

CITY COUNCIL AGENDA REQUEST FORM

Today's date: 8 / 9 / 19

Date of meeting 8 / 21 / 19

(City Council meetings are held the 1st and 3rd Wednesday of each month.)

Name of Citizen, Organization, Elected Official, or Department Head making request:

Sarah Lynds, Director of Finance

Address: 1123 Lake Street

Phone number and email address: 208-263-3557 slynds@sandpointidaho.gov

Authorized by: Sarah Lynds

name of City official

City official's signature

(Department Heads, City Council members, and the Mayor are City officials.)

Subject: Engagement Letter for the Fiscal Year Ending September 30, 2019 Annual Audit

Summary of what is being requested: Engagement letter estimates audit fee at \$24,000.

The fee increased \$500 over the prior year. This is the first increase since 2013. It is anticipated that the

City will not be required to have a single audit this year.

The following information MUST be completed before submitting your request to the City Clerk:

1. Would there be any financial impact to the city? **Yes or No**

If yes, in what way? Budgeted

2. Name(s) of any individual(s) or group(s) that will be directly affected by this action:

Have they been contacted?
Yes or No

N/A

3. Is there a need for a general public information or public involvement plan? **Yes or No**

If yes, please specify and suggest a method to accomplish the plan:

4. Is an enforcement plan needed? **Yes or No** Additional funds needed? **Yes or No**

5. Have all the affected departments been informed about this agenda item? **Yes or No**

This form must be submitted no later than 6 working days prior to the scheduled meeting. All pertinent paperwork to be distributed to City Council must be attached.

ITEMS WILL NOT BE AGENDIZED WITHOUT THIS FORM



Agenda Report

DATE: August 9, 2019

TO: MAYOR AND CITY COUNCIL

FROM: Sarah Lynds, Director of Finance/Treasurer

SUBJECT: 2019 Annual Audit Engagement Letter

DESCRIPTION/BACKGROUND: Idaho Code requires the City Council in every city to have a full and complete audit of the financial statements by an independent auditor and to include budget authority to cover the necessary expenses of an audit.

The attached engagement letter from Magnuson, McHugh & Company, P.A. describes in detail elements of the audit, management's responsibility in preparation for the audit, and the associated fees and timing.

Fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. An estimate of this year's fees is \$24,000. Single audits are required in each year that the City expends over \$750,000 in Federal Awards; it is not anticipated that the City will need to have a Single Audit for FY19.

STAFF RECOMMENDATION: To approve the FY19 engagement letter from Magnuson, McHugh & Co.

ACTION: Council approval of Magnuson, McHugh & Company's engagement letter to conduct the City's annual independent audit review for fiscal year ending September 30, 2019, and to authorize the Council President to sign the agreement.

WILL THERE BE ANY FINANCIAL IMPACT? Yes

HAS THE ITEM BEEN BUDGETED? Yes

ATTACHMENTS: Proposed Resolution and FY2019 Audit Engagement Letter

No: 19-
Date: August 21, 2019

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: AUDIT ENGAGEMENT LETTER 2019

WHEREAS: Magnuson, McHugh & Company, P.A., the firm that has performed the City's annual audit for many years, has submitted a letter, seeking to conduct the City's audit for the fiscal year ending September 30, 2019; and

WHEREAS: The fee structure for the audit is based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses, and is estimated this year at \$24,000.

NOW, THEREFORE, BE IT RESOLVED THAT: Engagement of Magnuson, McHugh & Company, P.A., to conduct the City's audit for the fiscal year ending September 30, 2019, is approved.

BE IT FURTHER RESOLVED THAT: The City Council President, on behalf of the City, is authorized to sign the engagement letter, which is attached to and made a part of this Resolution as if fully incorporated within.

Shannon Williamson, Council President

ATTEST:

Melissa Ward, City Clerk

City Council Members:

YES NO ABSTAIN ABSENT

1. Eddy
2. Aitken
3. Williamson
4. Ruehle
5. Aispuro
6. Darling

August 8, 2019

To the Honorable Mayor and City Council
City of Sandpoint
1123 Lake Street
Sandpoint, ID 83864

The following represents our understanding of the services we will provide the City of Sandpoint.

