

RESOLUTION NO.: 26 -2015
INTRODUCED BY: O'Toole

A RESOLUTION TO AUTHORIZE A CONTRACT WITH THE AUDITOR OF THE STATE OF OHIO FOR FINANCIAL STATEMENT AUDITS FOR THE YEARS 2013 AND 2014.

WHEREAS, the City is required to have its annual financial statements audited in accordance with accounting principles generally accepted in the United States and needs this to be done for the years ending December 31, 2013 and December 31, 2014, which services can be provided pursuant to the letter agreement from the Auditor of State attached hereto and incorporated herein as Exhibit A;

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Richmond Heights, State of Ohio, that:

Section 1: The Mayor is authorized to execute the letter agreement attached hereto as Exhibit A with the Auditor of the State of Ohio for the services set forth therein in a total amount not to exceed \$46,863.00, and any additional work which would require an expenditure of funds above the \$46,863.00 shall be approved by this Council.

Section 2: The Director of Finance is authorized and directed to appropriate to a proper account the funds necessary for the agreement authorized in Section 1 of this Resolution.

Section 3: It is found and determined that all formal actions of this Council concerning and relating to the adoption of this Resolution were adopted in an open meeting of this Council, and that all deliberations of this Council and any of its committees that resulted in such formal action, were in meetings open to the public, in compliance with all legal requirements, including Section 121.22 of the Ohio Revised Code.

Section 4: This Resolution shall take effect and be in force from and after the earliest period allowed by law.

PASSED: _____

David H. Roche, Mayor

APPROVED: _____

ATTEST: _____

Betsy Traben
Clerk of Council

Eloise Cotton-Henry
President of Council

EXHIBIT A



Dave Yost • Auditor of State

ENGAGEMENT LETTER

March 5, 2015

Mitchell Michalec, Finance Director
City of Richmond Heights

This letter of arrangement between the City of Richmond Heights (the City) and the Auditor of State describes the objective and scope of the services we will provide, the City's required involvement and assistance in support of our services, the related fee arrangements, and other terms and conditions designed to ensure that our professional services satisfy the City's audit requirements.

Summary of Services

We will audit the City's basic financial statements as of and for the years ended December 31, 2014 and 2013. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. The objective of an audit is to express our opinion concerning whether the basic financial statements present fairly, in all material respects, the City's financial position, changes in financial position, and required budgetary comparisons, in conformity with U.S. generally accepted accounting principles.

We expect to deliver our report on or about September 30, 2015.

We will audit to form an opinion on the basic financial statements. We will also opine on whether supplementary information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

We will apply certain limited procedures to required supplementary information. However, we will not opine or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Engagement Team

The engagement will be led by:

- * Dan Stuetzer, Chief Auditor, who will be responsible for assuring the overall quality, value, and timeliness of our services to you;
- * Matthew Goldman, Senior Audit Manager, who will be responsible for managing the delivery of our services to you; and
- * Lisa White, Audit Manager, who will be responsible for on-site administration of our services to you.

The Auditing Process

Our Responsibilities:

The *Summary of Services* above describes our responsibilities for the City's basic statements and other financial information.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361
www.ohioauditor.gov

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We will conduct our audit in accordance with U.S. generally accepted auditing standards (GAAS) and the Comptroller General of the United States' standards for financial audits included in *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure that the financial statements are free of material misstatement.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatement may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

We may limit certain procedures to selective testing of data. Therefore we might not detect material error and fraud if it exists. It is not cost-efficient to design procedures to detect immaterial error or immaterial fraud. Also, because of the characteristics of fraud, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material fraud.

We will communicate all instances where we believe fraud *may* exist to you. These would include instances where we:

- Have persuasive evidence that fraud occurred.
- Determined fraud risks exist and were unable to obtain convincing evidence to determine that fraud was unlikely.

Similarly, noncompliance may have occurred. However, our audit provides no assurance that noncompliance generally will be detected and only reasonable assurance that we will detect noncompliance directly and materially affecting the determination of financial statement amounts. We will inform you regarding material error or noncompliance that come to our attention.

If we find indications of abuse, we will expand our tests to determine its financial statement effect. *Government Auditing Standards* defines *abuse* as behavior which while not necessarily a legal violation, is behavior a prudent person would deem improper or deficient. Because this determination is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.

If for any reason we are unable to complete the audit or are unable to form an opinion, we may disclaim an opinion on your financial statements. In this unlikely event, we will communicate the reason for disclaiming an opinion to you, and to those charged with governance, in writing.

