



# City of Grand Island

Tuesday, June 12, 2018

Council Session

## Item I-2

**#2018-167 - Consideration of Approving Agreement with BKD,  
LLP for Audit Services**

Staff Contact: William Clingman, Interim Finance Director

# **Council Agenda Memo**

**From:** William Clingman, Interim Finance Director

**Meeting:** June 12, 2018

**Subject:** Approving Agreement with BKD, LLP for Audit Services

**Presenter(s):** William Clingman, Interim Finance Director

## **Background**

The firm of Almquist, Maltzahn, Galloway and Luth (AMGL) has been the external auditor for all funds within the City of Grand Island since the audit year of 2008. AMGL also audited the City, with the exception of the Water and Electric funds, for the 2006 and 2007 audit years. The firm of BKD, LLP audited the Electric and Water fund financials for the audit years 2003 to 2007. The current agreement with AMGL ended with the 2017 audit year. Because of this, on March 23, 2018, the City advertised an RFP for Audit Services. On April 25, 2018, this RFP closed and three firms submitted proposals. The evaluation committee met with two finalists for in person presentations.

## **Discussion**

The evaluation committee is recommending the selection of the firm BKD, LLP (BKD) as the external auditors for all City funds for the audit years 2018 to 2020, with the option of continuing with BKD for the 2021 and 2022 audit years. Yearly pricing is shown below and included in their attached engagement letter. The pricing also includes the CRA. In the past, the CRA was provided with a separate report, but after discussions with the CRA board, the CRA audit will be combined with the overall City audit. The primary change will be the inclusion of what was a separate CRA MD&A section in the total City audit report. This will also provide the CRA with a savings in how much they pay for their audit to be performed.

While BKD was the lowest priced provider, there were two other primary reason they are being recommended for approval.

- BKD utilizes technology that will improve the completion of their audit work prior to and while performing the City audit.
- BKD will offer a fresh perspective for the Finance department and how we approach accounting for City finances. BKD staff will also help fully evaluate all the prepared by client work papers that City Finance Department staff currently

completes on a yearly basis. This will optimize the information we provide to our auditors, no matter who they are, as well as save time for department staff by eliminating any information that is no longer used or can be derived elsewhere in the process.

#### SUMARY OF PRICING

	2018	2019	2020	2021	2022	5 yr. Total
BKD	\$ 65,500	\$ 67,350	\$ 69,280	\$ 71,260	\$ 73,250	\$ 346,640

#### Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

#### Recommendation

City Administration recommends that the City Council approve the resolution to establish BKD, LLP as the City audit firm beginning with the 2018 audit year.

#### Sample Motion

Move to approve the resolution to establish BKD, LLP of Lincoln, Nebraska as the City audit firm beginning with the 2018 audit year in an amount of \$65,500.00.

June 4, 2018

Mr. William Clingman, Interim Finance Director  
City of Grand Island  
100 East First Street  
Grand Island, Nebraska 68801

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to the City of Grand Island, Nebraska.

**ENGAGEMENT OBJECTIVES AND SCOPE**

We will audit the basic financial statements of the City of Grand Island, Nebraska as of and for the year ended September 30, 2018, and the related notes to the financial statements.

Our audit will be conducted with the objectives of:

- ✓ Expressing an opinion on the financial statements.
- ✓ Issuing a report on your compliance based on the audit of your financial statements.
- ✓ Issuing a report on your internal control over financial reporting based on the audit of your financial statements.
- ✓ Expressing an opinion on your compliance, in all material respects, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that are applicable to each of your major federal award programs.
- ✓ Issuing a report on your internal control over compliance based on the audit of your compliance with the types of compliance requirements that are applicable to each of your major federal award programs.
- ✓ Issuing a report on your schedule of expenditures of federal awards.

## **OUR RESPONSIBILITIES**

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Title 2 U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards require that we plan and perform:

- ✓ The audit of the financial statements to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error.
- ✓ The audit of compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each major federal award program to obtain reasonable rather than absolute assurance about whether noncompliance having a direct and material effect on a major federal award program occurred.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance having a direct and material effect may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls, or management may override the system.

We are available to perform additional procedures with regard to fraud detection and prevention at your request, subject to completion of our normal engagement acceptance procedures. The actual terms and fees of such an engagement would be documented in a separate letter to be signed by you and BKD.

