

City Council Action Item Cover Sheet

DATE: August 1, 2018

Agenda Item:

Resolution 2018-08-02 Resolution to authorize the City Manager to contract with Hanford & Associates for audit services for the 2017-18 Fiscal Year

Question Before Council:

Approval of Resolution 2018-08-02

Person/Group Initiating Request:

City Manager

Item Summary/Background:

Hanford & Associates has sent the attached engagement letter to contract for audit services for the 2017-18 fiscal year. Resolution 2018-08-02 authorizes the City Manager to contract with Hanford and Associates for those services.

The City Manager recommends, after considering any comments, the City Council consider the following motion:

I move to authorize the City Manager to contract with Hanford & Associates for audit services for the 2017-18 fiscal year in Resolution 2018-08-02.

Alternative: None Recommended

CITY OF YACHATS
RESOLUTION NO. 2018-08-02
A RESOLUTION AUTHORIZING THE CITY MANAGER TO CONTRACT
AUDIT SERVICES TO REVIEW THE 2017-18 FISCAL YEAR

WHEREAS, the State of Oregon requires an audit for the 2017-18 Fiscal Year; and

WHEREAS, the Council has decided to hire Hanford & Associates for audit services as proposed;

NOW THEREFORE, the City Council authorizes the City Manager to contract with Hanford & Associates for audit services as outlined in the letter of engagement, for the 2017-18 fiscal year.

Adopted by the Yachats City Council on August 1, 2018

Gerald Stanley, Mayor

ATTEST:

Shannon Beaucaire, City Manager



July 23, 2018

City Council
City of Yachats
441 Highway 101 North
Yachats, Oregon 97498

Dear Council Members,

We are pleased to confirm our understanding of the services we are providing for the City of Yachats (“the City”) for the year ended June 30, 2018. Please read this letter carefully as it is important that you understand and accept the terms under which we have agreed to perform our services as well as management’s responsibilities under this agreement.

Audit Services

We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City as of and for the period ended June 30, 2018. Accounting principles generally accepted in the United States of America (U.S. GAAP) call for certain required supplementary information (RSI) to accompany the basic financial statements. The Governmental Accounting Standards Board also considers this information a necessary part of financial reporting, as it provides perspective to the basic financial statements. Therefore, as part of this engagement, we will apply limited procedures to the City’s RSI in accordance with auditing standards generally accepted in the United States of America (GAAS). These limited procedures will primarily consist of inquiries of management regarding their methods of measurement and presentation. However, we will not express an opinion or provide any assurance on this RSI, as our limited procedures do not provide us with sufficient evidence to do so. Consequently, the financial statements we present to you will include the following required RSI that will not be audited and, as such, our report will disclaim an opinion on this RSI:

- Management’s Discussion and Analysis
- Schedule of Proportionate Share of Net Pension Liability
- Schedule of Contributions – Oregon Public Employees Retirement Fund
- Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Major Governmental Funds

We also understand that supplementary information other than RSI will accompany the City’s basic financial statements. In accordance with GAAS, we will apply auditing procedures and other additional procedures deemed necessary to the following supplementary information accompanying the basic financial statements in order to provide an opinion on this information in relation to the financial statements as a whole:



- Combining Balance Sheet – Non-Major Governmental Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds
- Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual Non-Major Governmental Funds
- Schedule of Revenues, Expenses and Changes in Fund Balance – Budget and Actual Major Proprietary Funds
- Schedule of Expenditures of Federal Awards

The statements we present to you will include the following additional information, which will not be subject to the auditing procedures applied in our audit of the basic financial statements and for which our report will not provide an opinion or any assurance:

- Schedule of Capital Assets Used in the Operation of Governmental Funds
- Schedules of Property Tax Transactions
- Schedule of Bond Loan and Contract Principal and Interest Transactions

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. GAAP and to report on the fairness of the additional information referred to above when considered in relation to the financial statements taken as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with laws, regulations, and the provisions of awards, contracts or grants agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the provisions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The reports on internal control and compliance are solely for information and use of management, Oregon Secretary of State Municipal Audits Division, federal awarding agencies, and if applicable, pass-through entities and will each include a paragraph that the purpose of the report is solely to describe the following: (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance; (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance; and (3) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance. The Uniform Guidance report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the Uniform Guidance requirements.



Our audit will be conducted in accordance with GAAS; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance.

