

TAB 2



City of Palmetto Agenda Item

Meeting Date

07/16/2012

Presenter: Jim Freeman

Department: City Clerk

Title: 2012 Audit Engagement Letter

Background:

On April 16, 2012 City Commission approved a one-year extension of the contract for Audit Services with Mauldin & Jenkins, LLC. The contract signed in 2009 allows for three one-year extensions of which this is the first.

The attached engagement letter outlines the services and fees associated with the FY2012 audit. The letter confirms the fees approved in the extension of \$50,500 for the financial audit and \$4,000 for each major program requiring a single audit. The budget for the 2012 audit is currently loaded in the FY2013 budget for the audit.

Staff recommends approval of the engagement letter.

Budgeted Amount: 58,500 **Budget Page No(s):** **Available Amount:** \$0.00 **Expenditure Amount:** \$0.00

Additional Budgetary Information:

Funding Source(s): **Sufficient Funds Available:** Yes No **Budget Amendment Required:** Yes No **Source:**

City Attorney Reviewed: Yes No N/A **Advisory Board Recommendation:** For Against N/A **Consistent With:** Yes No N/A

Potential Motion/Direction Requested:

Staff Contact:

Attachments:

RECEIVED

JUN 20 2012

CITY HALL

June 18, 2012

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

We are pleased to confirm our understanding of the services we are to provide the City of Palmetto, Florida (the "City") for the year ending September 30, 2012. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of the City as of and for the year ending September 30, 2012. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis.
2. Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund.
3. Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—Community Redevelopment Agency Fund.
4. Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—Road and Bridge Fund.
5. Schedule of Funding Progress—General Employee's Pension Plan.
6. Schedule of Contributions from Employer—General Employee's Pension Plan.
7. Schedule of Funding Progress—Police Officer's Pension Plan.
8. Schedule of Contributions from Employer and State—Police Officer's Pension Plan.
9. Other Post-Employment Benefits – Schedule of Funding Progress.

We have also been engaged to report on supplementary information other than RSI that accompanies the City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

1. Schedule of Revenues, Expenditures and Changes in Fund Balance–Budget (GAAP Basis) and Actual–Capital Projects Fund.
2. Combining Statement of Fiduciary Net Assets.
3. Combining Statement of Changes in Fiduciary Net Assets.
4. Combining Statement of Changes in Assets and Liabilities–Agency Fund.
5. Schedule of Expenditures of Federal Awards and State Financial Assistance (and the related notes).
6. Schedule of Findings and Questioned Costs.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will not provide an opinion or any assurance:

1. Letter of Transmittal.
2. GFOA Certificate of Achievement for Excellence in Financial Reporting.
3. List of Principal Officials.
4. Organizational Chart.
5. Net Assets by Component.
6. Changes in Net Assets.
7. Fund Balances, Governmental Funds.
8. Changes in Fund Balances of Governmental Funds
9. Governmental Activities Tax Revenues by Source.
10. Assessed and Estimated Actual Value of Taxable Property.
11. Property Tax Rates–Direct and Overlapping Governments.
12. Principal Property Tax Payers.
13. Property Tax Levies and Collections.
14. Ratios of Outstanding Debt by Type.
15. Ratio of General Bonded Debt Outstanding.
16. Computation of Direct and Overlapping Debt.
17. Demographic Studies.
18. Principal Employers in Manatee County.
19. Full-Time Equivalent City Government Employees by Function.
20. Operating Indicators by Function.
21. Capital Asset Statistics by Function.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program/project in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General – Local Government Entity Audits*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity specific legislative or regulatory bodies, Federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Federal and State Single Audit Acts; the provisions of OMB Circular A-133 and Federal and State Compliance Supplements; and Chapter 10.550 Rules of the Auditor General and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133 and projects in accordance with Chapter 10.550 and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will discuss the reasons with you in advance.

If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of Federal awards and state assistance in accordance with the requirements of OMB Circular A-133 and Chapter 10.550. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of Federal awards and state assistance, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of Federal awards and state assistance, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and schedule of expenditures of Federal awards and state assistance and that you have reviewed and approved the financial statements, schedule of expenditures of Federal awards and state assistance, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

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.
- Propose audit adjustments as required for accrual based financial statements in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair

presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that 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.

You are 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 or illegal acts affecting the government involving: (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from: (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a

direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major Federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the Federal and State *OMB Circular A-133 Compliance Supplement(s)* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Engagement Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but 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 personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to

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June 18, 2012

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prevent the unauthorized release of your confidential information to others. In the event that 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. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all accounts receivable or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of Federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the Federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Mauldin & Jenkins, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to representatives of cognizant or oversight agencies or its designee, a Federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Mauldin & Jenkins, LLC personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

To the extent that they are not a public record as defined in Chapter 119, *Florida Statutes*, the working papers for this engagement are the property of Mauldin & Jenkins.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by the agencies noted above. If we are aware that a Federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Tommye E. Barie, CPA, is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

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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. Additionally, our fees for the audit and accounting services described above are based upon 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. We will submit our bill for these services promptly upon rendering the report. Billings are due upon submission.

Our fee for the services described in this letter will be as follows:

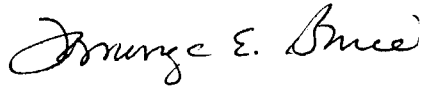
Annual examination of financial statements	\$50,500
Federal and State Single Audits	4,000 per major program

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 latest peer review accompanies this letter.

We appreciate the opportunity to be of service to the City of Palmetto, Florida, and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign these letters and return one to us.

Sincerely,

MAULDIN & JENKINS, LLC



Tommye E. Barie, CPA

Enclosure

RESPONSE:

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

Officer Signature: _____

Title: _____

Date: _____

System Review Report

To the Partners of Mauldin & Jenkins, LLC
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Mauldin & Jenkins, LLC (the firm) applicable to non-SEC issuers in effect for the year ended May 31, 2011. 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. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*; audits of employee benefit plans, and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Mauldin & Jenkins, LLC applicable to non-SEC issuers in effect for the year ended May 31, 2011, 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*. Mauldin & Jenkins, LLC has received a peer review rating of *pass*.

Clifton Gunderson LLP

Phoenix, Arizona
October 21, 2011