



To: MAYOR AND COUNCIL

Agenda Item #: IV. F.

From: John Wallin, Finance Director

Action

Discussion

Date: December 4, 2012

Information

Subject: Selection MMKR As City Auditor

Action Requested:

To select Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR) as the City's Auditor for a three year term and to authorize staff to sign the Auditor Engagement Letter when delivered by the auditor and as prescribed by auditing standards.

Information / Background:

The Finance Department sent out request for proposals (RFP) for professional auditing services and received 7 replies. A pre-proposal meeting was held on October 31 to answer any questions about the RFP. One firm at the pre-proposal meeting did not respond with a proposal, otherwise all firms present at the pre-proposal meeting submitted a proposal. An Auditor Selection Committee consisting of Eric Roggeman, Bill Neuendorf, Wayne Houle, and myself was formed to review and make recommendations. Bill Neuendorf and Wayne Houle were chosen because of their experience at reviewing proposals and to give the process a review from outside the Finance Department.

The first criteria of the RFP is to determine the expertise of the audit firm and the staff that would be assigned to the City's audit. The RFP requests information on the firm's qualification and experience and a listing of similar engagements that the firm has. With the number, frequency and complexity of new governmental accounting standards and with the complexity of the City of Edina's financial statements including Liquor Stores, Golf Courses, Art Center, special assessments and others, the City requires a firm to have the expertise that comes with dealing with other cities the size and complexity of the City of Edina. Of the 7 proposals received, three of the firms handled substantially all of the cities that the City of Edina compares itself to including Brooklyn Center, Burnsville, Plymouth, Golden Valley, Bloomington, Chanhassen, St. Louis Park, Eagan, Eden Prairie, Minnetonka, Roseville, and Woodbury. Further research was done to compare the firm's similar clients and their enterprises and other special needs to that of Edina and that research again pointed to the same three firms with MMKR in front, followed by HLB Tauges Redpath Ltd. and KDV. The Audit Selection Committee selected these three for further consideration and Finance staff called references from the three finalists and representatives from each of the three firms were also interviewed by the Auditor Selection Committee.

The current audit firm of MMKR has the highest number of clients having the same complexities as the City of Edina and the lowest audit fee of the three finalists. The Auditor Selection Committee would recommend again utilizing MMKR to perform the Audit for the City of Edina. The 2011 audit cost \$38,000. The proposal from MMKR for the 2012 audit to be completed in 2013 will be \$33,400 amounting to a reduction in audit fees of \$4,600.

Below is the list of the 7 proposals received for Audit services and the dollar amount of the proposal for the three years requested in the RFP:

Smith, Schafer & Associates, Ltd	\$97,835
MMKR	\$101,400
CliftonLarsonAllen LLP	\$103,275
HLB Tautges Redpath Ltd.	\$108,000
KDV	\$109,975
Abdo, Eick & Meyers LLP	\$110,424
Baker Tilly Virchow Krause LLP	\$111,500

Attachments

City of Edina's Request for Proposals

CITY OF EDINA



REQUEST FOR PROPOSALS

PROFESSIONAL AUDITING SERVICES:

City of Edina
South Metro Public Safety Training Facility

October 18, 2012

1. Introduction

a) General Information

The City of Edina (City) is requesting proposals from qualified firms of Certified Public Accountants to audit its financial statements for the fiscal year ending December 31, 2012 with the option, upon mutual agreement, of auditing the financial statements for each of the two subsequent fiscal years. The audit of the City is to be performed in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the MN State Legal Compliance audit requirements, as well as all other Federal, State and local requirements in effect now or placed in effect during the engagement. In addition, the audit must comply with the provisions of the federal Single Audit Act of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State and Local Governments*, if such an audit is required.

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

To be considered, three copies of the proposal must be received by John Wallin, Finance Director by 4:30 p.m. on Friday, November 9, 2012. The City reserves the right to reject any or all proposals submitted. The City reserves the right, where it may serve the City'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, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City 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 (RFP), unless clearly and specifically noted in the proposal submitted.

b) Term of Engagement

A three-year contract with the City is contemplated, subject to an annual review by the City. Based on satisfactory performance, 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 three year period.

The agreement between the City and the auditing firm shall be the request for proposals and it will include any issues addressed in the RFP.

c) Subcontracting

No subcontracting will be allowed with the express prior written consent of the City.

2. NATURE OF SERVICES REQUIRED

a) Scope of Work to be Performed

The City desires the auditor to express an opinion on the fair presentation of its basic financial statements in conformity with accounting principles generally accepted in the United States of America.

