



Memorandum

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

FROM: Benjie Chua Foy

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

DATE: March 9, 2021

Approved

Date 03/09/21

RECOMMENDATION

Discussion and action for the Board to approve exercising both two one-year extension options for audit services with Grant Thornton, LLP ("GT") for fiscal years ending June 30, 2021 and 2022 and increase the maximum contract amount to \$530,000.

BACKGROUND

GT was selected as the System's external auditor as part of the City and its related entities' Request for Proposal ("RFP") for auditing 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.

ANALYSIS

The current engagement team from GT has been auditing the System for the past several years, including the manager who has been on the account for the last three audits and the partner who has been on the account for the last four audits. In addition, some of the field auditors have been on the account for several years as well. With this kind of continuation, the audit is more efficient because Staff does not have to explain things repeatedly. In addition, Staff is happy with their services and the quality and performance of their audits.

Below are the total costs for the entire contract should the Board approve the two one-year extensions.

Fiscal Year Audits	Agreement Term	Original Amount	GASB 74 Costs	Additional Costs	Total Fees
2016	May 1, 2016 – April 30, 2017	\$59,150	0	0	\$59,150
2017	May 1, 2017 – April 30, 2018	59,150	3,082	0	62,232
2018	May 1, 2018 – April 30, 2019	60,629	3,159	13,800	77,588
2019	May 1, 2019 – April 30, 2020	62,144	3,238	13,800	79,182
2020	May 1, 2020 – April 30, 2021	63,698	3,319	13,800	80,817
2021	May 1, 2021 – April 30, 2022 (1 st option)	65,291	3,402	13,800	82,493
2022	May 1, 2022 – April 30, 2023 (2 nd option)	66,923	3,487	13,800	84,210
Total Maximum Compensation for Current Contract		\$436,985	\$19,687	\$69,000	\$525,672

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. If the Board chooses to exercise the two one-year options, then an additional \$30,000 will need to be added to the contract to increase the maximum amount to \$530,000.

CONCLUSION

Given the quality and performance of GT's audit services, Staff recommends exercising both of the one-year extension options for fiscal years ending June 30, 2021 and 2022 with GT for auditing services and to add \$30,000 to the contract to increase the maximum amount to \$530,000.

Benjie Chua Foy

Benjie Chua Foy, Accounting Division Manager