



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 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. 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 Sikich 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 Sikich 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

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).

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

- 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.

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.

Summary

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.