Amy Shreck, director, will oversee and coordinate the engagement. Chris Lindner, partner is responsible for supervising the engagement team and authorizing the signing of the report or reports.

We will issue a written report upon completion of our audit of the City of Grand Island, Nebraska's financial statements. Our report will be addressed to the City Council of the City of Grand Island, Nebraska. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis of matter or other matter paragraph(s), or withdraw from the engagement. If we discover conditions that may prohibit us from issuing a standard report, we will notify you as well. In such circumstances, further arrangements may be necessary to continue our engagement.

We will also express an opinion on whether the combining financial statements and the schedule of expenditures of federal awards (“supplementary information”) is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **YOUR RESPONSIBILITIES**

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- c. for identifying and ensuring compliance with the laws, regulations, contracts and grants applicable to your activities, including your federal award programs; and
- d. to provide us with
  - i. access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - ii. additional information that we may request from management for the purpose of the audit; and
  - iii. unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management written confirmation acknowledging certain responsibilities outlined in this engagement letter and confirming:

- The availability of this information
- Certain representations made during the audits for all periods presented
- The effects of any uncorrected misstatements, if any, resulting from errors or fraud aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

The results of our tests of compliance and internal control over financial reporting performed in connection with our audit of the financial statements may not fully meet the reasonable needs of report users. Management is responsible for obtaining audits, examinations, agreed-upon procedures or other engagements that satisfy relevant legal, regulatory or contractual requirements or fully meet other reasonable user needs.

With regard to supplementary information:

- Management is responsible for its preparation in accordance with applicable criteria
- Management will provide certain written representations regarding the supplementary information at the conclusion of our engagement
- Management will include our report on this supplementary information in any document that contains this supplementary information and indicates we have reported on the supplementary information
- Management will make the supplementary information readily available to intended users if it is not presented with the audited financial statements

### **OTHER SERVICES**

We will provide you with the following nonattest services:

- We will prepare a draft of the financial statements and related notes, for your review and approval prior to the completion of our engagement. We will not make management decisions, however, regarding the form and content of the financial statements. Management is responsible for the fair presentation of the financial statements and related notes.

In addition, we may perform other services for you not covered by this engagement letter. You agree to assume full responsibility for the substantive outcomes of the services described above and for any other services that we may provide, including any findings that may result. You also acknowledge that those services are adequate for your purposes and that you will establish and monitor the performance of those services to ensure that they meet management's objectives. Any and all decisions involving management responsibilities related to those services will be made by you, and you accept full responsibility for such decisions. We understand that you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services, and that you will have determined this individual is qualified to conduct such oversight.

### **ENGAGEMENT FEES**

In accordance with our 2018 audit proposal, our fees for the 2018 audit will be \$65,500, which includes travel costs and an administrative fee of 4% to cover items such as copies, postage, and other delivery charges, supplies, technology-related costs such as computer processing, software licensing, research and library databases and similar expense items.

Our above fee includes testing for three major federal programs, under the *OMB Compliance Supplement*. If additional federal programs require testing as major programs, our fees for this testing would be defined by the program requiring the audit. We have estimated that our pricing for additional major programs will be billed at \$6,500 per program. We will discuss any such major program determination with you prior to us beginning testing on additional major programs.

Our estimate of fees does not include any time that may be required to address a restatement of the previously audited financial statements. Accordingly, any such work will be billed based on the standard hourly rates included in our 2018 audit proposal.

Our fees are based upon the understanding that your personnel will be available to assist us. Assistance from your personnel is expected to include:

- Preparing audit schedules to support all significant balance sheet and certain other accounts
- Responding to auditor inquiries
- Preparing confirmation and other letters
- Pulling selected invoices and other documents from files
- Helping to resolve any differences or exceptions noted

We will provide you with a detailed list of assistance and schedules required and the date such assistance and schedules are to be provided before the audit begins. All schedules should be provided in electronic form unless indicated otherwise.

Our timely completion of the audit depends on your timely and accurate schedule and analyses preparation and on the availability of your personnel to provide other assistance. If there are inaccuracies or delays in preparing this material, or if we experience other assistance difficulties that add a significant amount of time to our work, our fees will increase.

