLC for Internal Audit Services through June 30 2026 with an option to renew for two years; and align the review of the City Auditor performance with other CAO reviews.

RECOMMENDATION

The Council Appointed Officers Committee unanimously recommends that the City Council give direction to the City Manager or their designee and the Council Appointed Officers Committee Chair Lauing to renew and refine the terms of a contract amendment with Baker Tilly US, LLC through June 30, 2026 plus negotiate terms for an option to renew for two years, and to align the review of the City Auditor performance with other CAO reviews.

BACKGROUND AND DISCUSSION

The CAO Committee met on November 13, 2024¹ to review and discuss the options available for the internal audit services contract and make a recommendation to Council on next steps for the future direction for these services.

The City Auditor is a City Council appointed position. The City Charter defines the City Auditor's important role and furthers the City Council's commitment to internal auditing, transparency, and accountability in government.

Per City Council direction on February 10, 2020 to consider outsourcing the Auditor function, the Council Appointed Officers (CAO) Committee, completed a request for proposals (RFP) process for outsourced internal auditing services, led a procurement process aligned with Council direction, and engaged in a transparent review of scope of work services, RFP

¹ City Council, November 13, 2024, Staff Report #2410-3733
<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=16375>

evaluation, and a public interview process as part of the overall effort. Through the procurement process, the Council selected Baker Tilly to lead the City's internal audit services.

On September 28, 2020², the Council approved a contract with Baker Tilly US, LLP for internal auditor services in an amount not to exceed \$1.3 million for a term beginning October 1, 2020 through June 30, 2022. The contract provided the option to extend the term for a period or periods of up to three additional years, through June 30, 2025, by mutual agreement with compensation to be determined in such years by terms outlined in the contract. Council has extended the contract through approval of two amendments with the current contract ending June 30, 2025³.

Baker Tilly, US, LLC provides auditing services for the City of Palo Alto and the City's contract with Baker Tilly US, LLC specifies the designation of a City Auditor. On May 6, 2024, the City Council formally appointed Kate Murdock as City Auditor.

The CAO Committee met on November 13, 2024 and the following motion passed 3-0 recommending that the Council authorize the following:

Council Member Burt moved, seconded by Vice Mayor Lauing to recommend to City Council to recommend that staff and the Council Appointed Officers Committee Chair refine terms of a contract renewal with Baker Tilly through June 30, 2026 plus negotiate terms for an option to renew for two years, and to align the review of the City Auditor performance with other CAO reviews.

FISCAL/RESOURCE IMPACT

Funding for annual internal audit services is budgeted in the Office of the City Auditor in the operating budget. Funding for this contract extension will be included in the FY 2026 Proposed Budget and funding for future years of the contract is subject to the annual appropriation of funds.

STAKEHOLDER IMPACT

The CAO Committee engaged in a public discussion of this item on November 13, 2024.

² City Council, September 28, 2020, Staff Report #11624

<https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmr/yr-archive/2020-2/id-11624.pdf?t=64761.15>

³ City Council, June 17, 2023, Staff Report #2406-3129

<https://portal.laserfiche.com/Portal/DocView.aspx?id=73984&repo=r-704298fc&searchid=0b800107-4b67-4777-99d5-d258e3d6f8c7>