

MEMORANDUM

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, HR and Finance Director
Shaennon Clark, Deputy Finance Director

DATE: February 17, 2022

SUBJECT: A RESOLUTION APPROVING THE ENGAGEMENT OF LAUTERBACH & AMEN, LLP FOR INDEPENDENT FINANCIAL AUDITING SERVICES

Introduction: The auditor evaluation committee recommends that the City Council approve the recommendation of Lauterbach & Amen, LLP (L&A) to provide independent financial auditing services for fiscal years 2022 through 2026, with an optional three-year extension.

Background:

City Council and Auditor Roles and Relationship: The City's auditors work for the Mayor and City Council as part of their role in providing oversight of the City's finances. While most City contracts do not require City Council approval, the audit contract does because of the unique relationship and the auditors' responsibility for reporting to the City Council.

Current Auditor: The City Council previously engaged Baker Tilly Virchow Krouse, LLP (Baker Tilly) as the City's auditor in 2014 for audits for Fiscal Years Ending June 30, 2014 through June 30, 2018, a five-year term. A minimum of a five-year term is typical for municipal government audits. Because of the need for continuity following the implementation of the City's new financial system (Munis) in February 2018, the additional effort involved in working with a new audit firm and the positive experience and high level of satisfaction we had with Baker Tilly, staff recommended re-engaging Baker Tilly for an additional three years for Fiscal Years Ending June 30, 2019 through June 30, 2021. The City Council approved this re-engagement on March 18, 2019. Therefore, the last year of the re-engagement contract with Baker Tilly was for the audit for the Fiscal Year ending June 30, 2021.

Current Relationship with L&A: Both pension fund boards (police and fire) currently utilize L&A for actuarial work and for occasional assistance with complex pension calculations. This should not present a conflict, since there is no overlap between the staff on those engagements. Both boards act independently of the City to engage professional services. The City has not engaged L&A for accounting work in the past.

Selection Process: Staff released a notice for interested firms to register to receive the Request for Proposals (RFP) for Professional Auditing Services for Fiscal Years Ending June 30, 2022 through June 30, 2026. The RFP notice was released on the City's website on December 8, 2021 and it was also published in the News-Gazette on December 11, 2021. Staff also emailed the

RFP notice to audit firms included on the Illinois Government Finance Officers Association (IGFOA) membership directory, to ensure that they were aware of the City's RFP. The City sent the RFP to eight (8) auditing firms that registered by the December 22, 2021 deadline.

The City requested proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal years ending June 30, 2022 through June 30, 2026, subject to an annual review. Per the RFP, the initial five-year term may be extended for up to an additional three years. These audits are required by law and are to be performed in accordance with generally accepted auditing standards, the standards set forth for financial audits in the U.S. Government Accountability Office's (GAO) *Government Auditing Standards*; the provisions of the federal Single Audit Act of 1984 (as amended); and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The selected audit firm will express an opinion on the fair presentation of the financial position of the governmental activities, business-type activities, fiduciary funds, each of the major funds, and the aggregate remaining fund information of the City, in conformity with generally accepted accounting principles. In addition, the auditor will audit the financial statements and express an opinion separately on the presentation of the financial position of the Urbana Free Library, the Police Pension Fund, and the Fire Pension Fund. The auditor will also prepare the requested reports required in relation to the audit including the Annual Consolidated Financial report and provide required communications to management and City Council.

The deadline for interested firms to register to receive the RFP was December 22, 2021; the deadline to ask questions related to the proposal was December 29, 2021. Answers to the questions asked by the deadline were released as an addendum to the RFP on January 4, 2022 to all firms that had registered to receive the RFP.

By the January 13, 2022 deadline, the staff had received five (5) proposals. Based on the evaluation criteria prescribed in the RFP, the auditor evaluation committee¹, invited three (3) firms to make presentations through remote meetings.

Guidance per the Government Finance Officers Association (GFOA) regarding best practices in selecting an auditor were incorporated into the evaluation criteria and process including the best practice that price would not be the determining factor in the selection decision. The criteria generally included: being licensed in Illinois, having no conflict of interest with regard to any other work with the City of Urbana, independence requirements, past experience with comparable governments, the quality of the firm's personnel and qualifications, the ability to perform the auditing services requested, the proposed approach to the audit, compliance with the City's ordinances on equal opportunity in employment, and adherence to the requirements included in the RFP. The three firms selected for interviews were Baker Tilly, L&A, and Sikich, LLP (Sikich). Clifton Larson Allen LLP (CLA) and Selden Fox were not selected for further consideration because their proposals less closely met the identified evaluation criteria.

¹ The auditor evaluation committee was comprised of six (6) members, which included Mayor Diane Marlin, Elizabeth Hannan (HR and Finance Director), Celeste Choate (Director of the Urbana Free Library), Shaennon Clark (Deputy Finance Director), Kris Francisco (Financial Services Manager), and Jing Lin (Staff Accountant).