Our pricing for this engagement and our fee structure are based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement, and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10% per annum.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, consent letters and related procedures for the use of our reports in offering documents, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

Our fees may also increase if our duties or responsibilities are increased by rulemaking of any regulatory body or any additional new accounting or auditing standards.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

## **OTHER ENGAGEMENT MATTERS AND LIMITATIONS**

BKD is not acting as your municipal advisor under Section 15B of the *Securities Exchange Act of 1934*, as amended. As such, BKD is not recommending any action to you and does not owe you a fiduciary duty with respect to any information or communications regarding municipal financial products or the issuance of municipal securities. You should discuss such information or communications with any and all internal or external advisors and experts you deem appropriate before acting on any such information or material provided by BKD.

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree that we have no legal responsibility to you in the event we provide such documents or information.



You agree to indemnify and hold harmless BKD and its personnel from any claims, liabilities, costs and expenses relating to our services under this agreement attributable to false or incomplete representations by management, except to the extent determined to have resulted from the intentional or deliberate misconduct of BKD personnel.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Either of us may terminate these services at any time. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date, as well as an administrative fee of 4% to cover items such as copies, postage and other delivery charges, supplies, technology-related costs such as computer processing, software licensing, research and library databases and similar expense items.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

This engagement letter represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

We may from time to time utilize third-party service providers, *e.g.*, domestic software processors or legal counsel, or disclose confidential information about you to third-party service providers in serving your account. We remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information. In the event we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

We will, at our discretion or upon your request, deliver financial or other confidential information to you electronically via email or other mechanism. You recognize and accept the risk involved, particularly in email delivery as the Internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

You agree you will not modify these documents for internal use or for distribution to third parties. You also understand that we may on occasion send you documents marked as draft and understand that those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

If you intend to include these financial statements and our report in an offering document at some future date, you agree to seek our permission to do so at that time. You agree to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Any time you intend to publish or otherwise reproduce these financial statements and our report and make reference to our firm name in any manner in connection therewith, you agree to provide us with printers' proofs or masters for our review and approval before printing or other reproduction. You will also provide us with a copy of the final reproduced material for our approval before it is distributed. Our fees for such services are in addition to those discussed elsewhere in this letter.

You agree to notify us if you desire to place these financial statements or our report thereon along with other information, such as a report by management or those charged with governance on operations, financial summaries or highlights, financial ratios, etc., on an electronic site. You recognize that we have no responsibility as auditors to review information contained in electronic sites.

Any time you intend to reference our firm name in any manner in any published materials, including on an electronic site, you agree to provide us with draft materials for our review and approval before publishing or posting such information.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our most recent peer review report accompanies this letter.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. If the signed copy you return to us is in electronic form, you agree that such copy shall be legally treated as a "duplicate original" of this agreement.

*BKD, LLP*

Acknowledged and agreed to on behalf of

**CITY OF GRAND ISLAND, NEBRASKA**

BY \_\_\_\_\_

DATE \_\_\_\_\_

## Report on the Firm's System of Quality Control

To the Partners of  
BKD, LLP  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of BKD, LLP (the firm) applicable to engagements not subject to PCAOB inspection in effect for the year ended May 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

### Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under Single Audit Act; audits of employee benefit plans, audits performed under FDICIA, an audit of carrying broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As part of our peer review, we considered reviews by regulatory entities as communicated to the firm, if applicable, in determining the nature and extent of our procedures.

### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of BKD, LLP applicable to engagements not subject to PCAOB inspection in effect for the year ended May 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. BKD, LLP has received a peer review rating of *pass*.



Baton Rouge, Louisiana  
October 6, 2017



# It's a pleasure to meet you.

BKD is a national CPA and advisory firm that can help you reach your goals. Our trusted advisors offer strong expertise in multiple industries for clients across the country and beyond.

## A mission that matters.

BKD will always strive for excellence in providing services to clients, create rewarding career opportunities and maintain sound professional, business and financial standards.

## BKD in a nutshell.

**CLIENTS:** Closely held businesses, publicly traded companies, governmental entities, not-for-profit organizations and individuals

**TOTAL PERSONNEL:** Approximately 2,650

**FY 2017 REVENUES:** \$564 million

**FOUNDED:** 1923

## What makes a trusted advisor?

A trusted advisor is as much about character as it is expertise. These are the values that define us:

- A passion for helping, learning and improving
- Respect for each other and those we serve
- Integrity to do the right thing—no matter what
- Discipline to get it right the first time
- A no-holds-barred standard of excellence

**BKD**  
CPAs & Advisors

[bkd.com](http://bkd.com)

# BKD GOVERNMENT INDUSTRY EXPERTISE

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## EXPERIENCED PROFESSIONALS



***Chris J. Lindner, CPA, CGFM – Partner***

Chris, a member of BKD National Governmental Group, has more than 12 years of experience in public accounting, specializing in providing audit and consulting services to commercial, governmental and utility entities. He serves on the BKD Center of Excellence for Government, an internal committee of governmental leaders across the firm who discuss a variety of issues important to the public sector.