Your Responsibilities and Identification of the Applicable Reporting Framework:

We will audit assuming that management and those charged with governance acknowledge and understand they are responsible for:

1. Preparing the financial statements and other financial information, including related disclosures and selecting and applying accounting principles in accordance with accounting principles generally accepted in the United States of America.
2. Providing us with:
 - a. Access to all information of which management is aware that is relevant to preparing and fairly presenting the financial statements such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the audit; and
 - c. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

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3. Inform us of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements.
4. Preparing supplementary information in accordance with the applicable criteria.
 - a. Include our report on the supplementary information in any document that includes the supplementary information and that indicates that the auditor has reported on this supplementary information.
 - b. 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 the City of the supplementary information and the auditor's report thereon.
5. Reporting fraud and noncompliance of which you are aware to us.
6. Making available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timeline.
7. Reviewing drafts of the audited financial statements, footnotes, any supplemental information, auditor's reports and any findings; and informing us of any edits you believe may be necessary.
8. Designing and implementing programs and controls to prevent and detect fraud.

You should not rely on our audit as your primary means of detecting fraud.

Compliance with Laws and Regulations

Our Responsibilities

As part of reasonably assuring whether the financial statements are free of material misstatement, we will test the City's compliance with certain provisions of laws, regulations, contracts, and grants if noncompliance might reasonably directly and materially affect the financial statements. However, our objective is not to opine on overall compliance with these provisions.

Your Responsibilities:

Management and those charged with governance are responsible for:

1. Being knowledgeable of, and complying with, laws, regulations, contracts, and grants applicable to the City.
2. Identifying for us other financial audits, attestation engagements, performance audits, internal audits, reports from regulators or other studies related to the Organization (if any), and the corrective actions taken to address these audits' significant findings and recommendations.
3. Tracking the status of prior audit findings.
4. Taking timely and appropriate steps to remedy fraud, noncompliance, violations of provisions of laws, regulations, contracts or grant agreements, or abuse we may report.

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5. Providing your views and planned corrective action on audit findings we may report.

Internal Control

Our Responsibilities:

As a part of our audit, we will obtain an understanding of your City 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.

In assessing risk, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of opining on the effectiveness of the City's internal control. However, we will communicate to you in writing any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

Your Responsibilities:

Design, implement and maintain internal control relevant to compliance and the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error. Appropriate supervisory reviews are necessary to reasonably assure that adopted policies and prescribed procedures are followed.

Your Responsibility for Service Organizations:

Service organizations are entities to which you have outsourced accounting functions. Service organizations process transactions reflected in your City's financial statements, and therefore fall within the scope of our audit. While service organizations are responsible for establishing and maintaining their internal control, you are responsible for being aware of the service organizations your City uses, and for establishing controls to monitor the service organization's performance. Because the complexity of service organization transaction processing can vary considerably, your monitoring activities can vary accordingly.

When transaction processing is complex and the volume of transactions is relatively high, obtaining and reviewing a service organization auditor's *Independent Service Auditor's Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls Report* (Type 2 Service Organization Control Report (SOC 1)) may be the most effective method of meeting your responsibility to monitor a service organization, and may also be the only efficient means by which we can obtain sufficient evidence regarding their internal controls. AT Section 801, *Reporting on Controls at a Service Organization* (SSAE No. 16) discusses the aforementioned report. (In some circumstances, we can accept a suitably-designed agreed-upon procedures report (AUP) in lieu of a SSAE No. 16.) Our staff can discuss SSAE No. 16 and possible monitoring controls you might use with you.

You are responsible for informing our staff of the service organizations your City uses, and for monitoring these service organizations' performance.

Service organizations of which we are aware are:

- Cuyahoga County, which processes your City's property tax collections;
- Regional Income Tax Agency, which processes your City's income tax collections; and
- Life Force Management, which processes your City's emergency medical service fee collections.

Please confirm to us that, to the best of your knowledge, the above listing is complete.

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Representations from Management

Your Responsibilities

Upon concluding our engagement, management and, when appropriate, those charged with governance will provide to us written representations about the audit that, among other things, will confirm, to the best of their knowledge and belief:

- Management's responsibility for preparing the financial statements in conformity with generally accepted accounting principles;
- The availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings;
- Management's responsibility for the City's compliance with laws and regulations;
- The identification and disclosure to the auditor of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and;
- The absence of fraud involving management or employees with significant roles in internal control.

