



STAFF REPORT

DATE: October 2, 2018

REGULAR

ITEM #3 - Consent

MOTION

TO: City Council
FROM: Sue Iverson – Finance Director
AGENDA ITEM: Approve Request for Proposals (RFP) for Professional Auditing Services
REVIEWED BY: Kristina Handt, City Administrator

BACKGROUND:

The City has not been out for a competitive bid for Auditing Services since 2013.

ISSUE BEFORE THE CITY COUNCIL:

- 1) Should the City Council authorize the distribution of the Request for Proposals (RFP) for Auditing Services?

DISCUSSION:

Attached is a draft RFP for Auditing Services. It is a best practice to periodically send out RFP's for contracted services to maintain due diligence. The City is not dissatisfied with our current auditor, Smith, Schaffer & Associates, Ltd. Audit firms will be locking in their calendars for 2019 soon, so we hope to complete this process by mid-November. The RFP will be posted to the League of Minnesota's (LMC) site for advertising.

FISCAL IMPACT:

To be determined.

OPTIONS:

- 1) Approve distribution of the Request for Proposals (RFP) for Professional Auditing Services.
- 2) Amend and then approve distribution of the Request for Proposals (RFP) for Professional Auditing Services.
- 3) Do not approve distribution of the Request for Proposals (RFP) for Professional Auditing Services.

RECOMMENDATION:

If removed from the consent agenda:

Motion to approve distribution of the Request for Proposals (RFP) for Professional Auditing Services.

ATTACHMENTS:

- 1) Draft Request for Proposals for Auditing Services.



REQUEST FOR PROPOSALS
FOR
PROFESSIONAL AUDITING SERVICES

October 2018

CITY OF LAKE ELMO
FINANCE DEPARTMENT
3880 LAVERNE AVE. N.
SUITE 100
LAKE ELMO, MN 55042
WWW.LAKEELMO.ORG

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I. INTRODUCTION

A. General Information

The City of Lake Elmo is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal year ending December 31, 2018 with the option of auditing its financial statements for each of the four subsequent fiscal years.

These audits are to be performed in accordance with generally accepted auditing standards and the standards for financial audits set forth in the U.S. General Accounting Office's (GAO) *Government Auditing Standards*, and, if applicable, the provisions of the federal Single Audit Act of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State and Local Governments* as well as all other Federal, State and local requirements in effect now or placed in effect during the engagement.

There is no expressed or implied obligation for the City of Lake Elmo to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

To be considered, qualified firms must submit five (5) copies of their proposal to Susan Iverson, Finance Director, 3880 Laverne Ave, N., Suite 100, Lake Elmo, MN 55042 by **4:00 P.M. on Friday, November 2, 2018**. The City of Lake Elmo reserves the right to reject any and all proposals submitted.

The City of Lake Elmo reserves the right, where it may serve the City of Lake Elmo's best interest, to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the City of Lake Elmo, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City of Lake Elmo reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City of Lake Elmo and the firm selected.

It is anticipated the selection of a firm will be made by mid November 2018. Following the notification of the selected firm it is expected a contract will be executed between both parties as soon as possible.

B. Term of Engagement

A five-year contract is contemplated, subject to an annual review. Based on satisfactory performance, satisfactory negotiation of terms (including a price acceptable to both the City of Lake Elmo and the selected firm), the concurrence of the City Council and Finance Director, and the annual availability of an appropriation, the City may extend the agreement annually without solicitations from other firms. In the event of unsatisfactory performance, or when in

the best interest of the City, proposals may be solicited before the end of the five year period.

C. Subcontracting

Following the award of the audit contract, no subcontracting will be allowed without the expressed prior written consent of the City of Lake Elmo.

II. NATURE OF SERVICES REQUIRED

A. General

The City of Lake Elmo is soliciting the services of qualified firms and certified public accountants to audit its financial statements for the fiscal year ending December 31, 2018, with the option to audit the City of Lake Elmo's financial statements for each of the four subsequent fiscal years. These audits are to be performed in accordance with the provisions contained in this request for proposals.