He is a member of the American Institute of CPAs and Nebraska Society of Certified Public Accountants where he chairs the State & Local Governmental Accounting & Auditing Committee. He also is involved with Leadership Lincoln, League of Nebraska Municipalities, Government Finance Officers Association (GFOA) and American Public Power Association (APPA).

Chris is a *summa cum laude* graduate of Peru State College, Nebraska, with a B.S. degree in business administration.



***Amy K. Shreck, CPA – Director***

Amy is a member of BKD National Governmental Group and has more than 12 years of experience working with governmental entities, not-for-profits and higher education institutions. She serves on the BKD Center of Excellence for Government, an internal committee of governmental leaders across the firm who discuss a variety of issues important to the public sector.

She recently completed a two-year term as a practice fellow with the Governmental Accounting Standards Board (GASB) at its headquarters, where she helped to formulate standards and assisted with technical inquiries. Amy's experience at GASB allows her to help clients better understand GASB standards and the thought process behind the standards.

Amy is a graduate with highest distinction of University of Nebraska-Lincoln with a B.S. degree in business administration and an M.P.A. degree.

## LOCAL EXPERTISE

In addition to our national experience and resources, BKD's Nebraska practice serves has a local team of advisors dedicated to serving clients in the government industry. Members of our local government team meet on a monthly basis to discuss issues impacting this highly-specialized industry and attend annual government training and continuing professional education courses. In addition, our Nebraska government team hosts complimentary seminars specific to the governmental industry.

Our Nebraska government team serves a variety of clients across the state, including:

Airport Authority of the City of Lincoln  
City of Beatrice  
City of Bellevue  
City of Fremont  
City of LaVista

City of Lincoln  
City of Nebraska City  
City of Omaha  
City of Ralston  
Douglas County

Lincoln Electric System  
NMPP Energy  
Norris Public Power District  
Public Power Generation Agency

## THOUGHT LEADERSHIP

Our advisors are serious about reinforcing their positions as thought leaders in the governmental industry. To help keep our clients informed about emerging issues, as well as changes in regulations and accounting and tax methods, we provide award-winning BKD Thoughtware webinars, seminars, podcasts and articles. Many of these are eligible for continuing professional education (CPE) credit.



Stacy Nonhof, Purchasing Agent

*Working Together for a  
Better Tomorrow, Today*

**REQUEST FOR PROPOSAL  
FOR  
AUDIT SERVICES**

**RFP DUE DATE:** April 26, 2018 at 4:00 p.m.

**DEPARTMENT:** Finance

**PUBLICATION DATE:** March 23, 2018

**NO. POTENTIAL BIDDERS:** 2

**SUMMARY OF PROPOSALS RECEIVED**

**Almquist, Maltzahn, Galloway & Luth**  
Grand Island, NE

**BKD**  
Lincoln, NE

**RSM**  
Kansas City, MO

cc: Marlan Ferguson, City Administrator  
Stacy Nonhof, Purchasing Agent

William Clingman, Interim Finance Director

**P2043**

RESOLUTION 2018-167

WHEREAS, the Finance Department oversees the work conducted by the external auditors; and

WHEREAS, the current contract for audit services ended with the 2017 audit; and

WHEREAS, the City of Grand Island issued a request for proposals for audit services on March 23, 2018; and

WHEREAS, the selected audit firm is BKD, LLP of Lincoln, Nebraska; and

WHEREAS, the contract will run from 2018 to 2020, with the option to extend into 2021 and 2022; and

WHEREAS, the proposed agreement has been reviewed and approved by the City Attorney's office.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that BKD, LLP of Lincoln, Nebraska is approved as the external auditors for the years of 2018 to 2020, with the option to extend until 2022 and at a total five year cost of \$346,640.00.

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Adopted by the City Council of the City of Grand Island, Nebraska, June 12, 2018.

\_\_\_\_\_  
Jeremy L. Jensen, Mayor

Attest:

\_\_\_\_\_  
RaNae Edwards, City Clerk

Approved as to Form	☐ _____
June 8, 2018	☐ City Attorney