

**CITY OF PALMER ACTION MEMORANDUM No. 10-002**

**SUBJECT:** Authorize the City Manager to Award and Execute a Contract for Professional Audit Services with Mikunda, Cottrell & Co., Inc for the Years 2009, 2010, and 2011 in the Amount of \$43,000, \$44,200 and \$45,500 Respectively

**AGENDA OF: January 12, 2010**

<b>Council action:</b>	Amended by directing that a change order be obtained. The contract was authorized.
------------------------	--

**Approved for presentation by B. B. Allen, City Manager** *B. B. Allen*

Route To:	Department/Individual:	Initials/Date:	Remarks:
X	Originator – Director of Admin.	<i>AW</i> 12/23/09	
X	City Clerk	<i>JB</i> 12/30/09	
X	City Attorney	<i>[Signature]</i> 12/30/09	
	Director of Community Development		
	Director of Community Services		
	Director of Public Safety		
	Director of Public Works		

**Attachment(s):**

**Certification of Funds:**

	No fiscal impact.	
X	Funds are budgeted from this account number(s): for 2010. Future year's budget is subject to council appropriation.	01-02-10-6021 02-01-10-6021 03-01-10-6021 05-01-10-6021 15-01-10-6021
	Funds are not budgeted. Budget modification is required. Affected account number:	

Director of Administration Signature: *AW*

**Summary Statement:** The Department of Administration received three proposals in response to a request for proposal for audit services. The proposals were reviewed and evaluated by an audit committee. Mikunda, Cottrell & Co., Inc. was selected as being the most responsive, responsible, and qualified proposer. Mikunda, Cottrell & Co., Inc. has experience with other Alaskan home rule cities and has provided excellent service to the City of Palmer in past years.

**Administration recommendation:** Approve Action Memorandum no. 10-002.



December 30, 2009

City of Palmer  
231 W. Evergreen Avenue  
Palmer, AK 99645

Attention : Audit/Finance Committee, City Council

This letter is to explain our understanding of the arrangements for the services we are to perform for City of Palmer, Alaska for the year ending December 31, 2009. We ask that you either confirm or amend this understanding.

#### **Audit Services**

We will perform an audit of City of Palmer's governmental activities, business-type activities, each major fund, and aggregate remaining fund information as of and for the year ended December 31, 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 governing board 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 of Palmer as of December 31, 2009 so as to satisfy the audit requirements imposed by the Single Audit Act and the *U.S. Office of Management and Budget (OMB) Circular No. A-133* and the State of Alaska *Single Audit Regulation 2AAC 45.010*.

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 Single Audit Act, OMB Circular A-133, and OMB's Compliance Supplement; and the provisions of the State of Alaska Single Audit Guide and Compliance Supplement. Those standards, circulars, supplements, and guides 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 that are 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.

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 council any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the city council (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 reports on the City's financial statements, we will also issue the following reports or types of reports:

- Reports on the fairness of the presentation of the City's schedule of expenditures of federal awards and schedule of state financial assistance for the year ending December 31, 2009.
- Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.
- 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.
- A schedule of findings and questioned costs.

Our reports on internal control will include any significant deficiencies and material weaknesses in controls 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 circulars 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 of Palmer'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(s).

The city council 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.

City of Palmer agrees that our report on the financial statements will not be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if City of Palmer 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 systems 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 Organization 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 that 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, will be discussed and coordinated with Kelli Veech, Director of Administration. 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**

Because Mikunda, Cottrell & Co. will rely on City of Palmer and its management and city council to discharge the forgoing responsibilities, City of Palmer holds harmless and releases Mikunda, Cottrell & Co., its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of City of Palmer's management which has caused, in any respect, Mikunda, Cottrell & Co.'s breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

Our fees 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. Billings are due upon submission.

Our fee for the services described in this letter will conform to our cost proposal submitted on December 14, 2009 in response to the request for proposal. Our fee will not exceed this amount unless the scope of the engagement is changed, the assistance which the City has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. All other provisions of this letter will survive any fee adjustment.

In the event we are requested or authorized by City of Palmer] or are required by City of Palmer 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 City of Palmer, City of Palmer 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 Mikunda, Cottrell & Co. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, 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 three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested workpapers will be provided under the supervision of Mikunda, Cottrell & Co. audit personnel and at a location designated by our Firm.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

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.

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 of Palmer agrees to the following:

- Kelli Veech, Director of Administration will be accountable and responsible for overseeing the drafting of the financial statements.
- City management will make any decisions that involve management functions related to the drafting of financial statements and accepts full responsibility for such decisions.
- City management will evaluate the adequacy of services performed and any findings that result.

This letter constitutes the complete and exclusive statement of agreement between Mikunda, Cottrell & Co. and City of Palmer, 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 and applicable letter of comment has been provided to you.

If this letter defines the arrangements as you understand them, please sign and date this letter and return it to us. We appreciate your business.

Mikunda, Cottrell & Co.

  
for John Bost  
Engagement Director

Confirmed on behalf of the addressee:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Please print name and Title