Our professional standards as defined by GAAS require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and are fairly presented, in all material respects, in conformity with U.S. GAAP. As such, our audit will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and will include tests of the accounting records of the City, a determination of major programs in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express an opinion whether the financial statements prepared as part of this engagement are fairly presented, in all material respects, in conformity with U.S. GAAP. The procedures we determine necessary will depend on our professional judgment as auditors and will be based, in part, on our assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. If we deem it appropriate, our procedures will also include tests of documentary evidence supporting the transactions recorded in the accounts, may include tests of the physical existence of inventories, and will include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters. These representations will include acknowledging our assistance with the preparation of your financial statements, the schedule of expenditures of federal awards, and notes accompanying these documents, and that you have reviewed and approved these documents, approved their release, and that you have accepted responsibility for them.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected by our firm, even though our audit is properly planned and performed in accordance with GAAS and Government Auditing Standards. 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. Since we plan and perform our audit in accordance with GAAS to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriations of assets, or 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; and because the determination of abuse is so subjective, Government Auditing Standards do not expect auditors to provide reasonable assurance regarding the detection of abuse. As required by the Single Audit Act Amendments of 1996 and the Uniform Guidance, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Our procedures will be less in scope than what would be required to render an



opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Accounting Standards. However, we will inform you of any material errors that come to our attention, and we will inform you or the appropriate level of management of 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. We will also include such matters in the reports required for a Single Audit.

In making our risk assessments, we will consider internal controls relevant to the preparation and fair presentation of the City's financial statements in order to design audit procedures that are appropriate in the circumstances. However, our audit procedures are not designed for the purpose of expressing an opinion on the effectiveness of your internal control. As required by the Uniform Guidance, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that in our professional opinion are relevant to preventing or detecting material noncompliance with the requirements applicable to each major federal award program. Our tests, however, will be less in scope than what would be required to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance. We will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we identify during the audit as required by the American Institute of Certified Public Accountants, the Government Auditing Standards, and the Uniform Guidance.

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 certain provisions of laws, regulations, contracts, and grants. However, the objective of those procedures will not be to express an opinion in our report on compliance with these provisions pursuant to Government Auditing Standards.

In addition, the Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with applicable laws and regulations and the provisions of contracts and agreements applicable to major programs. Our procedures, as such, will consist of the applicable procedures described in the OMB "Compliance Supplement" 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 major programs in our report on compliance issued pursuant to the Uniform Guidance.

Oregon State Regulations require that we perform audit procedures as defined in the provisions of the Minimum Standards of Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. The purpose of those procedures will be to report on the City's compliance with the applicable requirements.

We will also prepare the financial statements of the City of Yachats in conformity with U.S. generally accepted accounting principles based on information provided by you.



As this engagement is not designed to be a fraud audit, management understands and accepts the inherent limitations of the audit services described in this agreement.

Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

Teresa Hanford is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Hanford & Associates, LLC's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Responsibilities of Management and Those Charged with Governance

As part of our engagement, we may advise you about appropriate accounting principles and their application; however, the management of the City acknowledges and understands that the final responsibility for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America remains with you. This responsibility includes the financial statements, all accompanying information, and the representations that accompany them. Management's responsibilities also include identifying government award programs, understanding and complying with program requirements, and the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) as required by the Uniform Guidance. As such, the management of the City is responsible for adjusting the financial statements to correct material misstatements and for 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. Other management responsibilities include maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.

By your signature below, you also acknowledge and understand that the management of the City is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes having appropriate programs and controls in place to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization that involves management, employees who have significant roles in internal control, regulators, grantors and others where fraud could have a material impact on the financial statements. The management of the City is also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws and regulations and for taking timely and appropriate actions to remedy any fraud, illegal acts, or violations of contracts and agreements. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your representation letter.

In fulfilling management's responsibility for establishing and maintaining internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, estimates and judgments by management are required to assess the expected benefits and related



costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with U.S. GAAP, and that federal award programs are managed in compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants.

Management is also responsible for the preparation and fair presentation of the supplementary information in conformity with accounting principles generally accepted in the United States of America. You agree that you will confirm your understanding of your responsibilities with respect to the supplementary information in your representation letter. You further agree to include our report on the supplementary information in any document that contains and indicates that we have reported on such supplementary information.

Management's responsibilities also include designating qualified individuals with suitable skill, knowledge, and/or experience to be responsible and accountable for overseeing financial statement preparation, tax services, and any other non-attest services we perform as part of this engagement, as well as evaluating the adequacy and results of those services and accepting responsibility for them.

Also, as required by the Uniform Guidance, it is management's responsibility to follow up and take corrective action on reported audit findings and recommendations. This responsibility includes maintaining a summary of prior audit findings and recommendations and the corrective actions taken to address these issues; and for providing us with this information as part of our engagement. management is also responsible to provide input on the current audit findings and recommendations, as well as management's planned corrective actions for these issues.

You further acknowledge and understand that management is responsible for making us aware of any contractor relationship in which the contractor has the responsibility for program compliance; providing us with access to all information management is aware of that is relevant to the preparation and fair presentation of the financial statements such as personnel, records, documentation and other matters; for the accuracy and completeness of the information that is provided to us; and for informing us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements. This responsibility also includes providing us with any additional information that we may request from management for the purpose of the audit; as well as allowing us unrestricted access to individuals within the organization from whom we may determine it necessary to obtain audit evidence, including access to your designated employees who will type all confirmations we request.