B. Scope of Work to be Performed

The City of Lake Elmo desires the auditor to express an opinion on the fair presentation of its financial information of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in conformity with generally accepted accounting principles.

The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards. The City of Lake Elmo also desires the firm to review the presentation of the statistical section of the financial statements insofar as current generally accepted auditing standards require such review.

If the City is required to have a Single Audit for any year covered by this proposal, the auditor would follow the provision of the federal Single Audit Act Amendments of 1996. The pricing for the potential single audit should be reported separately on the fee structure schedule.

The auditor is not required to audit the schedule of federal financial assistance. However, the auditor is to provide an "in-relation-to" report on that schedule based on the auditing procedures applied during the audit of the financial statements.

An annual review of the Comprehensive Annual Financial Report shall be done to determine necessary steps so that the City can continue to receive a Certificate of Achievement for Excellence in Financial Reporting during this engagement.

C. Auditing Standards to Be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U.S. General Accounting Office's *Government Auditing Standards*, the provisions of the Single Audit Act of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, the provision of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State and Local Governments* Minnesota Legal Compliance for Local Governments, and any other Federal, State and local requirements in effect now or placed in to effect during the engagements.

D. Reports to be Issued

Following the completion of the audit of the fiscal year's financial information, the auditor shall issue:

1. A report on the fair presentation of the financial statement in conformity with generally accepted accounting principles, including, if applicable, an opinion of the fair presentation of the supplementary schedule of expenditures of federal awards "in-relation-to" the audited financial statements.
2. A report on compliance and internal control over financial reporting based on an audit of the financial statements.
3. A report on compliance with applicable laws and regulations.
4. Communicate in a letter to management any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses shall be identified as such in the report.
5. Communicate non-reportable conditions discovered by the auditors in a separate letter to management, which shall be referred to in the report on compliance and internal controls.

The report on compliance and internal controls shall include all material instances of noncompliance. All nonmaterial instances of noncompliance shall be reported in a separate management letter, which shall be referred to in the report on compliance and internal controls.

Irregularities and illegal acts: Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the City Council, City Administrator and Finance Director.

Reporting to the City Council: Auditors shall assure themselves that the City Council is informed of each of the following:

1. The auditor's responsibility under generally accepted auditing standards
2. Significant accounting policies
3. Management judgments and accounting estimates
4. Significant audit adjustments
5. Other information in documents containing audited financial statements
6. Disagreements with management
7. Management consultation with other accountants
8. Major issues discussed with management prior to retention
9. Difficulties encountered in performing the audit
10. Results and reports of the Single Audit, if required, to be performed.

E. Special Considerations

1. The City of Lake Elmo will send its comprehensive annual financial report to the Government Finance Officer Association of the United States and Canada for review in their Certificate of Achievement for Excellence in Financial Reporting program. The city has received the certificate annually beginning with the annual financial report for 2013. It is anticipated that the auditor will not be required to provide special assistance to the City of Lake Elmo to meet the requirements of that program.
2. The City of Lake Elmo may prepare one or more official statements in connection with the sale of debt securities which will contain the general purpose financial statements and the auditor's report thereon. The auditor shall be required, if requested by the fiscal advisor and/or the underwriter, to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters."
3. The schedule of federal financial assistance and related auditor's report (if required), as well as the reports on the internal controls and compliance, are not to be included in the CAFR, but are to be issued separately.
4. Additional assistance regarding the specifics of the future implementation and compliance with the reporting requirements mandated by GASB may be required.

F. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of three (3) years, unless the firm is notified in writing by the City of Lake Elmo of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the following parties or their designees:

- City of Lake Elmo
- MN State Auditor's Office

- U.S. General Accounting Office (GAO)
- Parties designated by the federal or state governments or by the City of Lake Elmo as part of an audit quality review process
- Auditors of entities of which the City of Lake Elmo is a sub-recipient of grant funds

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. DESCRIPTION OF THE GOVERNMENT

A. Principal Contacts

The auditor's principal contact with the City of Lake Elmo will be Susan Iverson, Finance Director, or a designated representative, who will coordinate the assistance to be provided by the City of Lake Elmo to the auditor. The phone number for the Finance Director is 651-747-3909.

