



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Christopher M. Moore

SUBJECT: SEE BELOW

DATE: October 15, 2012

Approved

Date

10/25/12

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE AN AGREEMENT WITH CONROY & ASSOCIATES, INC. FOR THE PROVISION OF FINANCIAL BACKGROUND INVESTIGATION SERVICES FOR THE DIVISION OF GAMING CONTROL

RECOMMENDATION

It is recommended the City Council adopt a resolution authorizing the City Manager to execute an Agreement with Conroy & Associates, Inc. related to providing financial background investigation services to the Division of Gaming Control for the period of October 1, 2011, to September 30, 2014, in an amount not to exceed \$570,000.

OUTCOME

Approval of this Agreement will enable the City to enter into an Agreement with Conroy & Associates, Inc. to conduct financial background investigations on individuals and business entities seeking gaming licenses in the City of San José.

BACKGROUND

The Division of Gaming Control is responsible for conducting background investigations on all individuals and business entities seeking gaming licenses in the City of San José. The opening of the new Casino M8TRIX has greatly increased the number of background investigations the Division of Gaming Control must conduct. To manage the additional workload, the City initiated a Request for Qualifications (RFQ) process to hire an outside consultant to conduct financial background investigations on individuals and business entities seeking gaming licenses. An evaluation panel selected Conroy & Associates, Inc. as the consultant to provide financial backgrounds investigations services as the result of this RFQ process.

On September 30, 2011, the City entered into an Agreement with Conroy & Associates, Inc. to provide financial background investigation services. The initial term of the Agreement was for one year, with two additional one-year options for the City Manager to renew. The compensation for the initial term of the Agreement was \$130,000. On June 27, 2012, the Agreement was amended to expand the scope of service provided and increase the amount of the Agreement to \$190,000.

ANALYSIS

As part of the RFQ, the Division of Gaming Control sought a financial background investigation services consultant with the following qualifications:

1. A minimum of five years in a Certified Public Accounting (CPA) firm or private investigative firm specializing in forensic accounting or fraud auditing, of which three years as a Senior Financial Investigator is required.
2. Familiarity with federal, state and local statutes and regulations and procedures related to government regulation of casinos and California cardrooms, including the California Gambling Control Act, gambling control statutes of other states or territories with legalized gambling, and regulatory licensing, compliance and due diligence protocols.

Coordination between the City Attorney's Office, the Police Fiscal Unit, and the Division of Gaming Control in conducting a RFQ process resulted in the selection of the current proposed provider, Conroy & Associates, Inc. to provide the following services:

Individual/Trust Applicants

- Obtain bank statements, tax returns, commercial and gaming related credit reports, information from gaming and regulatory agencies, and all other financial regarding businesses and other investments.
- Evaluate and confirm applicant's assets and liabilities.
- Perform detailed source and use of funds analysis.
- Obtain local, county and state criminal and civil information concerning the applicant.

Entity Applicants

- Obtain any and all information relative to source of initial capitalization with respect to the startup of the Third Party Provider of Proposition Player Services business.
- Review articles of incorporation, partnership agreements, LLC or LLP submissions and all related and required quarterly and annual filings.
- Obtain information from the SEC, Secretary of State and other governmental agencies. Obtain and review credit reports from Dunn and Bradstreet, Standard and Poors, and other credit reporting agencies and prepare analyses.

October 15, 2012

Subject: Agreement with Conroy & Associates Inc.

Page 3

- Obtain and examine internally or externally generated financial records, including but not limited to the general ledger, player books, daily income/loss summary (in total and by shift), daily and periodic chip redemption information, income statement, balance sheet, statement of cash flow, disbursements, receipts, accounts receivable/payable, tax returns, loans and lease agreements, etc., of the entity applicant for a minimum of five years.
- Review and examine other information and prepare analyses as deemed necessary by City's Gaming Administrator.

An Amendment to the current Agreement is required to perform additional financial background investigations, particularly with respect to Third Party Provider of Proposition Player Services used by the cardrooms. The total amount of the Agreement, including all approved option periods, is in the amount not to exceed \$570,000. Approval of this Agreement will ensure that financial background investigations on individuals and business entities seeking gaming licenses in the City of San José will continue in a timely manner.

EVALUATION AND FOLLOW-UP

No subsequent Council action on this issue is necessary. Staff will monitor the performance of the contract and communicate any issues to the City Council through the Public Safety, Finance and Strategic Support Committee.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This contract does not meet any of the Criteria listed; however, this memo will be posted on the City's website for the November 6, 2012, Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

The Agreement will ensure the Division of Gaming Control will be able to continue to conduct financial background investigations on individuals and entities seeking gaming licenses in the City of San José.

COST SUMMARY/IMPLICATIONS

The Agreement is fully funded through license fees. The amount for the initial term of the Agreement was \$190,000 for one year ending September 30, 2012. A total of \$182,708 has been recovered in full from the applicants to cover expenses related to the cost of gaming financial background investigations. In addition, two prior year encumbrances established to provide funds for gaming financial background investigations in the amount of \$50,394 will be liquidated. Additional license fees will be collected to cover the remaining amount of the Agreement. Including all option periods, the Agreement with Conroy & Associates, Inc. will not exceed \$570,000 for the provision of financial background investigation services during the period of October 1, 2011, to September 30, 2014.

BUDGET REFERENCE

Fund #	Appn. #	Appropriation Name	Total Appn.	2012-2013 Proposed Budget Page*	Last Budget Action (Date, Ord. No.)
001	0502	Non-Personal/ Equipment - Police	\$24,529,772	p.VIII-247	6/19/12, Ord. No. 29102

* The 2012-2013 Operating Budget was Adopted by the City Council on June 19, 2012; however, the Adopted Budget Document has not been released, so the Proposed Budget Document is cited for reference.

CEQA

Not a Project, File No.PP10-066(a) Professional Services.

/s/
CHRISTOPHER M. MOORE
Chief of Police

For questions, please contact Lisa Perez, Administrative Officer, Police Fiscal, at 408-537-1624.