Written Report

We expect to issue a written report upon completion of our audit of the City's financial statements. Our report will be addressed to the City Council of the City of Yachats. We cannot provide assurance that an unmodified opinion will be expressed on the financial statements. Circumstances may arise in which it is necessary for us to modify our opinion, add emphasis-of-matter or other-matter paragraphs, decline to express an opinion, or withdraw from the engagement.



The inclusion, publication, or reproduction by the City of any of our reports in bond offerings, regulatory filings, or Data Collection Forms containing information in addition to financial statements may require us to perform additional procedures to satisfy our professional responsibilities. Accordingly, our reports should not be used for such purposes without our prior written permission. Also, to avoid delay or misunderstanding, it is important that we be given timely notice of the City's intention to include, publish or reproduce our report in any report, document, or written communication containing financial information on which we have not reported. Any agreement to perform work in connection with an offering, including an agreement to provide permission or consent, will be a separate engagement.

Other Matters

We expect to begin our audit on approximately August 15, 2018 and to issue our report by November 30, 2018.

In accordance with the terms and conditions of this agreement, the City shall be responsible for the accuracy and completeness of all data, information and representations provided to us for purposes of this engagement. Because of the importance of oral and written management representations to the effective performance of our services, the City releases and indemnifies our firm and its personnel from any and all claims, liabilities, costs and expenses attributable to any misrepresentation by management and its representatives.

At the conclusion of our engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will also provide copies of our reports to the members of the City Council and the City Administrator; however, 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 a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, 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.

By your signature below, you acknowledge that the audit documentation in connection with this engagement is the property of Hanford & Associates, LLC and constitutes confidential information. However, in accordance with applicable laws and regulations, we may be asked to make certain audit documents available to and/or provide copies of selected audit documentation to regulators, governmental agencies, or their representatives ("Regulators") for purposes of quality review of the audit, to resolve audit findings, in accordance with funding requirements, or to carry out oversight responsibilities. Regulators may intend, or decide, to distribute the copies of information obtained therein to others, including other governmental agencies. By your signature below, you further acknowledge and agree that we are authorized to allow the Regulators access to, and copies of, such audit documents. We will notify you of any such request.

It is our policy to keep records related to this engagement for seven years. However, Hanford & Associates, LLC does not keep any original client records, so we will return those to you at the



completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the seven-year period, Hanford & Associates, LLC shall be free to destroy our records related to this engagement.

Our fee for these services will be a not-to-exceed (NTE) price of \$22,000 as follows:

- \$16,000 firm fixed price for the audit of the financial statements and compliance to Minimum Standards of Oregon Municipal Corporations prescribed by the Oregon Secretary of State.
- \$6,000 NTE for the City's compliance with requirements applicable to major programs in our report on compliance issued pursuant to the Uniform Guidance. This will be billed at our standard hourly rates plus travel. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit.

Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before incurring additional costs.

Should any litigation or adverse action (such as audits by outside organizations and/or threatened litigation, etc.), by third parties arise against the City or its officers subsequent to this engagement, which results in the subpoena of documents from Hanford & Associates, LLC and/or requires additional assistance from us to provide information, depositions or testimony, the City hereby agrees to compensate Hanford & Associates, LLC (at our standard hourly rates then in effect) for additional time charges and other costs (copies, travel, etc.), and to indemnify us for any attorney's fees to represent Hanford & Associates, LLC.

If any dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable rules for resolving professional accounting and related services disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

The City of Yachats and Hanford & Associates, LLC both agree that any dispute over fees charged by the firm to the City will be submitted for resolution by arbitration in accordance with the applicable rules for resolving professional accounting and related services disputes of American Arbitration Association, except that under all circumstances the arbitrator must follow the laws of Washington State. Such arbitration shall be binding and final. IN AGREEING TO ARBITRATION, WE BOTH ACKNOWLEDGE THAT IN THE EVENT OF A DISPUTE OVER FEES CHARGED BY THE ACCOUNTANT, EACH OF US IS GIVING UP THE RIGHT TO HAVE THE DISPUTE DECIDED IN A COURT OF LAW BEFORE A JUDGE OR JURY AND INSTEAD WE ARE ACCEPTING THE USE OF ARBITRATION FOR RESOLUTION. The prevailing party shall be entitled to an award of reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator.



In accordance with Government Auditing Standards, we will provide you a copy of any peer review reports and letters of comment received during the period of this agreement.

We appreciate the opportunity to be of service to the City of Yachats 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 the enclosed copy and return it to us.

Very truly yours,

Teresa Hanford, Managing Member
Hanford & Associates, LLC

RESPONSE:

This letter correctly sets forth the understanding of the City of Yachats

APPROVED:

City Administrator
City of Yachats

Date