You have requested that we audit the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sandpoint, as of September 30, 2019, and for the year then ended and the related notes, which collectively comprise the City of Sandpoint's basic financial statements as listed in the table of contents. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit applicable to those basic financial statements.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the 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 required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by accounting principles generally accepted in the United States of America. This RSI 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 Balances – Budget & Actual - General Funds.
3. Schedules of required supplementary information consistent with the requirements of GASB Statement No. 68.

Supplementary information other than RSI will accompany the City of Sandpoint's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

1. Combining and Individual Fund Financial Statements.

Auditor Responsibilities

We will conduct our audit in accordance with U.S. GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

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 basic financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with 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 basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and, if applicable, in accordance with Government Auditing Standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit. Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Compliance with Laws and Regulations

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

Management's Responsibilities

Our audit will be conducted on the basis that management, the Honorable Mayor and City Council acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. 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 error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- d. For including the auditor's report in any document containing financial statements that indicates that such financial statements have been audited by the entity's auditor;
- e. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities; and
- f. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
- g. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- h. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- i. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- j. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to present the supplementary information with the audited financial statements, or if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management, the Honorable Mayor and City Council, written confirmation concerning representations made to us in connection with the audit.

Reporting

We will issue a written report upon completion of our audit of the City of Sandpoint's basic financial statements. Our report will be addressed to the governing body of the City of Sandpoint. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

Other

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

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Provisions of Engagement Administration, Timing and Fees

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

We expect to begin our preliminary audit fieldwork the week of September 25, 2019 and our final fieldwork the week of December 9, 2019. We will issue our reports as soon as the fieldwork has been completed.

Michelle Schini Haneline is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Magnuson, McHugh & Company, P.A.'s services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. Invoices will be rendered every month and are payable upon presentation. We estimate that our fee for the audit will be \$24,000. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the City of Sandpoint's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

With respect to any nonattest services we perform, the City of Sandpoint's management is responsible for: (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities. We will perform the non-attest services in accordance with professional standards. The engagement is limited to the non-attest services below. Our firm, in its sole professional judgement, reserves the right to refuse to do any procedure or take any action that could be construed as making decisions or assuming management responsibilities. We will perform the following nonattest service:

1. Draft the City of Sandpoint's financial statements and related footnote disclosures; including the requirements of GASB Statement No. 68.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

It is our policy to keep records related to this engagement for five years. However, Magnuson, McHugh & Company, P.A. does not keep any original client records, so we will return those to you at the completing 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 five year period, Magnuson, McHugh & Company, P.A. shall be free to destroy our records related to this engagement.

At the conclusion of our audit engagement, we will communicate to Management, the Honorable Mayor and City Council the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of Magnuson, McHugh & Company, P.A. and constitutes confidential information. However, we may be requested to make certain audit documentation available to the regulator pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Magnuson, McHugh & Company, P.A.'s personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the regulator. The regulator may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

In accordance with the requirements of *Government Auditing Standards*, we have attached a copy of our latest external peer review report of our firm for your consideration and files.

City of Sandpoint
August 8, 2019
Page 6 of 8

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Sincerely,

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

RESPONSE:

This letter correctly sets forth our understanding.

City of Sandpoint

Acknowledged and agreed on behalf of the City of Sandpoint by:

Signature: _____

Title: _____

Date: _____

**Evans Poulsen & Catmull PA**
Certified Public Accountants

Members of the American Institute of CPA's
and the Idaho Society of CPA's
Edward G. Evans, CPA
Jeffrey D. Poulsen, CPA
Jacob H. Catmull, CPA

System Review Report

October 27, 2016

To the Owners of
Magnuson, McHugh & Company PA
and the Peer Review Committee of the Idaho Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Magnuson, McHugh & Company PA (the firm) in effect for the year ended July 31, 2016. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Magnuson, McHugh & Company PA in effect for the year ended July 31, 2016, 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*. Magnuson, McHugh & Company PA has received a peer review rating of *pass*.

Evans Poulsen & Catmull

Evans Poulsen & Catmull PA