

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

Resolution or Ordinance (Blue) _____
 Recommendations of Boards, Commissions & Committees (Green) _____
 Other Business (Pink) _____

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: David A. Hulseberg, Village Manager *DAH*

DATE: November 11, 2009 (COW)(B of T) Date November 19, 2009

TITLE: A Motion Authorizing Execution of an Engagement Letter with Lauterbach & Amen, LLP for Auditing Services

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

The Village's current contract for auditing services expired with the FYE 2009 audit. The current auditing firm, Lauterbach & Amen, provided a proposal for an additional three year contract (FYE 2010 through FYE 2012), with a three year option (FYE 2013 through FYE 2015).

Staff's report and recommendation to the Finance Committee is attached. The Finance Committee reviewed this information at their meeting on November 3, 2009, and voted unanimously to recommend the approval of a three year contract for auditing services with Lauterbach & Amen LLP, with a three year optional extension, to the Village President and Board of Trustees.

Review (as necessary):

Village Attorney X _____
 Finance Director X *James J. ...*
 Village Manager X *Timothy Sexton*
 Date 11/11/09
 Date 11/11/09

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



To: Trustee Zachary Wilson, Chairperson
Finance Committee

From: Timothy Sexton, Director of Finance

Date: October 15, 2009

Subject: Auditing Services Contract

In 2004, staff issued a request for proposals (RFP) for auditing services. Three proposals were received from the following firms: Lauterbach & Amen, Wolf & Company, and Siskich Gardner & Co. This RFP requested a contract term of three years (FYE's 2004, 2005 and 2006), with an option for an additional three years (FYE's 2007, 2008 and 2009). Staff made a recommendation to the Finance Committee and Village Board that a contract be awarded to Lauterbach & Amen for the initial three years, and this request was approved. In 2007, the Finance Committee and Village Board approved the additional three year option for this contract. This current contract expires at the completion of the FYE 2009 audit, which will be in the next few weeks.

There were several reasons that Lauterbach & Amen was selected as the firm to provide

auditing services.

- The firm specializes in the government sector and its two partners, Sherry Lauterbach and Ron Amen, have over 40 combined years of experience in managing government audits. This specialization in governmental accounting makes the firm uniquely qualified to handle the Village's audit process.
- Lauterbach & Amen only works with the government sector, while Wolf & Co. and Siskich Gardner & Co. have significant activity outside of the government sector. This can lead to scheduling conflicts (tax time) and staff with not as much experience with governmental accounting. Lauterbach & Amen's expertise in the government sector results in a minimum disruption of the day-to-day duties of the Village's staff.
- Lauterbach & Amen's proposed cost was approximately the same as Wolf & Company, and was about 4% less than Siskich Gardner & Co.
- During the last six years that the Village has had a contract with Lauterbach & Amen (FYE 1998 – FYE 2003), Village staff experienced a high level of professionalism, responsiveness and willingness to work with Village staff not only during the audit process but also throughout the year as issues arise.
- Lauterbach & Amen has had a good working relationship with Village management and staff and has provided assistance and advice to staff and management throughout the

Additional Fees			
Lauterbach & Amen, LLP	Partners	\$100	\$254
	Managers/Sr. Accountants	\$ 75	\$160
	Senior Accountants	\$ 50	\$114
Wolf & Company, LLP	Partners	\$140	\$254
	Managers	\$110	\$160
	Senior Accountants	\$ 85	\$114
	Staff Accountants	\$ 65	\$101
Silich Gardner & Co, LLP	Partners	\$140	\$254
	Managers	\$110	\$160
	Senior Accountants	\$ 85	\$114
	Staff Accountants	\$ 65	\$101

- year, without ever charging additional fees. Below is a list of some of the topics that they have assisted with during the previous two contracts:
- GASB 34 Implementation – This required numerous meetings to discuss how the Village would handle and implement new reporting requirements.
 - GASB 40 Implementation – This standard changed the way that the Village reports deposit and investment risk disclosures. The auditors provided information on how to classify these disclosures.
 - GASB 44 Implementation – This standard significantly changed how the Village reports economic conditions in the statistical section of our Comprehensive Annual Financial Report (CAFR). The auditors assisted Village staff in establishing the initial format for the statistical section.
 - GASB 43/45 Implementation – This required several meetings to discuss how this standard regarding Other Post Employment Benefits (OPEB) would impact the Village, and how to implement the new reporting requirements.
 - Financial Policies – The auditors have assisted with the development and review of various Village financial policies.
 - After hours availability – The auditors have made themselves available to attend Village Board and Finance Committee meetings whenever requested by staff.
 - Internal Control Changes – The auditors were instrumental in assisting with various changes to internal controls throughout the years.
 - Operating Improvements – The auditors provides suggestions to identify ways to reduce costs and streamline operations.
 - There is more involvement in the audit process from the partners of Lauterbach & Amen (85 hours) as compared to Wolf & Co. (35 hours), ensuring a high quality audit with not only oversight but also the hands-on involvement of the partners in every phase of the audit process.
 - Lauterbach & Amen has a good understanding of the internal controls and operations of the Village, which will provide continuity in the audit process, avoiding the significant additional staff time needed to start a new audit.
 - Lauterbach & Amen's clients have had a 100% retention rate for GFOA's Certificate of Achievement for Excellence in Financial Reporting Program. Under their guidance, the Village has continued to receive the Certificate of Achievement award for the past 12 years.
 - Any additional projects that are significant, extensive and/or go beyond the scope of the audit process and their current extensive free support, would be charged at lower rates than those proposed by the other firms (see below).

