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FINANCE & RECORDS

MEMO

To: Mayor Hopkins and Members of City Council
From: City Audit Committee
Date: May 1, 2015
Re: Audit Committee Recommendation for Audit Services Agreement

Introduction and Background:

The City's agreement with McGladrey LLP for audit services ended with the audit for the year ended June 30, 2014. On March 12, 2015 a request for proposals (RFP) for audit services for the next five years was mailed to area certified public accounting firms and also posted on the City's website. Proposals were due by 5:00 p.m. on April 13. Three proposals were received in response to the RFP from McGladrey LLP, Eide Bailly LLP, and Bohnsack & Frommelt LLP.

General Information and Recommendation:

The City's Audit Committee includes Council Members Phil Fitzgerald, Osama Shihadeh, and Bob Bynum as well as City Administrator Gregg Mandsager and Finance Director Nancy Lueck.

The Audit Committee met on April 16th to review and discuss the proposals received as well as the matrix summary of the proposals prepared by the Finance Director. Committee members discussed the proposals and matrix and agreed that all three firms had the qualifications to perform the City's audits. There was discussion of the pricing of the three proposals, audit staffing of each firm, and hours noted by each firm for the audit. The total costs for the 5-year period were \$244,290 for McGladrey LLP, \$235,700 for Eide Bailly, LLP, and \$208,050 for Bohnsack & Frommelt LLP.

The Committee unanimously agreed to recommend the City enter into an agreement with Bohnsack & Frommelt LLP for audit services for fiscal years 2014/2015 through 2018/2019 with the stipulation that Sarah Bohnsack remain a partner in that firm for that 5-year period. In the event Sarah Bohnsack would leave the firm, the City could consider either continuing or discontinuing the services of that firm for the remaining years in the agreement.

Summary:

The Audit Committee recommends that the City enter into the attached agreement with Bohnsack & Frommelt LLP for audit services for the fiscal years from 2014/2015 through 2018/2019. The fees in the agreement are \$40,000, \$40,800, \$41,600, \$42,400 and \$43,250 respectively for the five years of the agreement.

Please include this request on the City Council agenda for the May 7, 2015 meeting.

**"I remember Muscatine for its sunsets. I have never seen any
on either side of the ocean that equaled them" — Mark Twain**

AGREEMENT BETWEEN
CITY OF MUSCATINE, IOWA
AND
BOHNSACK & FROMMELT LLC

THIS AGREEMENT is made and entered into this 7th day of May , 2015, by and between the City of Muscatine, Iowa, hereinafter called the "City" and Bohnsack & Frommelt LLC, hereinafter called the "CPA."

WHEREAS, the City wishes to obtain the services of the CPA to perform annual audits in accordance with Section 11.6, Code of Iowa, for the five years ending June 30, 2015, 2016, 2017, 2018, and 2019; and

WHEREAS, the CPA is equipped and staffed to perform the above audit; and

WHEREAS, this agreement is in the public interest in fulfilling the requirements of Chapter 11 of the Code of Iowa.

NOW, THEREFORE, BE IT UNDERSTOOD AND AGREED:

1. That the CPA will provide audit services to the City as outlined in the City's Request for Proposals and the Proposal for Audit Services submitted by the CPA. which are incorporated as part of this agreement.
2. The five year term of this agreement is subject to Sarah Bohnsack remaining a partner in Bohnsack & Frommelt LLC throughout that five year time period. In the event Sarah Bohnsack would leave the firm, the City could consider either continuing or discontinuing the services of the CPA for the remaining years in the agreement.
3. That the maximum fees for the audit will be \$40,000 for FYE June 30, 2105 and \$40,800, \$41,600, \$42,400, and \$43,250, respectively, for the next four fiscal years.

IT WITNESS THEREOF, the City and CPA have executed this AGREEMENT as of the date indicated below:

CPA	City of Muscatine
By _____	By _____
Title _____	Title _____
Date _____	Date _____

City of Muscatine, Iowa
Request for Auditing Services Proposals
For the Fiscal Years Ending June 30, 2015-2019

I. Instructions for Submission of Proposals

- A. All proposals must be submitted no later than April 13, 2015 at 5:00 p.m. to the Finance Department at the following address:

Finance Department
City of Muscatine
215 Sycamore Street
Muscatine, IA 52761

The outer envelope in which the proposals are submitted should be marked "Audit Proposal - Due April 13, 2015".

