



Staff Report

For City Council Meeting - 10/7/2020

Subject - New Business - Dennis Connor Audit Engagement Letter

Synopsis: The attached letter describes the audit procedure from our auditor Dennis Connor.

Council Options:

- 1) Make a motion to engage in auditing services by Dennis Connor;
- 2) Do nothing.

Recommendation: Staff recommends the Council make a motion to engage in auditing services by Dennis Connor; A simple resolution is necessary.

Legal Analysis: The City is required to engage in budget auditing services. Mr. Connor's firm has performed this duty at an acceptable cost for many years.

Financial Analysis: The fees are accounted for in the budget.

Respectfully Submitted,

Chad

DENNIS CONNER
Certified Public Accountant
365 SOUTH NEHALEM
CLATSKANIE, OREGON

Audit Engagement Letter – Modified Cash Basis of Accounting

July 30, 2020

City of Gearhart
Gearhart, Oregon 97138

I am pleased to confirm my understanding of the services I am to provide the City of Gearhart (the City) for the years ending June 30, 2020, 2021, and 2022. I will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements as of and for the years ended June 30, 2020, 2021, and 2022. 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 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, I will apply certain limited procedures to 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I will not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis.
2. Compliance with requirements of the Oregon Minimum Standards

I have also been engaged to report on supplementary information other than RSI that accompanies financial statements. I will subject the following supplementary information to the auditing procedures applied in my 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 I will provide an opinion on it in relation to the financial statements as a whole.

Audit Objective

The objective of my audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with the modified cash basis of accounting 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. My audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures I consider necessary to enable me to express such opinions. I will issue a written report upon completion of my audit of the financial statements. My report will be addressed to the governing board and management of the City. I cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for me to modify my opinions or add emphasis-of-matter or other-matter paragraphs. If my opinions are other than unmodified, I will discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed opinions, I may decline to express opinions or may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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. I will plan and perform the audit to obtain reasonable 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 government or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me, even though the audit is properly planned and performed in accordance with U.S. generally accepted 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. However, I will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to my attention. I will also inform the appropriate level of management of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. My responsibility as auditor is limited to the period covered by my audit and does not extend to any later periods for which I am not engaged as auditor. My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. I 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 my audit, I will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

My audit will include obtaining an understanding of the government 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. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, I will express no such opinion. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of my audit will not be to provide an opinion on overall compliance and I will not express such an opinion.

Other Services

I will also assist in preparing the financial statements of the City in conformity with the modified cash basis of accounting based on information provided by you.

I will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. I, in my sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with the modified cash basis of accounting.

Management is also responsible for making all financial records and related information available to me and for the accuracy and completeness of that information. You are also responsible for providing me with:

1. access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, including identification of all related parties and all related-party relationships and transactions,
2. additional information that I may request for the purpose of the audit, and
3. unrestricted access to persons within the government from whom I determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to me in the management representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements of each opinion unit taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the government involving:

- (1) management,
- (2) employees who have significant roles in internal control, and
- (3) others where the fraud could have a material effect on the financial statements.

Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with the modified cash basis of accounting. You agree to include my report on the supplementary information in any document that contains and indicates that I have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes my report thereon. Your responsibilities include acknowledging to me in the representation letter that

- (1) you are responsible for presentation of the supplementary information in accordance with the modified cash basis of accounting
- (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with the modified cash basis of accounting
- (3) the methods of measurement or presentation have not changed from those used in the prior period
- (4) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You agree to assume all management responsibilities for financial statement preparation services and any other non-attest services I provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Engagement Administration, Fees, and Other

I may from time to time and depending on the circumstances, use third-party service providers in serving your account. I may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, I maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, I will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and I will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that I am 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, I will remain responsible for the work provided by any such third-party service providers.

It is my understanding that your employees will prepare all cash, accounts receivable, or other confirmations I request and will locate any documents selected by me for testing.


The audit documentation for this engagement is the property of the office of Dennis Conner, CPA and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the Oregon Division of Audits or its designee. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Dennis Conner, CPA personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the Oregon Division of Audits or its designee. The Oregon Division of Audits or its designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

I expect to begin my audit within 30 days of receiving your data and to issue my report no later than December 31st. Dennis R. Conner is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

My fee for these services will not exceed \$8,884.75. 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, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs.

I appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let me know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to me.

Very truly yours,



RESPONSE:

This letter correctly sets forth the understanding of the City of Gearhart.

Management Signature: _____

Title: _____ Date _____

Council Signature: _____

Title: _____ Date: _____