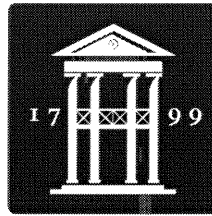


ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



ITEM #9
FINANCE
2-15-11

Dr. Ken Moore
Mayor

Eric S. Stuckey
City Administrator

H I S T O R I C
F R A N K L I N
T E N N E S S E E

February 9, 2011

TO: Members of the Budget & Finance Committee

FROM: Eric Stuckey, City Administrator
Russ Truell, ACA/CFO

RE: Request for Proposals for Auditing Services

Purpose

The purpose of this item is to report the status of our auditing contract and propose our method of obtaining auditing services in future years.

Background

Historically, the City of Franklin has maintained a relationship with an outside auditing firm for many years. Four years ago, the Budget & Finance Committee voted to make a change in our auditing firm. The rationale for that change was that the provider firm had been preparing the City's audit for over fifteen years. It is common practice in the private sector to change firms periodically, just to make certain that repetitive review does not create complacency and possible errors. Because of the Committee's wishes, we excluded the long-serving firm from the competitive process.

Four years have passed and our contract has expired with the audit just completed. The Purchasing & Finance departments are ready to issue another RFP for auditing services. We need direction from the Committee on whether or not to make it a completely open process or whether we should exclude the current vendor. Typically, if the same vendor had the winning proposal, we would insist on a new "lead" auditor to be in charge of future audits in order to avoid the complacency issue.

Financial Impact

There is the possibility that our existing vendor might be the low bidder in the RFP process. If the existing vendor is eliminated from eligibility, that could increase the cost of the audit to the City over the life of the contract.

Options

- 1) Go forward with the RFP process without limitation on bidders
- 2) Go forward with the RFP process and disqualify the existing vendor

Recommendation

This is a philosophical decision for the Committee acting as the Audit Committee. Staff always recommends the method that would result in the lowest possible cost from a qualified bidder; in this case, a qualified CPA firm.

**REQUEST FOR PROPOSAL
FINANCIAL AND COMPLIANCE AUDIT
CITY OF FRANKLIN, TENNESSEE
FEBRUARY 15, 2011**

The City of Franklin, Tennessee (hereinafter referred to as “City”) seeks proposals from interested and qualified auditors for the performance of a complete financial and compliance audit of the City in accordance with the laws and requirements of the State of Tennessee.

The City’s audit has been performed by the same firm since fiscal year 2007 (4 years) Prior to this, the audit had been performed by another audit firm for the preceding 19 years. At the time of the last RFP process, the Budget and Finance Committee, in its role as the City’s Auditor Selection Committee, encouraged an auditor rotation pursuant to a competitive selection process among qualified firms.

Scope of Work:

The audit will examine the financial statements and records of all funds, account groups and grant contracts of the City for the fiscal year ending June 30, 2011. The City will consider a renewal of this agreement for up to three (3) additional consecutive one-year terms based upon cost established at the time of the initial proposal.

General Requirements:

- 1) The audit will be conducted in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants, generally accepted government auditing standards prescribed by the comptroller General of the United States, and other requirements which may be prescribed by the Comptroller of the Treasury of the State of Tennessee. In addition, the audit will be conducted in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and other applicable Federal Management Circulars.
- 2) The audit shall conform to those standards, procedures, and reporting requirements set forth in the Audit Manual for Governmental Units and Recipients of Grant Funds published by the Comptroller of the Treasury of the State of Tennessee. Any deviation from said standards and procedures shall be approved in writing by the Comptroller of the Treasury prior to the execution of the contract to audit.
- 3) The auditor shall, as part of the written report of audit, submit to the Board of Mayor and Alderman a report containing an expression of an opinion that the financial statements are fairly stated, or qualified as to certain funds or items in the financial statements, or a disclaimer of opinion and the reasons therefore, and shall explain in every detail any unusual items or circumstances under which the auditor was unable to reach a conclusion. This report shall state that generally accepted governmental auditing standards have been followed in the audit.
- 4) The auditor shall furnish provide an electronic copy of the audit in PDF or Microsoft Word and Excel format to enable posting of the report on the City’s website. The auditor shall file copies of said audit with the Comptroller of the Treasury and with the appropriate officials of grantor agencies. If a management letter or any other reports or correspondence relating to