- B. Five copies of proposals are required. These will not be opened until after the final submission date and hour noted above.
- C. The proposals will be evaluated as defined in Section V., Evaluation of Proposals. The audit committee is composed of three (3) members of the City Council, the City Administrator and the Finance Director.
- D. Any questions or other inquiries regarding this audit services request for proposals should be directed to the Finance Director Nancy Lueck by email at nlueck@muscatineiowa.gov or by telephone at 563-264-1550.

II. Scope of Audit

A. Comprehensive Annual Financial Report

The services requested by this request for proposal are audits of the financial statements for the City of Muscatine for the fiscal years ending June 30, 2015 to June 30, 2019. The purpose of the examination of the statements is to express an opinion on the fairness of the presentation of the statements included in the comprehensive annual financial report of the City in conformity with generally accepted accounting principles applied on a consistent basis. The audit procedures should be sufficient in scope so as to enable the auditor to express an opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muscatine, Iowa, which collectively comprise the City's basic financial statements.

The audit is to be performed in accordance with Chapter 11 and other applicable provisions of the Code of Iowa. The audit is also to be performed in accordance with generally accepted auditing standards established by the American Institute of Certified Public Accountants (AICPA). Further, the auditor is to be familiar with those parts of the Code of Iowa that affect the operations of the City.

The examination of the City's financial statements will include all funds of the City. In the most recent report the City had the following funds:

General Fund (Major Fund)
Special Revenue Funds (2 Major; 15 Non-major)
Debt Service Fund (Major Fund)
Capital Projects Funds (1 Major; 4 Non-major)
Enterprise Funds (2 Major; 9 Non-major)
Internal Service Funds (4 Non-major)
Fiduciary Funds (3)

B. Compliance Audit of Federal and State Grant Programs

The audit is to be conducted in accordance with the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act, and the provisions of OMB Circular A-133, Audits of State and Local Governments.

In recent years, the number of major federal programs have been as follows:

FY 2010/2011	2
FY 2011/2012	2
FY 2012/2013	1
FY 2013/2014	2

Services to be provided include the special REAC federal housing program audit.

C. Other Compliance Reports

The auditor will provide the City with the following additional reports:

1. Report on internal accounting control weaknesses observed during the audit.
2. Report on fiscal and statutory compliance deficiencies noted during the audit.
3. Report on any opportunities to improve operational effectiveness and efficiency that were noted during the audit.

The above reports in addition to the opinion of the independent auditor will be included in the comprehensive annual financial report. The auditor will be required to provide the City of Muscatine a maximum of thirty (30) copies of the reports.

D. Report Preparation Assistance

The auditing firm will draft the Notes to Financial Statements and City staff will prepare financial tables and schedules for the Notes. The auditing firm will assist in the preparation of

the comprehensive annual financial report statements in the area of technical advice. The financial statements will be prepared by City staff and may be revised according to recommendations by the auditors.

The City of Muscatine will need to comply with the recently mandated GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, beginning in FY 2014/2015. Any preliminary work needed for GASB No. 68 compliance should be included in this contract period. This includes advising the City of necessary entries required for the audit report prior to fieldwork.

The City of Muscatine will also need to comply with other mandated GASB pronouncements that are effective for fiscal years during this contract period.

The City has received the Government Finance Officers Association (GFOA) Certificate of Achievement for its Comprehensive Annual Financial Report for the fiscal years ended June 30, 1993 through June 30, 2013. Notification has not yet been received from GFOA on whether the June 30, 2014 report qualified for this certificate. The City intends to submit future reports to be considered for this certificate, and the selected auditing firm will be expected to provide assistance to the City in its efforts to maintain this certificate.

E. Special Services

The auditing firm may be required to perform special services if requested by the Finance Director with the concurrence of the City Administrator and Audit Committee. Compensation for such services will be based on the same hourly rate as that of the annual audit referred to earlier in the proposal.

III. Information Requested from Proposer

A. Qualifications of the Proposer

Responses to this proposal should include resumes of the personnel to be assigned to the audit. At a minimum, detailed information should be provided for the partner in charge of the audit and the senior who will be in charge of the on-site field work. This information should include their position in your firm and provide a brief description of their educational and professional experience, with particular emphasis on experience in auditing similar governmental units. Educational and audit experience qualifications of all assistants to be assigned to the audit should also be included.

Also, the following should be included in the proposal:

1. Describe your firm's experience in auditing governmental units. Please provide a listing of those units and designate those who were audited on an accrual basis; the types and amounts of federal funds included in their audit; and list those who currently hold or have held a GFOA Certificate of Achievement. Particular interest will be given to any

experience your firm has had in assisting governmental units in obtaining or maintaining the GFOA Certificate of Achievement.