For the City of Edina, the auditor is required to audit the basic financial statements, Required Supplementary Information, combining and individual fund statements. The auditor is not required to audit the statistical section of the report.

b) Auditing Standards to be Followed

To meet the requirements of this RFP, the audit for the City of Edina shall be performed in accordance with generally accepted auditing standards 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 the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State and Local Governments.

c) Reports to be Issued

i) City of Edina

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

- (1) Issue an opinion letter on the City's basic financial statements in conformity with accounting principles generally accepted in the United States of America.
- (2) Issue a report on the consideration of the City's internal control over financial reporting.
- (3) Issue a report on the City's compliance with applicable laws and regulations.
- (4) Communicate in a letter to management any reportable conditions found during the audit.
- (5) Special Considerations
- (6) If a single audit is needed, the schedule of federal financial assistance and related auditor's report, as well as the reports on the internal controls and compliance will not be included in the CAFR. These reports will be the responsibility of the auditor.

ii) South Metro Public Safety Training Facility (SMPSTF)

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

- (7) Issue an opinion letter on the basic financial statements in conformity with accounting principles generally accepted in the United States of America.
- (8) Issue a report on the consideration of the internal control over financial reporting.
- (9) Issue a report on compliance with applicable laws and regulations.
- (10) Communicate in a letter to management any reportable conditions found during the audit.
- (11) Special Considerations
- (12) If a single audit is needed, the schedule of federal financial assistance and related auditor's report, as well as the reports on the internal controls and compliance. These reports will be the responsibility of the auditor.

d) 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 the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the City or its designees.

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.

3. DESCRIPTION OF THE CITY OF EDINA

a) Background

The City, incorporated in 1888, is a fully developed first-ring suburb of Minneapolis. The City currently occupies a land area of 16 square miles and serves a population of 48,262. Currently, 98% of the City is developed with 55.5% of the land attributed to residential uses, 13.1% to roadways and 11.8% supporting the park and open spaces. The remainder of the land is used for commercial, industrial and public/semi-public uses. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

The City has operated under the Council-Manager form of government since 1955. Policy-making and legislative authority are vested in a City Council (Council) consisting of the Mayor and four other members, all elected on a non-partisan basis. Council members serve four-year terms, with two Council members elected every two years. The Mayor also serves a four-year term. The Council and Mayor are elected at large.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; water and sewer services and recreational and cultural activities and events.

Please refer to the City's financial statements for the year ended December 31, 2012 for a complete description of the governments and their financial operations. The financial statements, budget, and capital improvement plan can be found on the City's website, edinamn.gov. On the home page, click on "City Offices" then "Finance".

b) Federal Financial Assistance

A single audit in accordance with the provisions of US Office of Management and Budget (OMB) Circular A-133 was not required for 2011. At the time of this RFP, the City believes it is unlikely, but possible, a single audit will be required for the 2012

fiscal year. Proposals should include costs for these services as a separate item from the other services that are to be provided. We also ask that you provide an estimate on what these services would cost in future years in the event a single audit is required for 2013 and/or 2014.

c) Finance Department

The Finance Department of the City of Edina is headed by John Wallin, Finance Director and Treasurer and consists of 7 full-time employees and 1 part-time employee. The principal functions performed and the number of employees assigned to each are as follows:

Function	Number of Employees
Finance Director	1
Assistant Finance Director	1
Accountant	1
Accounting Associate	1
Accounts Payable	1
Utility Billing	1 FT, 1 PT
Payroll Associate	1

4. DESCRIPTION OF THE SOUTH METRO PUBLIC SAFETY TRAINING FACILITY ASSOCIATION (SMPSTF)

a) Background

SMPSTF is a joint powers organization, financed by owner contributions. The owners of SMPSTF have determined that it is in the best interest of their communities to undertake, in a cooperative fashion, the construction of a facility to be used for the training of law enforcement officers and firefighters.

SMPSTF was established in accordance with Minnesota Statutes that authorize governmental units to join together to provide services or perform duties that they could not do themselves. SMPSTF is considered a governmental unit, but is not a component unit of any of its owners. As a governmental unit, SMPSTF is exempt from federal and state income taxes.

SMPSTF is governed by a board consisting of one representative from each owner governmental unit. The owners of SMPSTF include the cities of Bloomington, Eden Prairie, Edina, and the Metropolitan Airports Commission.

In addition to owner contributions, SMPSTF is supported by providing training and renting the facility, when available, to other governments and groups. SMPSTF also opens its shooting range to the general public for a fee during designated hours.

