

**TAB 5**

## **POINT PAPER**

### **APPROVAL OF CPA ASSOCIATES ENGAGEMENT LETTER FOR AUDIT SERVICES**

#### **Problem:**

The Engagement Letter requires approval and the Mayor's signature.

#### **Background:**

On July 20, 2009 the City Commission approved the selection of CPA Associates to provide audit services to the city for the Fiscal Years 2009, 2010 and 2011.

The Engagement Letter is completed annually and describes the scope of services and charges for that specific year. This Engagement Letter is for audit services for Fiscal Year 2009.

#### **Recommendation:**

1. Do Nothing
2. Approve the Mayor to execute the Engagement Letter Agreement with CPA Associates for Fiscal Year 2009.

**Budget Impact:** All charges will be billed during FY2010. The FY2010 includes sufficient budget for the audit charges. The account number 001 515 3201, Audit Services includes a budget of \$54,500.



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July 27, 2009

The Honorable Mayor and City Commission  
City of Palmetto, Florida  
516 8th Avenue West  
Palmetto, Florida 34221

This letter is to explain our understanding of the arrangements for the services we are to perform for the City of Palmetto, Florida (the City) for the year ending September 30, 2009. We ask that you either confirm or amend this understanding.

### **Audit Services**

We will perform an audit of the City's governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and aggregate remaining fund information as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements. We understand that these financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the City Commission are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We will also perform the audit of the City as of September 30, 2009, so as to satisfy the audit requirements imposed by the Federal and State Single Audit Acts, U. S. Office of Management and Budget OMB Circular A-133, and Florida Statute 215.97, as applicable.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Federal and State Single Audit Acts, OMB Circular A-133 and Federal and State Compliance Supplements; and Chapter 10.550 Rules of the Auditor General. Those standards, circular, supplements, and rules require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

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An audit of financial statements also includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management and the City Commission any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the City Commission: (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the entity's accounting policies and financial statements.

In addition to our report on the City's financial statements, we will also issue the following reports or types of reports:

- A report on the fairness of the presentation of the City's schedule of expenditures of Federal and State awards for the year ending September 30, 2009, as applicable.
- Reports on internal control related to the financial statements and major programs, as applicable. These reports will describe the scope of testing of internal control and the results of our tests of internal control.
- Reports on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a direct and material effect on each major program, as applicable.
- A schedule of findings and questioned costs, as applicable.
- A management letter as required by Section 218.39(4), *Florida Statutes* and defined in Chapter 10.550, Rules of the Auditor General.

The funds maintained by the City and that are to be included as part of our audit are similar to the prior year.

The Federal and State financial assistance programs in which the City participates and that are to be included as part of the Single Audit will be identified during interim fieldwork.

The component units whose financial statements you have told us are to be included as part of the City of Palmetto, Florida's basic financial statements are the same as the prior year.

Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circular identified above. Our reports on compliance will address material errors, fraud, abuse,

violations of compliance requirements, and other responsibilities imposed by State and Federal statutes and regulations and assumed by contracts; and any State or Federal grant, entitlement of loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

### **City's Responsibilities**

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements 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 and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

Management is also responsible for: (a) making us aware of significant vendor relationships where the vendor is responsible for program compliance, (b) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings, and a corrective action plan, and (c) report distribution including submitting the reporting package.

The City Commission is responsible for informing us of its views about the risks of fraud within the entity, and its knowledge of any fraud or suspected fraud affecting the entity.

The City agrees that our report on the financial statements will not to be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if the City intends to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, you agree to provide us with printer's proofs or a master for our review and consent before reproduction and/or release occurs. You also agree

to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance system as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the City seeks such consent, we will be under no obligation to grant such consent or approval.

During the course of our engagement, we may accumulate records containing data which should be reflected in the City's books and records. The City will determine that all such data, if necessary, will be so reflected. Accordingly, the City will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by City personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Karen Simpson, Deputy Clerk of Finance. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

#### **Other Terms of our Engagement**

The City of Palmetto, Florida, hereby indemnifies CPA Associates and its partners, principals, and employees and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the City of Palmetto, Florida's management, regardless of whether such person was acting in the City of Palmetto, Florida's interest. This indemnification will survive termination of this letter.

Any claim arising out of services rendered pursuant to this agreement shall be resolved in accordance with the Laws of Florida. It is agreed by the City and CPA Associates or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of the City shall be asserted more than two years after the date of the last audit report issued by CPA Associates.

Our fees for the services described in this letter are based on the assistance which the City has agreed to furnish us and that unexpected conditions will not be encountered during the audit.

Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Our fee for the services described in this letter will be as follows:

Annual examination of financial statements	\$49,500
Federal and State Single Audits	\$4,000 per major program

In the event we are requested or authorized by the City or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the City, the City will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and

expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The working papers for this engagement are the property of CPA Associates. However, you acknowledge and grant your assent that representatives of cognizant or oversight agencies or their designees, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least five years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agencies. Access to requested working papers will be provided under the supervision of CPA Associates audit personnel and at a location designated by our Firm.

If circumstances arise relating to the conditions of your records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, misappropriation of assets, or noncompliance which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

In relation to the CAFR, you have informed us that you intend to submit it for evaluation by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

Our staff is available to assist the City in the following areas:

- Provide assistance in the drafting and groupings for the various financial statements, schedules and required supplementary information, as required by accounting principles generally accepted in the United States of America, based on the information contained in the City's working trial balances and any adjusting entries that have been approved by management;
- Provide assistance in the drafting of the footnote disclosures required by accounting principles generally accepted in the United States of America;
- Provide assistance to determine that the information contained in the Management's Discussion and Analysis is in accordance with accounting principles generally accepted in the United States of America;
- Provide assistance to determine that all Government Accounting Standards Board Statements have been properly implemented and reflected in the financial statements;
- Typing the financial statements;
- Provide assistance to determine that all required components of a Comprehensive Annual Financial Report (CAFR) are contained therein.

The two overarching principles of the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the works, and therefore, has a responsibility and is

able to make any informed judgment on the results of the services described above. Accordingly, the City agrees to the following:

- Karen Simpson, Deputy Clerk of Finance, will be accountable and responsible for overseeing the non-audit services noted above;
- The City will establish and monitor the performance of the non-audit services to ensure that it meets management's objectives;
- The City will make any decisions that involve management functions related to the non-audit services and accept full responsibility for such decisions;
- The City will evaluate the adequacy of services performed and any findings that result.

This letter constitutes the complete and exclusive statement of agreement between CPA Associates and the City, superseding all proposals oral or written and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed for your information.

If this letter defines the arrangements as the City understands them, please sign and date one of the enclosed originals and return it to us. We appreciate your business.

For the Firm,

CPA Associates



Tommye E. Barie, CPA

RESPONSE:

This letter correctly sets forth the understanding of the City of Palmetto, Florida.

Officer Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_





To the Shareholders of  
CPA Associates, P.L.C.  
d/b/a CPA Associates

We have reviewed the system of quality control for the accounting and auditing practice of CPA Associates (the "firm") in effect for the year ended May 31, 2007. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, an audit of an Employee Benefit Plan and engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of CPA Associates in effect for the year ended May 31, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

*KraftCPAs PLLC*

Nashville, Tennessee  
July 27, 2007