

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

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

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: November 10, 2015 (COW)(B of T) Date November 19, 2015

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 2014 audit. In September, a request for proposals (RFP) for a new contract was mailed to six auditing firms. Five of the firms submitted proposals.

Staff's report to the Finance Committee is attached. The Finance Committee reviewed this information at their meeting on November 2, 2015, 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	_____	Date	_____
Finance Director	X	<i>Timothy Sexton</i>	Date	11/10/15
Village Manager	X	_____	Date	_____

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.



VILLAGE OF LOMBARD

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To: Finance & Administration Committee

From: Timothy Sexton, Director of Finance

Date: October 23, 2015

Subject: Auditing Services Contract

Background

Pursuant to the Village of Lombard Code of Ordinances, Chapter 36 Article 1 § 36.02 – Audit, the Board of Trustees shall cause an independent audit of all the accounts of the village to be made by a certified public accountant at the close of each fiscal year. Such accountant shall be selected by the Board of Trustees and such audit shall be conducted independently of the Village Manager. Full reports of such audit shall be filed in the public records of the Village.

Lauterbach & Amen, LLP has performed independent audits for the Village of Lombard since 1998. 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 Sikich 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. In November 2009, the Board of Trustees approved another three year contract, with a three year option to renew, to Lauterbach & Amen, LLP based on a fiscal year ended date of May 31. In October 2011, the Board of Trustees approved an amended proposal to provide services based on a fiscal year end date of December 31 for calendar year 2012 thru 2014.

The Village of Lombard issued a request for proposal for auditing services on September 11, 2015. The Village received responses from Baker Tilly, Crowe Horwath, Klein Hall, Lauterbach and Amen LLP, and Sikich. After reviewing the costs for each firm, the selection committee determined that Baker Tilly, Klein Hall, and Lauterbach and Amen LLP had competitive rates. However, after further review, the selection committee eliminated Klein Hall due the company's overall lack of experience with local municipal government audits and additional charges noted for implementation of GASB Statements.

Therefore, the selection committee is presenting both Lauterbach & Amen and Baker Tilly to the Finance and Administration Committee for consideration.

Included with this memo is the GFOA Recommended Practice regarding the selection of auditing services. 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.

Lauterbach & Amen

There are several reasons that Lauterbach & Amen was selected in the past as the firm to provide auditing services for the Village of Lombard.

- 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. Audit firms that have significant activity outside of the government sector 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.
- During the last eighteen years that the Village has had a contract with Lauterbach & Amen (FYE 1998 – FYE 2014), 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 year, **without ever charging additional fees**. Below is a list of some of the topics that they have assisted with during the previous 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.
- GASB 67/68 Implementation – This required several meetings to discuss how the change to the Village’s unrestricted net position 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.
- 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 18+ years.
- Lauterbach and Amen provides free in person annual training to keep clients up to date with audit requirements and new pronouncements.
- In over 18 years of providing auditing services, Lauterbach & Amen, LLP has never increased an audit fee from what was proposed in the RFP. This includes implementation of all GASB’s.
- 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.

Baker Tilly

- Baker Tilly is ranked as the 12th largest certified public accounting firm in the United States, according to Accounting Today’s 2014 “Top 100” list
- A team of 220 professionals dedicated to the state and local government industry; more than 25 of these dedicated professionals are located in their Oak Brook office
- Baker Tilly provides services to more than 200 municipal clients nationwide. The Village of Lombard selection committee confirmed with the references provided that Baker Tilly provides quality services and they enjoy working with the Baker Tilly audit staff.
- Firm currently performs more than 500 OMB Circular A-133 audits each year, ranking their firm in the top three, nationally, based on number of audits

- Attentive, Exceptional Client Service; meets or exceeds deadlines
- Large firm resources with local client service
- Value-added services such as newsletters and state and local government webinars that qualify for CPE credits
- New perspective: a fresh point of view can help identify relevant opportunities where we can improve operational efficiencies and internal control
- Substantial use of technology in the audit process
- Utilization of a secure website, or “portal”, which allows for an effective, efficient, and organized means to transfer information from the Village to the audit team, including work papers and trial balances.
- Worry-free transition: ninety-seven percent of clients who switch to Baker Tilly express a high satisfaction with their transition to our firm
- Heavily involved with the GFOA award for excellence in financial reporting by volunteering staff time to serve as report reviewers for the GFOA. In addition to the Partner assigned to your engagement, the final technical review of the Village’s CAFR will be performed by a Baker Tilly GFOA reviewer as well.
- The Village of Lombard selection committee interviewed two members of the proposed Baker Tilly engagement team, Joe Lightcap (Engagement Partner) and Jason Coyle. They satisfactorily answered all interview questions asked by the selection committee.