Additionally, we will request representations, as applicable, regarding:

- The inclusion of all component units, and the disclosure of all joint ventures and other related organizations;
- The proper classification of funds, net position and fund balances;
- The proper approval of reserves of fund equity;
- Compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws or ordinances; compliance with any tax or debt limits, and any debt covenants;
- Representations relative to GASB-required supplementary information;
- The identification of all federal assistance programs, and compliance with grant requirements.
- Events occurring subsequent to the fiscal year end requiring adjustment to or disclosure in the financial statements.

Management is responsible for adjusting the financial statements to correct misstatements we may detect during our audit and for affirming to us in the representation letter that the effects of any uncorrected misstatements we aggregate during our engagement and pertaining to the latest period the statements present are immaterial, both individually and in the aggregate, to the opinion units. (*Financial statements* include the related footnotes and required and other supplemental information).

Communication

Our Responsibilities

As part of this engagement the Auditor of State will communicate certain additional matters (if applicable) to the appropriate members of management and to those charged with governance. These matters include:

- The initial selection of and changes in significant accounting policies and their application;
- The process management uses to formulate particularly sensitive accounting estimates and the basis for their conclusions regarding the reasonableness of those estimates;
- Audit adjustments, whether posted or waived;
- Any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our opinion;
- Our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters;

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- Major issues that were discussed with management related to retaining our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; and
- Serious difficulties we encountered in dealing with management during the audit.

We will present those charged with governance our Summary of Unadjusted Differences (if any) at the conclusion of our audit.

Terms and Conditions Supporting Fee

As a result of our planning process, the City and the Auditor of State have agreed to an approach designed to meet the City's objectives for an agreed-upon fee, subject to the following conditions.

Our Responsibilities:

In providing our services, we will consult with the City regarding matters of accounting, financial reporting or other significant business issues. Accordingly, our fee includes estimated time necessary for this consultation. Circumstances may require the Auditor of State to confirm balances with your financial institution resulting in additional nominal charges which will not require an amendment to this agreement. However, should a matter require research, consultation or audit work beyond this estimate, the Auditor of State and the City will agree to an appropriate revision in services and fee. These revisions will also be set forth in the form of the attached *Amendment to Letter of Arrangement*.

Your Responsibilities:

The City will provide in a timely manner all financial records and related information to us, an initial list of which has been furnished to you, including timely communication of all significant accounting and financial reporting matters, as well as working space and clerical assistance as mutually agreed upon and as is normal and reasonable in the circumstances. When and if for any reason the City is unable to provide these schedules, information and assistance, the Auditor of State and the City will mutually revise the fee to reflect additional services, if any, we require to achieve these objectives. These revisions will be set forth in the form of the attached *Amendment to Letter of Arrangement*.

Confidential Information:

You should make every attempt to minimize or eliminate the transmission of personal information to the Auditor of State (AOS). All documents you provide to the AOS in connection with our services including financial records and reports, payroll records, employee rosters, health and medical records, tax records, etc. should be redacted of any personal information. Personal information includes social security numbers, date of birth, drivers' license numbers or financial institution account numbers associated with an individual. The public office should redact all personal information from electronic records before they are transmitted to the AOS. This information should be fully blacked out in all paper documents prior to sending to the AOS. If personal information cannot be redacted from any records or documents; the public office must identify these records to the AOS.

If redacting this personal information compromises the audit or the ability to prepare financial statements, the public office and the AOS will consider these exceptions on a case-by-case basis. Additionally, if redacting this information creates a hardship on the public office in terms of resources, recordkeeping or other issues, the public office and the AOS may collaborate on alternative methods of providing the public office's data to the AOS without compromising the personal information of individuals served by the public office. The AOS is willing to work with the public office and it is our intent to greatly reduce the amount of personal information submitted to the AOS for audit or financial statement preparation purposes. It is important that the public office review internal policies to find ways to eliminate as much personal information from financial records as possible by substituting non-personal information (i.e., change social security numbers to employee identification numbers).

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Fee

Except for any changes in fees and expenses which may result from the circumstances described above, we expect our fees and expenses for our audit services will not exceed \$46,863.

Pursuant to Ohio Rev. Code Section 117.13, you may charge all of this audit's cost to the general fund or you may allocate the cost among the general fund and other eligible funds in accordance with Auditor of State Bulletin 2009-011.

You have also requested the Auditor of State to propose audit adjustments, as necessary.

