

ITEM #: 28
DATE: 04-08-25
DEPT: FIN

COUNCIL ACTION FORM

SUBJECT: AWARD OF CONTRACT FOR PROFESSIONAL AUDITING SERVICES

BACKGROUND:

Eide Bailly, LLP has provided financial audit services for the City since the 2002/03 fiscal year. The City entered into a one-year agreement with Eide Bailly, LLP on June 27, 2023, to complete the audit for FY 2022/23, with the option of auditing the financial statements for each of the four subsequent fiscal years.

The firm successfully produced the required annual comprehensive financial report (ACFR) in the initial year of the contract. The agreement was renewed for FY 2023/24 and performance was again acceptable. **Given the current market for auditing services, City staff is seeking approval to exercise the option to enter into a second renewal agreement with Eide Bailly, LLP for auditing services for the FY 2024/25 ACFR with a contracted cost of \$80,000.**

The following is the proposed schedule of fees for auditing services throughout the duration of the agreement, should the City choose to exercise all options:

Year 1	\$70,000
Year 2	\$75,000
Year 3	\$80,000
Year 4	\$86,000
Year 5	<u>\$92,000</u>
Total Cost	\$403,000

Eide Bailly, LLP was initially selected based on the following qualifications:

1. The Dubuque office of Eide Bailly, LLP, which will be responsible for the City's audit, currently performs audits of over 20 Iowa government entities, including six of the largest 16 cities in the state. Of these, 14 are subject to Uniform Guidance, and eight prepare Annual Comprehensive Financial Reports.
2. Eide Bailly, LLP currently audits at least seven Iowa cities/counties that receive the GFOA Certificate of Achievement for Excellence in Financial Reporting. In addition, the engagement partner and manager assigned to the City's audit are members of the GFOA Special Review Committee, which is a group of individuals with public sector experience who evaluate ACFRs submitted for the GFOA Certificate of Achievement for Excellence in Financial Reporting.
3. City personnel have been satisfied with the work Eide Bailly, LLP has performed for the City for the past 22 years. Eide Bailly, LLP staff is knowledgeable and meets all agreed-upon deadlines. The staff retention rate at Eide Bailly, LLP is high in relation to other public accounting firms, resulting in continuity of staff assigned to the audit. This is important for the efficiency of the audit.

Best practices provided by the Government Finance Officers Association (GFOA) for audit services recommend that governmental entities enter into multi-year agreements of at least five years in duration, which allows for greater continuity and helps to minimize the potential for disruption in connection with the independent audit. Multi-year agreements also help auditors spread start-up costs over several years rather than over a single year.

City staff also considered the issue of auditor rotation, which is a topic of concern among accounting and investment professionals especially for audits of publicly traded companies. Following the Sarbanes-Oxley Act of 2002, the U.S. General Accounting Office (GAO) conducted a study of the potential effects of mandatory auditor rotation for publicly-traded companies, which concluded that mandatory auditor rotation may not be the most efficient way to strengthen auditor independence and improve audit quality. **Thus, auditor rotation is not required. As an alternative, Eide Bailly, LLP has changed the audit partners that perform final reviews, allowing for a fresh perspective.**

The City's Accounting budget for FY 2025/26 contains \$80,000 for Outside Professional Services.

ALTERNATIVES:

1. Approve year three of the agreement with Eide Bailly, LLP, Dubuque, IA, to professionally audit the City's financial statements for the fiscal year ending June 30, 2025.
2. Direct staff to seek proposals for auditing services from other companies.
3. Reject all proposals and refer back to the City staff.

CITY MANAGER'S RECOMMENDED ACTION:

In 2023, City staff performed a thorough evaluation of qualified accounting firms to provide professional auditing services for the City. **Eide Bailly, LLP is highly qualified in auditing comparable cities in Iowa and has provided a favorable proposal. The City has been satisfied with the performance of Eide Bailly, LLP and believes it will continue to perform to meet the standards of the City. Additionally, should the City seek additional proposals, staff believes current market conditions will result in an increased cost of services.** Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, as described above.