2. Describe your firm's participation in professional activities related to serving governmental clients.
3. Describe the capability of your firm to provide management advisory services to cities such as ours.
4. Describe your firm's quality control procedures that insure compliance with professional and statutory standards.
5. Describe the formal independence guidelines within your firm.
6. Describe your firm's program of continuing professional education, internally and externally.

B. Proposer's Service

Your firm's response to this request for services should include a brief description of the audit procedures to be followed. This description should be presented in a form which shall best assist the City in evaluating your firm's ability to identify and evaluate local government financial issues.

Please provide the number of professional auditing staff to be utilized in this audit engagement by employee classification as follows:

<u>Audit Staff</u> <u>Employee Classification</u>	<u>Total</u> <u>Number</u>	<u>Number of</u> <u>C.P.A.'s</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Also, describe your firm's procedures in monitoring the progress of the audit and communicating the same to the City while the audit is in progress.

A tentative schedule for performing the key phases of the audit is to be included in your firm's proposal. This schedule should be based on the City's completion of the financial statements no later than September 15 of each year.

C. Compensation

Provide the firm's all-inclusive maximum fee by fiscal year for which the requested work will be done. Please use the form located in Appendix A to provide the detail for each fiscal year for which an audit is being requested.

The audit firm will not be reimbursed for any travel, per diem, photocopying, telephone bills, or other related expenses of the audit unless special costs are incurred at the specific request of the City.

Progress payments may be submitted in the month following the performance of the work and must include detailed hours worked by staff classification and hourly rates. The initial payment may be presented for pre-year end audit work, but may not exceed 20% of the total audit cost. The City will pay progress payments not to exceed 75% of the audit fee until completion of the field work. A minimum of 10% of the fee will be held to be paid after the final report is accepted by the audit committee and approved by the City Council.

As the City allocates audit costs by fund and activity, the auditing firm will also be required to submit an allocation of audit costs prior to approval of final payment.

Special services, if requested by the City, will be compensated on the same hourly basis as the audit.

IV. Other Relevant Data

A. Overview of the City's Financial Operations

The City of Muscatine has a population of approximately 24,000. The City operates under a Mayor/Council/City Administrator form of government which provides services to its citizenry including general government, public safety, streets, community development, housing, and cultural and park facilities.

The City's accounting system is organized on a fund/activity basis. All accounting functions are centralized in the Department of Finance and Records.

The City records revenues when earned and expenditures/expenses when incurred. Encumbrances are charged against an appropriation when supplies and equipment are ordered and services when contracted. On the balance sheet, encumbrances are reflected as a reservation of fund balance.

The City's accounting records are maintained on a computerized accounting system. The financial software system prepares budgetary reports on an individual department/activity basis. Other special and summary financial reports and schedules are prepared on the City's computer system using Excel.

The City's revenues and expenditures/expenses for governmental and proprietary funds for the fiscal year ending June 30, 2014 were:

	<u>Revenues</u>	<u>Expenditures/Expenses</u>
Governmental	\$ 26,571,071	\$ 25,644,951
Proprietary	14,081,868	15,741,505

The City also has three discretely presented component units with the following operating revenues and expenses:

	<u>Revenues</u>	<u>Expenditures/Expenses</u>
Solid Waste Agency	\$ 1,417,409	\$ 1,116,333
Muscatine Convention & Visitors Bureau (CVB)	86,533	78,045
Muscatine Power & Water	107,213,679	114,953,981

Muscatine Power & Water has a December 31 year end and is audited by other auditors. The Solid Waste Agency component unit accounts for the Muscatine County Landfill which is operated by the City in accordance with the agreement with the Agency. The CVB is a separate 901(c)(6) non-profit organization which receives the majority of its funding from the City. The CVB contracts with the City for accounting services and the CVB's financial records are maintained on the City's software system.

The Enterprise Funds operated by the City include the Water Pollution Control, Transfer Station, Refuse Collection, Airport, Parking, Transit, Golf Course, Boat Harbor, Marina, Public Housing and Ambulance Funds.