On January 26 and 27, 2022, Baker Tilly, L&A, and Sikich made their presentations remotely to the auditor evaluation committee, and this committee asked a series of prepared questions. Subsequent to those presentations, reference checks from current clients of the audit firms were conducted for these firms. All three firms were qualified; however, based on this evaluation process, which included considering the proposals, presentations, and references of the prospective firms, the evaluation committee is recommending L&A. This recommendation is based on L&A's approach to the audit and the professional qualifications and experience of their staff and firm, particularly with the vast majority of their practice spent and focused on working with local governments. Also, a new auditor would provide a fresh perspective to the audit. However, this will require additional staff time to familiarize the new firm with the City's financial information. Additionally, L&A's lower cost proposal would enable staff to reserve funds for other professional services, which may be needed due to the transition, and for planned financial projects that are expected to be implemented in the near future.

Audit Plan: The following are the major components of the audit schedule.

Planning: Staff expects to begin working with L&A to plan for the audit in May. This includes agreeing on report formats, discussing availability of records and source documents, and developing a detailed list of schedules that the City will provide.

Preliminary Fieldwork: Preliminary fieldwork would occur in June. This includes review of documents and discussion with staff, as well as evaluation of internal accounting controls. This is the phase where the auditors begin to develop an in-depth understanding of the City's systems, processes, and financial records.

Final Fieldwork: Final fieldwork would occur in September and October. This is where the auditors will spend most of their time. This includes compliance testing, confirmation of year-end balances, and reviewing documentation (vouching) for various financial transactions.

Draft Reports: Staff would receive and review draft financial reports in November.

Audit Completion: The audit should be completed with issuance of final reports in December. Generally, due to the holidays, the auditors present the audit to the City Council in January.

All of this work normally requires many hundreds of hours of City and audit firm staff time over a period of more than six months. This is generally one of the busiest times of the year for staff involved in the audit. There will also be additional effort required of staff when transitioning to a new auditor, because a new auditor may have new or different requirements for work papers and documentation. Also, because a new auditor will not be as familiar with the City's financial information, additional time will be required to share information and answer questions from the auditors. The financial system (Munis) is also being upgraded in the summer of 2022, so there will be little capacity to absorb additional work, and some outside assistance may be needed.

Fiscal Impact: The evaluation committee reviewed the cost proposal submitted by Lauterbach & Amen, LLP, and a final price acceptable to both the City and the audit firm of \$60,520 for the first year was agreed upon. Future year cost increases are approximately 2% annually for inflation. The prior year audit costs were \$74,320 in comparison. Remaining funds will be reserved for other professional services, which may be needed as the City transitions to a new auditor and completes the Munis upgrade. In the longer term, these funds could be allocated to planned implementation of additional Munis modules, such as fixed assets and vendor self-service.

The pension funds will pay costs for those components of the audit. However, the City has paid for the Library's audit fees because the Library is considered a component unit of the City for reporting purposes, and the City's auditors would be required to review any audit work performed by another auditor.

Alternatives:

1. Forward the resolution approving the engagement of Lauterbach & Amen, LLP to provide professional auditing services for Fiscal Years Ending June 30, 2022 through June 30, 2026, with an option for three additional years, for approval at the February 28, 2022 City Council meeting.
2. Do not forward the resolution to City Council and provide direction to staff on how to proceed.

Recommendation: Staff recommends that the City Council forward the resolution approving the engagement of Lauterbach & Amen, LLP to provide independent professional auditing services for Fiscal Years Ending June 30, 2022 through June 30, 2026 for approval at the February 28, 2022 City Council meeting.

RESOLUTION NO. _____

A RESOLUTION APPROVING THE ENGAGEMENT OF LAUTERBACH & AMEN, LLP FOR INDEPENDENT FINANCIAL AUDITING SERVICES

(Fiscal Years Ending June 30, 2022, June 30, 2023, June 30, 2024, June 30, 2025, and June 30, 2026)

WHEREAS, City staff sought proposals from qualified firms of certified public accountants to audit the City's financial statements for the fiscal years ending June 30, 2022 through June 30, 2026 with the option of auditing its financial statements for each of the three (3) subsequent fiscal years; and

WHEREAS, these audits are required by law and are to be performed in accordance with generally accepted auditing standards and other applicable standards and provisions; and

WHEREAS, the evaluation committee recommends Lauterbach & Amen, LLP to the City Council for approval at a final price acceptable to both the City and the audit firm of \$60,520 for the first year as proposed by Lauterbach & Amen, LLP in their proposal with an approximate increase of 2% annually for the remaining four years, and a possible three-year extension; and

NOW, THEREFORE, BE IT RESOLVED by the City Council, of the City of Urbana, Illinois, as follows:

Section 1.

The Mayor of the City of Urbana, Illinois, shall be and hereby is authorized to engage the services of Lauterbach & Amen, LLP as the independent auditor for the City for the fiscal years ending June 30, 2022, 2023, 2024, 2025, and 2026, and to approve applicable extensions for three additional years, pursuant to the Request for Proposals issued for such services, and the proposal submitted by Lauterbach & Amen, LLP.

Section 2.

The Mayor of the City of Urbana, Illinois shall be and hereby is authorized to execute a letter of engagement or other agreement consistent with the terms referenced in this resolution and deliver to the City Clerk of the City of Urbana, Illinois, for attestation the said agreement in substantially the form and substance of this resolution.

PASSED BY THE CORPORATE AUTHORITIES this __ Day of _____, 20__.

AYES: _____

NAYS: _____

ABSTENTIONS: _____

Phyllis D. Clark, City Clerk

APPROVED BY THE MAYOR this __ Day of _____, 20__.

Diane Wolfe Marlin, Mayor