- findings or recommendations are issued in connection with this audit, a copy shall be filed with the Comptroller of the Treasury. Such management letters, reports, or correspondence shall be consistent with the findings published in the audit report (i.e., they shall disclose no material matters not also disclosed in the findings found in the published report of audit).
- 5) Unless other dates are agreed upon, the audit shall begin no later than September 1 and the audit report shall be completed by November 30. A draft electronic copy of the Comprehensive Annual Financial Report shall be submitted to the City no later than October 31.
 - 6) The auditor shall agree to retain working papers for no less than three (3) years. All audit working papers shall, upon request, be made available for review by the staff, representatives, agents, and legal counsel of the City or the Comptroller of the Treasury of the State of Tennessee during normal working hours while the audit is in progress and/or subsequent to the completion of the report.
 - 7) Progress payments will be made on the basis of work completed during the course of the audit.
 - 8) Should the circumstances disclosed by the audit call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the Board of Mayor and Alderman in writing of the need for additional investigation and the additional compensation required. Upon approval by the Comptroller of the Treasury, State of Tennessee, an additional agreement may be made by the Board of Mayor and Alderman and the auditor for additional investigation. The changed agreement shall not ignore the routine portion of the audit to be performed as part of the normal audit. Any evidence of fraud, such as misappropriation, misfeasance, malfeasance, embezzlement, or other illegal acts shall be reported immediately to the Comptroller of the Treasury, who shall under all circumstances have the preemptive authority to directly investigate such matters at his discretion. The auditor shall advise the Board of Mayor and Alderman at the same time as the Comptroller of the Treasury.
 - 9) The auditor in charge shall present in person the audit results to the City's Budget & Finance Committee at the conclusion of the audit. The findings and recommendations regarding compliance and internal control shall be discussed at said conference. The City officials shall have the opportunity to respond orally or in writing to the findings. Any such written responses shall be included in the audit report.
 - 10) The records of the City will not be removed from offices except with express written permission.
 - 11) All adjusting entries will be submitted to the City with sufficient explanation so they can be easily understood and properly posted to the financial records. Reversing entries must also be presented with sufficient explanation.
 - 12) The Request for Proposal (RFP) and the auditor's proposal will become part of the audit contract as prescribed by the State Comptroller.
 - 13) The auditor is expected to provide assistance as shall be necessary to enable the City to apply for the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association, including the interpretation of financial reporting requirements associated with the Certificate program.
 - 14) The auditor will also be required to assist with assessment and implementation of any revisions necessary as a result of GASB statements, etc.

General Information:

By the end of August, the City shall have closed and balanced all accounts and shall have prepared preliminary computer generated year-end financial statements for all funds for examination by the auditor. Documents required for sampling purposes shall be generated by the auditor.

Accounting records are located in the Finance Department and City Recorder’s Office at 109 Third Avenue South. The City utilizes a local-area network running Windows NT server with Windows XP and Microsoft Dynamics GP (Great Plains) software.

The operations of the City are accounted for in the general fund, nine special revenue funds, one debt service fund, one capital projects funds, one fiduciary fund (Pension Trust), and an enterprise fund (water/sewer/reclaimed water fund).