Attached you will find Lauterbach & Amen's current cost proposal, as well as the cost proposal from their RFP in 2004. As you will note, there is no increase in fees for FYE 2010, and the increases for the following five years are between 2.7% and 3.1%. Staff is requesting Finance Committee concurrence with the staff report and recommendation to the Village Board to accept the proposal of Lauterbach & Amen, LLP in accordance with the proposal submitted October 2, 2009, and award a three year contract, with a three year option to renew, to Lauterbach & Amen to provide auditing services for the Village.

Summary

These same reasons would also apply to why we are seeking to extend our contract with Lauterbach & Amen. As to the question of how long an auditor should provide audit services for one client, there are no established guidelines on this topic. However, according to a U.S. General Accounting Office (GAO) study that was published in November 2003, the average tenure of an auditor for Fortune 1000 companies was 22 years. And for government audits, there are far fewer firms that do these types of audits. Furthermore, it should also be noted that the main reason organizations switch auditors is due to a poor working relationship.

- Unlike other audit firms that the Village has previously used, Lauterbach & Amen has maintained a continuity of staff, thereby minimizing the time needed by staff during each audit.

October 2, 2009

The Honorable President
Members of the Board of Trustees
Village of Lombard, Illinois

We are pleased to confirm our understanding of the services we are to provide the Village of Lombard, Illinois for the years ended May 31, 2010, May 31, 2011, and May 31, 2012, with an additional three year option including the years ended May 31, 2013, May 31, 2014, and May 31, 2015. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the Village as of and for the years ended May 31, 2010, May 31, 2011, and May 31, 2012, and the additional three year option for the years ended May 31, 2013, May 31, 2014, and May 31, 2015. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the Village's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Village's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it.

The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: introductory and statistical information; management's discussion and analysis; the budgetary comparison schedules; pension plan funding progress and employer contribution schedules. Supplementary information other than RSI also accompanies the Village's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements: combining and individual fund statements and schedules; other information listed as supplemental and schedules, except for those schedules marked "unaudited."

Audit Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management Responsibilities (Continued)

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village, and the respective changes in financial position and where applicable, cash flows, in conformity with U.S. generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the Village involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Village received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the Village complies with applicable laws and regulations.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Village or to acts by management or employees acting on behalf of the Village.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Audit Procedures – Internal Control

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Our audit will include obtaining an understanding of the Village and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Village's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Administration, Fees, and Other

Our fees for audit services are as follows:

	2010	2011	2012	2013	2014	2015
Village Audit	\$ 29,500	30,400	31,300	32,200	33,100	34,000
TIF Audit	650	675	700	725	750	775
Total	30,150	31,075	32,000	32,925	33,850	34,775

Fiscal Year Ended May 31,

We appreciate the opportunity to be of service to the Village of Lombard, Illinois and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Cordially,

LAUTERBACH & AMEN, LLP

Ronald J. Amen, Partner

RESPONSE:

This letter correctly sets forth the understanding of the Village of Lombard, Illinois.

By: _____

Title: _____

Date: _____

FEEs AND BILLING

ATTACHMENT A

VILLAGE OF LOMBARD AUDITING SERVICES PROPOSAL

FEE STRUCTURE (Not-to-Exceed Fee)

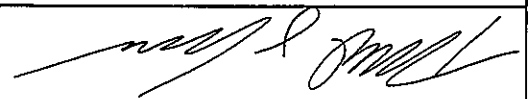
	2004	2005	2006	2007	2008	2009
Annual Financial Report	\$23,500	\$24,700	\$25,900	\$27,100	\$28,300	\$29,500
Single Audit Report	\$1,250	\$1,300	\$1,350	\$1,400	\$1,450	\$1,500
TIF Audit Report	\$525	\$550	\$575	\$600	\$625	\$650
Total Maximum Fees	\$25,275	\$26,550	\$27,825	\$29,100	\$30,375	\$31,650

FIRM SUBMITTING PROPOSAL:

Lauterbach & Amen, LLP

PO Box 4236

Wheaton, IL 60189



Signature of Authorized Representative

Ronald J. Amen

Name of Authorized Representative

Partner

Title

April 12, 2004

Date