B. Background Information

- The City of Lake Elmo is located in Washington County and serves an area of 32 square miles with a population of 9,625.
- The City of Lake Elmo's fiscal year begins on January 1 and ends on December 31.
- The city of Lake Elmo operates under the Optional Plan A form of government. The City Council consists of a mayor and four council members.
- More detailed information on the City and its finances can be found on the City's website at: <http://www.lakeelmo.org/>.

C. Fund Structure

Please refer to the City's Comprehensive Annual Financial Report for the year ended December 31, 2017, which can be found on our web site at www.lakeelmo.org, for a complete description of the government and its financial operations. The City of Lake Elmo uses the following fund types and account groups in its financial reporting:

General Fund	1
Special Revenue Funds	4 (includes 1 blended component unit)
Debt Service Funds	13
Capital Project Funds	7
Enterprise Funds	3
Internal Service Funds	3

D. Federal and State Financial Assistance

At the time of this RFP, it does not appear that a single audit will be required for 2018. Proposals should include costs for these services as a separate item from the regular services that are to be provided.

E. Component Units

The City has one blended component unit – the Lake Elmo Economic Development Authority – and no discretely presented component units. Although the EDA is legally separate from the City, the board has recommending authority only to the City Council and is reported as if it were part of the primary government.

F. Finance Department Operations

The finance department has two full-time employees consisting of a Finance Director and an Accountant. The department provides financial support services to the entire organization that include accounts payable, accounts receivable, cash receipting, payroll processing, investment and cash management, coordination of the annual audit, budget preparation, the 5-year CIP Plan preparation, and the 10-year Financial Forecast.

G. Computer Systems

The City uses Springbrook financial software and consists of the following integrated modules that generate transactions for the financial system:

- General Ledger
- Accounts Payable
- Account Receivable
- Cash Receipts
- Payroll

The City uses Banyon Data Systems for Utility Billing.

H. Availability of Prior Audit Reports and Working Papers

Interested proposers who wish to review prior years' audit reports and management letters should contact Susan Iverson at 651-747-3909. The City of Lake Elmo will use its best efforts to make prior audit reports and supporting working papers available to proposers to aid their response to this request for proposals.

IV. TIME REQUIREMENTS

A. Proposal Calendar

The following is a list of key dates regarding the selection process:

Request for proposal completed	October 2, 2018
Due date for proposals	November 2, 2018
Interview dates (only if needed)	November 12-14, 2018
City Council approval of auditor selection	November 20, 2018
Selected firm notified	November 21, 2018

B. Date Audit May Commence

The City of Lake Elmo will have all records ready for audit and all management personnel available to meet with the firm's personal at a date that is mutually convenient. The auditors may elect to do preliminary fieldwork.

C. Schedule for 2018 Fiscal Year Audit (a similar time schedule will be developed for audits of future fiscal years if the City of Lake Elmo exercises its option for additional audits).

Each of the following should be completed by the auditor no later than the dates indicated.

1. Detailed Audit Plan

The auditor shall provide the City of Lake Elmo by December 31, 2018 both a detailed audit plan and a list of all schedules to be prepared by the City of Lake Elmo.

2. Fieldwork

The auditor shall complete all fieldwork by April 30, 2019. A schedule for interim work, fieldwork and draft reports will be determined upon completion of the auditor selection process.

3. Draft Reports

The auditor shall have reviewed drafts of the audit report(s) and completed auditor's reports for the CAFR (if applicable) by May 15, 2019.

4. Date Final Report is Due

The City shall prepare final financial statements, notes, required supplementary schedule and statistical data by May 15, 2019. The auditor shall provide all recommendations, revisions, and suggestions for improvement to the City by May 31, 2019.

The final auditor reports and ten signed copies should be delivered to the Finance Director at 3880 Laverne Ave. N., Suite 100, Lake Elmo, MN 55042 by June 13, 2019.

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR & REPORT PREPARATION

A. Finance Department and Clerical Assistance

The finance department staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the City of Lake Elmo under the direction of the auditor.