The City of Edina Finance Department acts as the fiscal agent for the SMPSTF and provides all treasury, accounting, payroll as well as other services. Most business processes between the two entities are similar or identical. For this reason, the two entities have historically had the same auditor, although the two governing bodies reserve the right to act independently.

b) Separate fees

The SMPSTF is a legal entity separate from the City of Edina and may choose to have a different auditor. Proposals should include a cost for these services as a separate item from the other services that are to be provided. The City and the SMPSTF may choose different auditors based on the fees, qualifications, or other factors as they deem appropriate.

c) SMPSTF Scope

SMPSTF has one full-time employee who coordinates all activities and several part-time staff that perform basic facility maintenance and after-hours staffing. The annual budget is less than \$1 million dollars, and they have approximately \$250,000 in cash and investments at a given time, which is the biggest asset other than the capital assets. There is no bonded debt outstanding.

Additional information can be obtained on the website: <http://www.southmetrotraining.com/index.html>. Additional information on the finances or electronic copies of past audits can be obtained from Assistant Finance Director Eric Roggeman at (952) 826-0414 or eroggeman@edinamn.gov.

5. TIME REQUIREMENTS

a) Anticipated Proposal Calendar

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

Pre-proposal meeting	October 31, 1:00 pm
Due date for proposals	November 9, 4:30 pm
Finalist Interviews, as necessary	November 13-30
City Council Approval	December 4

b) Notification

It is anticipated that the staff recommended firm will be notified prior to December 4.

c) Schedule for the 2012 Fiscal Year Audit (this schedule is for the City of Edina, but the SMPSTF would follow a similar schedule should a different auditor be selected)

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

i) Entrance conference – December 2012

The purpose of this meeting will be to discuss prior audit issues (if applicable) and the interim work to be performed. The auditor shall provide the City at the Entrance Conference both a detailed audit plan and a list of all schedules to be prepared by the City.

If by mutual agreement it is determined this meeting would be better placed after interim work is completed, this will be an acceptable alternative.

ii) Interim Work – January 2013

The schedule for interim work will be determined upon completion of selection process. It is desirable to complete as much work as possible on an interim basis.

iii) Fieldwork – April 2013

The auditor shall complete all fieldwork by the middle of April. It is desirable that fieldwork be completed in one block of time. The auditor will schedule progress conferences as needed to discuss the status of fieldwork and any potential issues that arise.

iv) Exit Conference – April or May 2013

The purpose of this meeting will be to summarize the results of fieldwork, review significant findings, and review reports to be issued. The auditor shall have drafts of the audit reports and final recommendations to management available for review at or prior to the Exit Conference.

v) Final opinions and reports delivered to the City – May 31, 2013

vi) City of Edina auditor presentation at formal City Council meeting in June, if requested. Historically this involves a 10-15 minute presentation with visuals.

vii) SMPSTF auditor presentation to Board in July, if requested. Historically this involves a brief oral presentation covering the audit process and any issues encountered.

A similar time schedule will be developed for audits of future fiscal years if the City or SMPSTF exercises its option for additional audits.

6. REPORT PREPARATION

- a) The City of Edina will prepare and print its own financial statements. The auditor is responsible for reviewing, editing, and providing the Independent Auditor's Report.
- b) The auditor will prepare and print financial statements for the SMPSTF.

7. PROPOSAL REQUIREMENTS

a) General Requirements

i) Pre-Proposal Meeting

There will be an optional pre-proposal meeting for all interested firms on October 31, 2012. This meeting will be held at Edina City Hall, 4801 West 50th Street at 1:00 p.m. Interested firms are encouraged to submit questions in advance. The City will respond to all questions (advance and impromptu) in good faith at the meeting. Should follow-up to any questions be required after the meeting, the City will prepare and distribute written answers to interested firms on or about November 7, 2012 by request. The City reserves the right to extend the time to submit written questions after the pre-proposal meeting if necessary.

ii) Contact

Inquiries concerning the request for proposals must be made to:

John Wallin, Finance Director
(952) 826-0414
City of Edina
4801 West 50th Street
Edina, MN 55424

iii) Submission of Proposals

Four copies of each of the following materials are required to be received by John Wallin at the above address by 4:30 p.m. November 9, 2012 for a firm to be considered:

a. 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.

b. Table of Contents

c. 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 the three year period.

d. Detailed Proposal

The detailed proposal should follow the order set forth in Section 7b of this request for proposal.

