



VILLAGE OF LOMBARD

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To: Finance & Administration Committee

From: Timothy Sexton, Director of Finance

Date: April 1, 2021

Subject: **Auditing Services Contract**

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 (L&A), 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. In 2015, staff issued another request for proposal for auditing services. The Village received responses from Baker Tilly, Crowe Horwath, Klein Hall, Lauterbach and Amen LLP, and Sikich. The proposals ranged from \$196,000 to \$323,000 over the six year period, with L&A being the lowest cost of the four proposals received. The F&A Committee selected L&A for a three year term with an option for an additional three years based on protocols set for staff rotation, competitive rates, and past performance.

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.

During the 2015 review of proposals for auditing services, the F&A Committee recommended Lauterbach and Amen with the caveat that we rotate staff. Attached is a list of L&A staff members who worked on the Village audits for audit years 2015 – 2020.

Staff is seeking a recommendation or direction from the Finance and Administration Committee regarding auditing services. It takes a considerable amount of time and effort for firms to respond to an RFP. Therefore, generally it is not good to do an RFP and then just select the existing firm, as other firms will just stop responding in the future. Attached is a proposal from Lauterbach and Amen for a three year contract plus an option for an additional three years. Lauterbach and Amen did not increase their fees for the 2021 audit and increased fee each year by 2% for the next 5 years. Staff is seeking a recommendation to Village Board to approve the attached contract or direction to conduct a full RFP process and bring the results back to the Committee for consideration.



BEST PRACTICES

Audit Procurement

Select services that include a broad scope of financial presentations and perform their audits in accordance with the Generally Accepted Government Auditing Standards. Governments should enter into multiyear agreements and undertake a full-scale competitive selection process.

The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements, and single audits, if required based on the entity's use of federal or state grant funds, 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.

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. 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 perform their audits in accordance with the audit standards promulgated in the U.S. Government Accountability Office's Government Auditing Standards. Government Auditing Standards, also known as Generally Accepted Government Auditing Standards (GAGAS), provide a higher level of assurance with regard to internal control than Generally Accepted Audit Standards (GAAS), which are fully incorporated into GAGAS.
- 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 "startup" 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. While there is some belief that auditor independence is enhanced by a policy requiring that the independent audit firm be replaced at the end of each multiyear agreement, unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory audit firm 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. Where audit firm rotation does not result from this process, governments may consider requesting that senior engagement staff, such as engagement partners and senior managers, be rotated to provide a fresh perspective. 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. Price should not be allowed to serve as the sole criterion for the selection of an independent auditor, rather an independent auditor should have a demonstrated commitment to the state and local government audit practice.

Notes:

Contract Issues for Governmental Audits - The AICPA State and Local Government Expert Panel and GFOA worked together to develop this joint article intended to educate both governments and their auditors about clauses in contracts and engagement letters in the governmental environment that may not meet AICPA professional standards and that may create uncertainty about the auditor's independence.

References:

- *CPA Audit Quality: A Framework for Procuring Audit Services*, U.S. Government Accountability Office, August 1987.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA, 2012.

Lauterbach & Amen Staff for Village of Lombard Audits by Audit Year

Ron Amen – Owner & Reviewer
Jamie Wilkey – Partner & Reviewer

2015 Audit:

Ann Van Vooren (now Ann Scales) – Lead Auditor
Katie Gurke- Audit Team Member
Ernesta Ignotaite - Audit Team Member
Report Writer: Monika Guercio

2016 Audit:

Ann Van Vooren (now Ann Scales) – Lead Auditor
Katie Gurke – Audit Team Member
Lia Lopez – Audit Team Member
Don Shaw– Audit Team Member
Report Writer: Monika Guercio

2017 Audit:

Don Shaw - Lead Auditor
Katie Gurke - Audit Team Member
Ernesta Ignotaite - Audit Team Member
Eric Burchfield- Audit Team Member
Report Writer: Monika Guercio