B. Work Area, Telephones, Copiers, Internet Connection

The City of Lake Elmo will provide the auditor with reasonable work space, tables and chairs. The auditor will also be provided with access to telephone lines, photocopying facilities and wireless internet connectivity.

VI. PROPOSAL REQUIREMENTS

A. Inquiries

Inquiries concerning the request for proposals and the subject of the request for proposals must be made to:

Susan Iverson, Finance Director
City of Lake Elmo
3880 Laverne Ave N.
Suite 100
Lake Elmo, MN 55042
651-747-3909
siverson@lakeelmo.org

B. Submission of Proposals

The following material is required to be received by November 2, 2018 for a proposing firm to be considered:

1. Title Page

Title page showing the request for proposals subject; the firm's name; the name, address and telephone number of the contact person; and the date of the proposal.

2. Table of Contents

3. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the engagement and a statement that the proposal is a firm and irrevocable offer for 60 days.

4. General Information

- a. Firm qualifications and experience
- b. An affirmative statement that the firm is independent from the City of Lake Elmo
- c. License to practice in MN
- d. Partner, supervisor and staff qualifications and experience
- e. Prior engagement with the City of Lake Elmo
- f. Similar engagement with other governmental entities – reference with phone numbers
- g. Specific audit approach
- h. Identification of anticipated potential audit problems
- i. Report format

5. Executed copies of Proposer Guarantees and Proposer Warranties, attached to this request for proposal (Appendix A)

6. Schedule of Professional Fees and Expenses (Appendix B)

Proposers should send the completed proposal to the following address:

Susan Iverson, Finance Director
City of Lake Elmo
3880 Laverne Ave N.
Suite 100
Lake Elmo, MN 55042

VII. Evaluation Procedures

A. Review of Proposals

The City will review and discuss each proposal and may request oral presentations from one or more firms selected for further consideration.

The City of Lake Elmo reserves the right to retain all proposals submitted and use any idea in a proposal regardless of whether that proposal is selected.

B. Oral Presentations

During the evaluation process, the City may, at its discretion, request any one or all firms to make oral presentation. Such presentations will provide firms with an opportunity to answer any questions that City may have on a firm's proposal. Not all firms may be asked to make such oral presentations.

C. Final Selection

It is anticipated that a firm will be selected by the City Council during its regularly scheduled meeting on November 20, 2018.

D. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City of Lake Elmo and the firm selected.

The City of Lake Elmo reserves the right without prejudice to reject any or all proposals.

APPENDIX A

PROPOSER GUARANTIES

The proposer certifies it can and will provide and make available, as a minimum, all services set forth in Section II, Nature of Service Required.

PROPOSER WARRANTIES

1. Proposer warrants that it is willing and able to comply with State of Minnesota laws with respect to foreign (non-State of Minnesota) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of the City of Lake Elmo.
4. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.

Signature of Official: _____

Name (typed): _____

Title _____

Firm: _____

Date: _____

APPENDIX B

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR
THE AUDIT OF THE 2018 FINANCIAL STATEMENTS

	<u>HOURS</u>	STANDARD HOURLY <u>RATES</u>	QUOTED HOURLY <u>RATES</u>	<u>TOTAL</u>
Partners	_____	_____	_____	_____
Managers	_____	_____	_____	_____
Supervisory Staff	_____	_____	_____	_____
Staff	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____
Subtotal				_____
Total for services described In Section II E of the RFP (Detail on subsequent pages)				
Out-of-pocket expenses				_____
Meals and lodging				_____
Transportation				_____
Preparation of the CAFR				_____
Other (Specify): _____				_____
Total all-inclusive maximum price for 2018 audit (not including single audit)				_____
Note: The rate quoted should <u>not</u> be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.				
Single Audit (if needed) maximum price for 2018				_____

APPENDIX B

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**SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR
THE AUDIT OF THE 2018 FINANCIAL STATEMENTS**

Total all-inclusive (not including single audit) maximum price for:

2019 _____

2020 _____

2021 _____

2022 _____

Total Single Audit (if needed) maximum price for:

2019 _____

2020 _____

2021 _____

2022 _____