During fiscal year 2010, the City expended funds on the following grants:

• FEMA	\$709,828
• U.S. Department of Transportation	\$847,662
• U.S. Department of the Interior	\$2,478,493
• U.S. Department of Housing and Urban Development	\$352,720
• U.S. Department of Energy	\$22,062
• U.S. Department of Justice	\$5,518
• Tennessee Department of Transportation	\$479,741
• Tennessee Department of Economic & Community Development	\$225,322
• Tennessee Department of Agriculture	\$16,376
• TEMA	\$39,434

Appendix A contains additional information on relevant volumes, frequencies and amounts at June 30, 2010.

Proposal Format:

The proposal shall consist of two parts consisting of a technical proposal and a cost proposal. The cost proposal shall be in a separately sealed envelope clearly identified as to with the firm’s name. The cost proposal shall be submitted at the same time as the technical proposal.

The technical proposal shall be styled at the discretion of the submitter, however at a minimum it must address these areas:

- 1.) Breadth and depth of the firm’s governmental auditing experience, including any experience with the Government Finance Officers Association’s Certificate of Achievement program.
- 2.) Organization size and structure of the firm, including a description of the organization of the audit staff and the assigned audit team.
- 3.) Qualifications of staff to be assigned to this audit, including education, position in the firm, and years and types of experience.
- 4.) Type and level of training provided to the firm’s staff.

- 5.) A description of the proposed audit plan in general: areas that may require particular audit emphasis should be specified, as well as the extent to which the assistance of City staff will be required.
- 6.) Availability of the auditor to the agency for specialized consultation and support assistance on sensitive or highly specialized issues.
- 7.) A list of references from other local government clients denoting any which have attained the Certificate of Achievement.
- 8.) The firm should indicate in the cost proposal if it is willing to enter into a contract for one year, renewable annually for each of the next two years at the City's option and upon approval of the Comptroller of the Treasury for the State of Tennessee. Fees for subsequent years should be quoted in accordance with requirements of the cost proposal.
- 9.) Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with the City of Franklin.

Cost proposals will be evaluated separately after all technical proposals have been evaluated and scored. Both technical and cost proposals will be clearly identified as to the firm. All technical proposals will be evaluated and scored first without taking cost into consideration. After scoring all technical proposals, cost proposals will be reviewed and evaluated. The cost proposals must be submitted as follows:

- 1.) The base audit fee must be quoted either as a maximum fixed amount or rate per hour, with total estimated hours. If the latter method is used, a maximum amount must be stated. Any incidental expenses, such as travel and supplies, not included in the quoted fee must be estimated and provided. The audit fee must be stated so the amount can be easily determined. Hourly rates for services requested or required above the base audit must be quoted as well. The cost proposal shall describe the types of services that are not included in the base audit fee.
- 2.) If the firm is willing to enter into a renewal of the contract for subsequent years, the renewal rates must be clearly stated as either a percentage increase over prior year costs or as a fixed amount.
- 3.) If the firm is unwilling to renew in either of the two subsequent years, that must be clearly indicated as well.

Six (6) copies of each proposal must be submitted in a sealed envelope clearly marked on the outside "Proposal for Annual Audit Services" and received by the Purchasing Office, P. O. Box 295, Franklin, TN 37065 no later than 2:00 p.m., -----, February -----. The proposals will be opened at 2:00 p.m. on Wednesday, -----in the Boardroom of City Hall at 109 Third Avenue South.

Selection Process:

Proposals will be reviewed and evaluated by a selection committee. At any point in the selection process, the proposer may be requested to submit information supplemental to its proposal. If deemed necessary, personal interviews will be conducted with representatives of some or all of the proposers. Criteria to be used in evaluating the proposals will include the following:

- 1.) Qualifications and capabilities of the firm, its coordinating office and its management as measured by the number of firm employees and years in business and type of experience. (15% of total score)
- 2.) Makeup and qualifications of audit team as evidenced by the number of members assigned to the audit team, their educational background, their experience with the firm, and their experience in governmental auditing. (15% of total score)
- 3.) Prior experience with local government audits and GFOA Certificate of Achievement programs, GASB 34 and references from past governmental audits. The evaluating team will consider number of governmental audits of like size, number of GFOA awards received by governmental units on which the firm provided audit services and prior GASB 34 experience in implementation, consulting, or training. (30% of total score)
- 4.) Understanding of the City's audit needs as indicated by a thorough and complete technical proposal clearly addressing in sufficient detail each requested item. (15% of total score)
- 5.) Costs both in the initial year and subsequent renewals to include consideration of the type and quantity of services provided in the base audit number. (25% of total score)