Summary

Attached you will find both Lauterbach & Amen and Baker Tilly’s cost proposals. Lauterbach & Amen proposed cost for six years is \$204,600 or 2.4% less than Baker Tilly’s cost of \$209,675.

Lauterbach & Amen has audited the Village of Lombard for over 18 years and has provided excellent service. In addition, Lauterbach & Amen proposed the lowest cost for the audit services requested. However, Baker Tilly also provided a competitive proposal and is able to fulfill the Village’s audit requirements. Both firms have excellent qualifications and staff is seeking input from the Finance and Administration Committee.

Staff is requesting the Finance and Administration Committee provide a recommendation to the Village Board to accept either the proposal of Lauterbach & Amen, LLP or the proposal of Baker Tilly Virchow Krause LLP, and award a three year contract, with a three year option to renew, to provide auditing services for the Village.



November 6, 2015

The Honorable Village 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 December 31, 2015, December 31, 2016 and December 31, 2017. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the notes to the financial statements, which collectively comprise the basic financial statements of the Village as of and for the years ended December 31, 2015, December 31, 2016 and December 31, 2017. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Village's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Village's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: management's discussion and analysis, the budgetary comparison schedules, pension plan funding progress and employer contribution schedules, and other postemployment benefit obligation funding progress and employer contribution schedules.

We have also been engaged to report on supplementary information other than RSI that accompanies the Village's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole: combining and individual fund statements and budgetary comparison schedules, and other information listed as supplemental and schedules.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information: introductory and statistical information.

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 supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the Village's financial statements. Our report will be addressed to the Board of Trustees of the Village. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will 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 may withdraw from this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You agree to assume all management responsibilities for any nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management 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 affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud 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 government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

Management Responsibilities (Continued)

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 entity or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, 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, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. 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 the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management 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.

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.

Audit Procedures – Internal Control

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

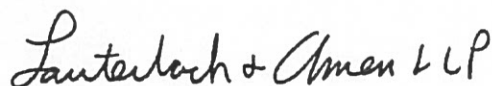
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, will perform tests of the Village's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide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

Engagement Administration, Fees, and Other

Our fees for the December 31, 2015, December 31, 2016 and December 31, 2017 audit will be as stated in our proposal.

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 below and return it to us.

Cordially,



LAUTERBACH & AMEN, LLP

RESPONSE:

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

By: _____

Title: _____

FEES AND BILLING

AUDITING SERVICES RFP RESPONSE FORM

Firm: Lauterbach & Amen, LLP

Firm Contact / Project Manager: Ronald J. Amen

Email Address: ramen@lauterbachamen.com

Address: 27W457 Warrenville Road
Warrenville, IL 60555

Telephone and fax numbers: 630.393.1483 Phone 630.393.2516 Fax

Signature of Authorized agent: 

Print name and position of Authorized Agent: Ronald J. Amen, Partner

Date of proposal submission: October 16, 2015

FEE STRUCTURE

	December 2015	December 2016	December 2017	December 2018 *	December 2019 *	December 2020 *
Municipal Audit and all Associated Work	\$29,700	\$30,200	\$30,700	\$30,700	\$31,200	\$31,700
3 Tax Increment Financing Districts	\$725	\$750	\$775	\$775	\$800	\$825
Lombard Police Pension Fund			Included in Village's Fee			
Lombard Firefighters Pension Fund			Included in Village's Fee			
Single Audit, if required	\$2,500	\$2,550	\$2,600	\$2,650	\$2,700	\$2,750
Total	\$32,925	\$33,500	\$34,075	\$34,125	\$34,700	\$35,275

*= At Village's option