



Memorandum

**TO: Board of Administration for the
Federated City Employees'
Retirement System**

FROM: Benjie Chua Foy

**SUBJECT: Grant Thornton, LLP's
Audit Agreement**

DATE: April 12, 2022

Approved

Date

04/12/22

RECOMMENDATION

Discussion and action to authorize the CEO to negotiate and execute the second amendment to an agreement between the Board of Administration for the Federated City Employees' Retirement System and Grant Thornton, LLP ("GT") for audit services ending June 30, 2022 for an additional \$50,000 to increase the maximum contract amount to \$550,000.

BACKGROUND

GT was selected as the Plan's external auditor as part of the City and its related entities' Request for Proposal ("RFP") for audit services in May 2016. The process was headed by the City Auditor's Office. All stakeholders, including the Office of Retirement Services ("ORS"), served on the Auditor Selection Committee that developed the RFP and reviewed the responses. The Board entered into a five-year agreement with GT for an amount not-to-exceed \$436,985 for a potential seven-year term subject to the annual appropriation of funds by the Board of Administration. The contract was amended to add \$63,015 and increased the maximum contract amount to \$500,000 due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. In January 2018, the City decided to terminate their agreements with GT who conducted their audits for the past two fiscal years. After some discussion, ORS decided to continue their relationship with GT in order to maintain independence and avoid a conflict of interest from the City's external financial auditors. In addition, the Board approved to pay an additional \$13,800 per Plan per year for the additional work that GT would incur as a result of having different auditors between the City and ORS, starting with the fiscal year ending June 30, 2019 audit. In October 2020, ORS switched custodian banks from State Street to BNY Mellon. In March 2021, the Board approved to exercise both of the one-year extension options for fiscal years ending June 30, 2021 and 2022. In October 2021, GT presented additional fees that were incurred as a result of extensive work they performed due to the change in custodian bank. ORS was able to reduce the fees to \$10,000, which the audit committee approved.

ANALYSIS

Below are the total costs for the entire contract including the two one-year extensions.

Fiscal Year Audits	Agreement Term	Original Amount	GASB 74 Costs	Add 'l Costs due to different auditors	Add 'l Costs due to New Bank	Total Fees
2016	May 1, 2016 – April 30, 2017	\$59,150	0	0	0	\$59,150
2017	May 1, 2017 – April 30, 2018	59,150	3,082	0	0	62,232
2018	May 1, 2018 – April 30, 2019	60,629	3,159	13,800	0	77,588
2019	May 1, 2019 – April 30, 2020	62,144	3,238	13,800	0	79,182
2020	May 1, 2020 – April 30, 2021	63,698	3,319	13,800	0	80,817
2021	May 1, 2021 – April 30, 2022 (1 st option)	65,291	3,402	13,800	10,000	92,493
2022	May 1, 2022 – April 30, 2023 (2 nd option)	66,923	3,487	13,800	0	84,210
Total Costs for the Entire Term of the Agreement		\$436,985	\$19,687	\$69,000	\$10,000	\$535,672
Original Contract and 1st Amendment Total						\$500,000
Shortage due to Additional Costs						\$35,672

These amounts were agreed upon with the auditors, either in the RFP and contract, or in 2018 when the decision to continue with GT was made by the Board. As a result of the additional costs incurred from the City changing auditors, as well as the change in custodian bank, the total costs will be in excess of the maximum contract amount of \$500,000.

CONCLUSION

Staff recommends increasing the maximum contract amount by \$50,000 to \$550,000 in order to be able to pay the last year of audit services that will be provided by GT. Staff will then begin the RFP process for new external auditors in December.

Benjie Chua Foy
Benjie Chua Foy, Accounting Division Manager