- i. Executed copy of Proposer Guarantees and Warranties (attached to this request for proposal-Appendix A)
- ii. Schedule of Professional Fees and Expenses for the Audit (attached to this request for proposal-Appendix B)

b) Technical Proposal

i) General Requirements

The purpose of the Technical Proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the City in conformity with the requirements of this request for proposal. As such, the substance of the proposal will carry more weight than their form or manner of presentation. The technical Proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the request for proposal requirements.

The Technical Proposal should address all the points outlined in the request for proposal. The proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the request for proposal. While additional data may be presented, the following subjects, items Nos. ii through ix, must be included. They represent the criteria against which the proposal will be evaluated.

ii) Independence

The firm should provide an affirmative statement that it is independent of the City as defined by generally accepted auditing standards. The firm also should provide an affirmative statement that it is independent of all the component units of the City and the SMPSTF as defined by those same standards.

iii) License to Practice in Minnesota

An affirmative statement should be included that the firm and all assigned key professional staff are properly licensed to practice in Minnesota.

iv) Firm Qualifications and Experience

The Proposer should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time basis and the number and nature of the staff to be employed on a part-time basis.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.

v) Similar Engagements With Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements performed in the last three years that are similar to the engagement described in this request for proposal and are cities awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

vi) Partner, Supervisory and Staff Qualifications and Experience

Identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement. Indicate whether each such person is licensed to practice as a certified public accountant in Minnesota. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured.

Audit personnel may be changed at the discretion of the Proposer provided that replacements have substantially the same or better qualifications or experience.

vii) Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required in this request for proposal. In developing the work plan, reference should be made to such sources of information as the City's budget and related materials, organizational charts, manuals and programs, and financial and other management information systems.

Proposers should provide the following information on their approach:

- a. Proposed segmentation of the engagement
- b. Level of staff and number of hours to be assigned to each proposed segment of the engagement
- c. Sample size and the extent to which statistical sampling is to be used in the engagement
- d. Type and extent of analytical procedures to be used in the engagement
- e. Approach to be taken to gain and document an understanding of the internal control structure
- f. Approach to laws and regulations that will be subject to compliance test work
- g. Approach to be taken in drawing audit samples for purposes of tests of compliance

viii) Report Format

The proposal should include sample formats for required reports.

ix) The proposal should include an acknowledgment of the required audit schedule and a statement as to the firm's ability to meet the schedule.

c) Dollar Cost Proposal (Appendix B)

The City will not be responsible for expenses incurred in preparing and submitting the proposal. Such costs should not be included in the proposal.

i) Total all-inclusive maximum price

The dollar cost proposal should contain all pricing information relative to performing the audit engagement as described in this RFP. The total all-inclusive maximum price to be bid is to contain all direct and indirect costs including all out-of-pocket expenses.

ii) Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each

The dollar cost bid should include a schedule of professional fees and expenses, presented in the format provided in the attachment (Appendix B) that supports the total all-inclusive maximum price.

iii) Rates for Additional Professional Services

If it should become necessary for the City to request the auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the City and the firm. Any such additional work agreed to between the City and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the dollar cost bid.

iv) Manner of Payment

Progress payments will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's dollar cost bid proposal. Interim billing shall cover a period of not less than a calendar month.

8. EVALUATION PROCEDURES

a) Review Committee

A review committee of City and/or SMPSTF staff will evaluate proposals submitted.

b) Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria, which will be considered during the evaluation process:

i) Mandatory Elements

- (1) The audit firm is independent and licensed to practice in Minnesota
- (2) The firm has no conflict of interest with regard to any other work performed by the firm for the City and/or SMPSTF
- (3) The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal
- (4) The firm submits a copy of its last external quality control review report and the firm has a record of quality audit work

ii) Technical Qualifications:

(1) Expertise and Experience

- (i) The firm's past experience and performance on comparable government engagements
- (ii) The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation

(2) Audit Approach

- (i) Adequacy of proposed staffing plan for various segments of the engagement
- (ii) Adequacy of analytical procedures and sampling techniques
- (iii) Ability to meet scheduled deadlines

iii) Price

The cost of the audit for the years 2012-2014 should be calculated on the "Schedule of Professional Fees and Expenses" (Appendix B). Cost will not be the only factor the review committee will use to evaluate proposing firms.

iv) Oral Presentation

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

v) Final Selection

The City intends to select a firm based upon the recommendation of the review committee. It is anticipated that the Council will approve the recommended firm on December 4, 2012.

The SMPSTF Board only meets quarterly. The next meeting will be in late January to formally approve an auditor, although we will attempt to gain informal approval from Board Members earlier.

vi) 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.

The City and SMPSTF reserve the right without prejudice to reject any or all proposals.