The City remains responsible for reviewing these proposed adjustments and making them to their financial statements. The City must be in both fact and appearance, able to make informed judgments while reviewing, evaluating, and approving this non-audit engagement service. To demonstrate that the City is fulfilling these responsibilities, the following safeguards will apply:

1. The City will designate a management-level individual accountable for overseeing this non-audit engagement, responsible for the results of this engagement.
2. The City will provide us documentation supporting this individual's knowledge, experience and capability to perform this role. This documentation may include education and training related to the matters covered in this engagement.
3. We will speak with this individual on an as-needed basis to update our progress and to allow the individual to monitor engagement performance to ensure it meets management's objectives.
4. This individual will make any decisions involving management functions related to this non-audit service and will accept full responsibility for these decisions. Accordingly, this individual will review and approve all work products associated with this non-audit service.
5. Finally, this individual will evaluate the adequacy of the Auditor of State's non-audit services. This individual will initial our audit documentation to evidence their review.

There will be no fee associated with the above non-audit service.

Reporting

We will issue a written report upon completing our audit of your financial statements. We will address our report to those charged with governance. We cannot assure you that we will issue an unmodified opinion. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter paragraph(s), or withdraw from the engagement.

Upon completing our audit, we will also issue a written report in accordance with *Government Auditing Standards* on internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

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Access to Our Reports and Working Papers

AU-C 905—*Alert That Restricts the Use of the Auditor's Written Communication* requires our reports to disclose the following:

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards:

This report describes only the scope of our tests of internal control over financial reporting and on compliance and other matters and the results of these tests, and does not opine on the effectiveness of the City's internal control over financial reporting or on compliance or other matters. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

AU-C 905 requires us to include this restrictive language in our reports due to concerns that other readers may not fully understand the purpose of the report, the nature of the procedures applied in its preparation, the basis or assumptions used in its preparation, the extent to which the procedures performed are generally known or understood, and the potential for the report to be misunderstood, when taken out of the context for which it was intended.

However, under Revised Code Section 117.26, an audit report becomes a public record under Section 149.43, Revised Code, when we file copies of the report with the public officers enumerated in the Revised Code. When we file the reports, our working papers become available to the public upon request, subject to information protected for criminal investigations, by attorney-client privilege or by local, state or federal law. AU-C 905 does not affect public access to our reports or working papers.

Under generally accepted auditing standards, we must retain working papers for five years after the release date of our opinion. However, AOS policy requires we retain working papers for seven years or longer, as needed.

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Peer Review Report

As required by *Government Auditing Standards*, we have attached a copy of our most recent external quality control review report (Peer Review). The report was unqualified.

Please sign and return this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. If you have any questions, please call Matthew Goldman at 216-787-3665.

Very truly yours,

Dave Yost
Auditor of State of Ohio


Dan Stuetzer, Chief Auditor

Attachment

cc: Members of City Council
Mayor David Roche

ACCEPTED BY _____

DATE _____

EXHIBIT A

**SAMPLE
AMENDMENT #__ TO LETTER OF ARRANGEMENT**

[Date]

[ENGAGEMENT LETTER ADDRESSEE]

Dear ____:

The letter of arrangement dated _____ between the Auditor of State and the City is hereby amended to reflect the following:

<u>Description of/Causes for Amendment</u>	<u>Estimated Fee Effect</u>
1	
2	
3	
4	
Total this amendment	\$0.00
Previous fee estimate	
Revised fee estimate	<u><u>\$0.00</u></u>

Please sign the copy of this letter in the space provided and return it to us. If you should have any questions, please call _____ at _____.

Very truly yours,

Dave Yost
Auditor of State of Ohio

(Name), Chief Auditor

cc: [Engagement Letter cc's]

ACCEPTED BY

DATE

TITLE

EXHIBIT A



National State Auditors Association

March 30, 2012

Mr. Dave Yost, Ohio Auditor of State
Office of Auditor of State
88 E. Broad Street, 5th Floor
Columbus, Ohio 43215

Dear Auditor of State:

We have reviewed the system of quality control of the Ohio Auditor of State (the office) in effect for the period March 1, 2011 through February 29, 2012. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Ohio Auditor of State in effect for the period March 1, 2011 through February 29, 2012 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Mark Ruether,
CPA
Team Leader
National State Auditors Association
External Peer Review Team

Joe Christensen, CPA
Concurring Reviewer
National State Auditors Association
External Peer Review Team

449 Lewis Hargett Circle, Suite 290, Lexington, Kentucky 40503-5590, Telephone (859) 276-1147, Fax (859) 278-0507
444 N. Capitol Street, NW, Suite 234, Washington, DC 20001, Telephone (202) 624-5451, Fax (202) 624-5473
www.nasact.org