The Auditor Selection Committee will recommend an audit firm for approval by the Board of Mayor and Alderman. The Board's approval will authorize the Mayor to execute a contract between the City and the audit firm. A contract will be awarded for only the 2010-2011 fiscal year audit. Renewal of the contract for the subsequent three (3) fiscal years will be at the option of the Auditor Selection Committee.

The City reserves the right to reject any or all proposals, to waive technicalities or formalities and to accept any proposal deemed to be in the best interest of the City of Franklin. Selection of an auditor and the contract to audit shall be subject to the approval of the Comptroller of the Treasury for the State of Tennessee.

General Terms and Conditions:

The general terms and conditions for purchases of goods and services for the City of Franklin may be found in Appendix B and shall be applicable to this solicitation.

Appendix A
CITY OF FRANKLIN, TENNESSEE
Volumes, Frequencies, Amounts
As of June 30, 2010

<i>Population:</i>	56,219 estimated
<i>Appraised Value of Property:</i>	\$10,225,661,696
<i>Assessed Value of Property:</i>	\$2,689,334,028
<i>General Obligation Debt:</i>	\$122,295,000

Accounts Payable and Payroll:

Number of Payable Checks in FY 2010	4,303
Number of Payable ACH's in FY 2010	959
Number of Employees (Authorized for 2011)	687 (full-time)
Frequency of Payroll	Bi-Weekly
Number of Payroll Checks in FY 2010	1,709
Number of Payroll ACH in FY 2010	16,590

Receipts:

Property Tax Receipts in FY 2010	26,925
Miscellaneous Receipts in FY 2010	14,048
Business Tax Receipts in FY 2010	3,706
Court Receipts in FY 2010	26,260

Utilities:

Number of Water Customers	16,719
Number of Sewer Customers	20,062
Reclaimed Water Customers	38
Utility Billing Receipts in FY 2010	256,949
Proprietary Fund Debt	\$52,299,516

Fiscal Year 2010

Fund	Beg FB	Rev	Exp	Sources(Uses)	End FB
1. General	\$28,762,793	46,182,200	45,980,942	(3,059,678)	\$25,914,373
2. Street Aid & Trans	31,817	1,614,263	1,936,095	290,015	-0-
3. Sanitation	-0-	4,866,341	6,586,076	1,719,735	-0-
4. Road Impact Fund	1,281,954	329,423	109,973	(2,023,514)	(522,110)
5. Facilities Tax	(3,758,438)	954,837	235,616	-0-	(3,039,217)
6. Stormwater Mgmt	4,754,751	2,129,259	1,476,260	-0-	5,407,750
7. Drug	335,343	94,489	176,603	-0-	253,229
8. Hotel/Motel Tax	2,112,428	1,622,633	430,181	(1,408,884)	1,895,996
9. Transit System	(60,643)	788,514	1,185,713	457,842	-0-
10. CDBG	(19,131)	345,832	326,694	19,131	19,138
11. Debt Service	-0-	2,852,919	6,338,082	3,950,353	465,190
12. Capital Projects	(11,992,169)	684,206	21,458,639	45,458,255	12,691,653
Fund	B Net Assets	Oper Rev	Oper Exp	Non-Oper	End Net Assets
13. Water/Sewer	120,663,479	16,260,341	17,887,917	2,351,848	121,387,751
Fund	B Net Assets	Additions	Deductions		End Net Assets
14. Pension Trust	28,848,293	14,970,142	1,836,796		41,981,639