2018 Audit:

Don Shaw - Lead Auditor
Katie Gurke - Audit Team Member
Brien Robbins - Audit Team Member
Report Writer: Monika Guercio

2019 Audit:

Tim Gavin – Lead Auditor
Brien Robbins - Audit Team Member
Edwin Rivera - Audit Team Member
Report Writer: Lia Lopez

2020 Audit:

Tim Gavin – Lead Auditor
Courtney Clement - Audit Team Member
Macade Thorpe - Audit Team Member
Hannah Cullerton – Audit Team Member
Report Writer: Lia Lopez



April 16, 2021

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, 2021, December 31, 2022, and December 31, 2023.

Audit Scope and Objectives

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the disclosures, which collectively comprise the basic financial statements of the Village as of and for the years ended December 31, 2021, December 31, 2022, and December 31, 2023. Accounting standards generally accepted in the United States of America (GAAS) 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 GAAS. 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 U.S. generally accepted accounting principles (GAAP) and will be subjected to certain limited procedures, but will not be audited: management's discussion and analysis, the budgetary comparison schedules, pension plan employer contribution schedules, changes in the employer's net pension liability schedules, pension plan investment return schedules, and schedule of changes in employer's total OPEB liability.

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 GAAS, and will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements: combining and individual fund statements and budgetary comparison schedules, and other information listed as supplemental schedules.

In connection with our audit of the basic financial statements, we will read the following other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report: introductory and statistical information.

Audit Scope and Objectives – Continued

The objectives of our audit are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; issue an auditor's report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP; and 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. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

We will conduct our audit in accordance with GAAS and will include tests of your accounting records and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable 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 government 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 an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS. In addition, an audit is not designed to detect immaterial misstatement, 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, 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.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements – Continued

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, include tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

Audit Procedures – Internal Control

We will obtain an understanding of the Village and its environment, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. 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 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.

Other Services

We will also assist in preparing the financial statements and required audit adjustments, if any, for the Village in conformity with accounting principles generally accepted in the United States of America based on information provided by you. We will perform these services in accordance with applicable professional standards. The other services are limited to the financial statements previously defined. We, in our sole professional judgement, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Responsibilities of Management for the Financial Statements

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements - Continued

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). 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, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (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. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

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 of each opinion unit 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, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity accounting principles generally accepted in the United States of America. 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.

You agree to assume all management responsibilities for the financial statement preparation services and any other 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.

Engagement Administration, Fees, and Other

Our fees for the December 31, 2021, December 31, 2022, and December 31, 2023 audits will be as follows:

| | December 31, 2021 | December 31, 2022 | December 31, 2023 | *At the Village's Option | | |
|----------------------------|----------------------|----------------------|----------------------|--------------------------|------------------------|------------------------|
| | | | | December 31, 2024 * | December 31, 2025 * | December 31, 2026 * |
| Audit | \$ 31,700 | \$ 32,375 | \$ 33,050 | \$ 33,725 | \$ 34,400 | \$ 35,075 |
| TIF Reports | 825 | 850 | 875 | 900 | 925 | 950 |
| Police Pension Fund | Included | Included | Included | Included | Included | Included |
| Firefighters' Pension Fund | Included | Included | Included | Included | Included | Included |
| Single Audit, if needed | 2,750 | 2,800 | 2,850 | 2,900 | 2,950 | 3,000 |
| Total | \$ 35,275 | \$ 36,025 | \$ 36,775 | \$ 37,525 | \$ 38,275 | \$ 39,025 |

The Village agrees that during the term of this agreement and for a period of twelve months thereafter, the Village shall not solicit, or arrange an employment contract with personnel of Lauterbach & Amen, LLP. Violation of this provision shall, in addition to other relief, require the Village to compensate Lauterbach & Amen, LLP with one hundred percent of the solicited person's annual compensation.

Reporting

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 our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our opinions 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 withdraw from this engagement.

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
LAUTERBACH & AMEN, LLP

RESPONSE:

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

By: _____

Title: _____