The amount of bonds outstanding as of June 30, 2014 are as follows:

General Obligation	\$ 16,605,000
Tax Increment	<u>925,000</u>
Total	<u>\$ 17,530,000</u>

Further information regarding the City's financial operations is included in the Comprehensive Annual Financial Report for the year ended June 30, 2014 and the Annual Operating Budget for fiscal year 2014/2015. These documents are available upon request and are also available on the City's website (<http://www.muscatineiowa.gov/DocumentCenter/View/11547> and <http://www.muscatineiowa.gov/DocumentCenter/View/10708>, respectively).

The City pays vendors twice a month, after each regular Council meeting. The City issues approximately 450 operating checks per month. Payroll checks are issued every two weeks. The City currently employs approximately 260 full time and permanent part-time employees. Temporary and seasonal employees are also used, primarily in the summer months, which increases the number of total employees to approximately 375. The City also issues approximately 210 municipal housing checks per month which includes housing assistance payments to landlords.

B. Responsibilities of the City

The City shall provide the auditor with the following:

1. An organized, timely, and well-documented closing of the City's books, including adequate supporting documentation and reconciliation of accounts.
2. Clerical assistance in typing requests for confirmations and obtaining documents for the files.
3. Financial workpapers of the department including, but not limited to cash reconciliations, investment schedules, accounts receivable listings, detailed accounts payable, accrued expenses including outstanding sick leave and vacation, and transfers in/transfers out reconciliation.
4. The annual financial report financial statements prepared by the staff of the Finance Department who will also be responsible for the typing and reproduction of the report.
5. An available work area in City Hall.
6. An executed audit agreement authorizing the audit firm to perform audit services.

C. Responsibilities of the Auditor

Prior to the close of each fiscal year, the auditing firm will present to the City a detailed list of audit-related tasks to be completed by the City. This list shall be in accordance with the responsibilities of the City as stated herein. The list of items to be prepared by the City shall be presented in a timely fashion so the City has sufficient time to prepare this information.

The auditing firm shall be required to prepare and submit a management letter to the audit committee of the City. The purpose of the letter is to make known certain recommendations of the audit firm which, if implemented would, in the firm's opinion increase efficiency, improve management, etc. No additional compensation shall be paid for the management letter.

Working papers of the audit are to be retained by the auditor for at least five years after the expiration of this contract. These documents are to be available for examination upon request by the City or its representative during normal working hours. Photocopies are to be available, upon request, at a reasonable fee; or at the City's prerogative, the working papers be made available to be photocopied.

Prior to the submission of the completed reports, the audit firm's staff will be required to review a draft of the proposed reports and management letter with the appropriate management staff.

All required audit reports shall be completed and submitted to the audit committee within 160 days following the end of the fiscal year.

The City Administrator shall be authorized to extend such date of completion and submission to 180 days if such action seems justified.

Authorization for the audit firm to commence any audit work shall be required in the form of an engagement letter approved by the City Council. The engagement letter shall address the audit scope and the compensation for the audit as outlined in your response to the City's Request for Proposal.

D. Contractual Obligations

1. The audit firm must provide the manpower necessary to perform the audit work, as requested and authorized by the City.
2. The City may cancel its obligations to the audit firm by giving 30 days written notice. However, it is understood that the audit firm shall complete any audits in progress prior to cancellation if so directed by the City. Compensation will be based on hours worked at the stated hourly rate as detailed in Appendix A.
3. It is understood that the audit work to be done is covered in the Scope Section of the City's Request for Proposals.
4. This contract is not an exclusive one; the City reserves the right to assign similar work to other parties if the City so desires.

V. Evaluation of Proposals

Proposals will be evaluated and reviewed by the Audit Committee of the City Council. Final determination will be made by the City Council upon the Audit Committee's recommendation. The award will be made to the firm which in the opinion of the City is the best qualified. Evaluation considerations will include the following areas:

- A. Responsiveness to the proposal and clearly stating and understanding the work to be performed. Specifically, the quality of the responses to Section III of this request for proposals.
- B. The experience of your firm in performing audits of this type, qualifications of the staff, the appropriateness and experience of the assigned staff levels, education including continuing education within the last three years, position in the firm and experience in auditing governmental accounting records.
- C. Although cost is significant for an audit, it will not be the dominant factor.

The City of Muscatine reserves the right to reject any and all proposals submitted and request additional information from any and all respondents to the request for proposals.

The Audit Committee will review all proposals submitted.

Interviews with auditing firms are tentatively scheduled for the week of April 27 – May 1. Not all firms submitting proposals will necessarily be interviewed.

The Audit Committee tentatively plans to recommend approval of an auditing firm at the May 7, 2015 Regular City Council meeting.