



VILLAGE OF LOMBARD

255 E. Wilson Ave.
Lombard, Illinois 60148-3926
(630) 620-5700 Fax (630) 620-8222
www.villageoflombard.org

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.

LAUTERBACH & AMEN, LLP

	Fiscal Year						Total Cost
	2015	2016	2017	2018	2019	2020	
CAFR	29,700	30,200	30,700	30,700	31,200	31,700	184,200
Single Audit Report	2,500	2,550	2,600	2,650	2,700	2,750	15,750
TIF	725	750	775	775	800	825	4,650
	<u>32,925</u>	<u>33,500</u>	<u>34,075</u>	<u>34,125</u>	<u>34,700</u>	<u>35,275</u>	<u>\$204,600</u>

BAKER TILLY VIRCHOW KRAUSE LLP

	Fiscal Year						Total Cost
	2015	2016	2017	2018	2019	2020	
CAFR	24,600	25,300	26,025	26,775	27,550	28,400	158,650
Police Pension	1,500	1,550	1,600	1,650	1,700	1,750	9,750
Fire Pension	1,500	1,550	1,600	1,650	1,700	1,750	9,750
Single Audit Report**	2,500	2,575	2,660	2,740	2,825	2,925	16,225
TIF	2,300	2,400	2,500	2,600	2,700	2,800	15,300
	<u>32,400</u>	<u>33,375</u>	<u>34,385</u>	<u>35,415</u>	<u>36,475</u>	<u>37,625</u>	<u>\$209,675</u>

**assumes testing of one major program-if add'l testing req'd will discuss add'l fee adj

	Total Cost
<u>OTHER PROPOSALS: TOTAL 6 YEAR COST</u>	
CROWE HORWATH LLP	\$ 318,100
SIKICH LLP	\$ 323,789
KLEIN HALL	\$ 223,600

ANTICIPATED**LAUTERBACH & AMEN, LLP**

	Fiscal Year						Total Cost
	2015	2016	2017	2018	2019	2020	
CAFR	29,700	30,200	30,700	30,700	31,200	31,700	184,200
Single Audit Report		2,550	2,600	2,650			7,800
TIF	725	750	775	775	800	825	4,650
	<u>30,425</u>	<u>33,500</u>	<u>34,075</u>	<u>34,125</u>	<u>32,000</u>	<u>32,525</u>	<u>\$196,650</u>

BAKER TILLY VIRCHOW KRAUSE LLP

	Fiscal Year						Total Cost
	2015	2016	2017	2018	2019	2020	
CAFR	24,600	25,300	26,025	26,775	27,550	28,400	158,650
Police Pension	1,500	1,550	1,600	1,650	1,700	1,750	9,750
Fire Pension	1,500	1,550	1,600	1,650	1,700	1,750	9,750
Single Audit Report**		2,575	2,660	2,740			7,975
TIF	2,300	2,400	2,500	2,600	2,700	2,800	15,300
	<u>29,900</u>	<u>33,375</u>	<u>34,385</u>	<u>35,415</u>	<u>33,650</u>	<u>34,700</u>	<u>\$201,425</u>

**assumes testing of one major program-if add'l testing req'd will discuss add'l fee adj

GFOA Recommended Practice

Audit Procurement (1996 and 2002)

Background. The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

Recommendation. GFOA makes the following recommendations regarding the selection of auditing services:

- The scope of the independent audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units. The cost of extending full audit coverage to the financial statements of individual funds and component units can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits should make their decision concerning the appropriate scope of the audit engagement based upon their particular government's specific needs and circumstances, consistent with applicable legal requirements.
- Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
- Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "start-up" costs over several years, rather than over a single year.
- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.

- Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.
- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

References:

- *Audit Management Handbook*, Stephen J. Gauthier, GFOA, 1989.
- *An Elected Official's Guide to Auditing*, Stephen J. Gauthier, GFOA, 1992.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA.
- Model Audit RFP Diskette, GFOA.
- *CPA Audit Quality: A Framework for Procuring Audit Services*, General Accounting Office, August 1987.

Approved by the Committee on Accounting, Auditing and Financial Reporting
June 15, 2002

Adopted by Executive Board, October 25, 2002