

## MEMORANDUM

JULY 25, 2011

TO: CITY COUNCIL

VIA: CITY MANAGER JUDIE ZIMOMRA

FROM: FINANCE DIRECTOR SYLVIA EDWARDS 

RE: LARSONALLEN LLP, FIRST AMENDMENT TO THE AUDIT AGREEMENT DATED OCTOBER 7, 2008 AND ENGAGEMENT LETTER FOR AUDITING SERVICES FOR FISCAL YEAR ENDING SEPTEMBER 30, 2011

RECOMMENDATION: Approve and authorize the City Manager to execute the First Amendment to the Audit Agreement dated October 7, 2008 and the engagement letter for auditing services with LarsonAllen LLP for fiscal year ending September 30, 2011.

Section 2(c) of the audit agreement provided for auditing services for the City's fiscal years 2007-08; 2008-09; and 2009-10 and further provided that the Audit Agreement may be renewed for two (2) additional one (1) year terms upon written agreement of both parties. The City and the Auditor find it appropriate to extend the Audit Agreement for both additional one (1) year terms. Also it is in the City's best interest to continue with its current auditors during the transition to new software and workflow processes over fiscal years 2010-11 and 2011-12.

The audit fee for fiscal year 2009-2010 in the Audit Agreement dated October 7, 2008 was \$58,000. In the First Amendment to the Audit Agreement the audit fees for fiscal years 2010-11 and 2011-12 are \$58,500 and \$58,000 respectively. All other terms, provisions and sections of the Audit Agreement dated October 7, 2008 shall remain in full force and effect.

In accordance with Section 9 of the City's Audit Agreement with LarsonAllen LLP, the Auditors have prepared an audit engagement letter describing the purpose and scope of work to be performed. The audit engagement letter requires City Council approval. The audit fee is \$58,500 for the fiscal year 2010-2011 audit. Some interim work will be performed in fiscal year 2010-2011 while the majority of the auditing services will be completed in fiscal year 2011-2012. The audit fee is included in the fiscal year 2011-2012 proposed budget.

**FIRST AMENDMENT TO  
CITY OF SANIBEL AUDIT AGREEMENT**

This First Amendment to City of Sanibel Audit Agreement, made and entered into in Sanibel, Florida this \_\_\_\_ day of \_\_\_\_\_, 2011, by and between the City of Sanibel, a municipal corporation, hereinafter referred to as the CITY, and LarsonAllen LLP, authorized to do business in the State of Florida, hereinafter referred to as AUDITOR:

**WHEREAS**, the CITY and the AUDITOR entered into the City of Sanibel Audit Agreement dated October 7, 2008 (hereinafter "Audit Agreement") for certain audit services as more particularly described therein; and

**WHEREAS**, such Audit Agreement provided for audit services for the City's Fiscal Years 2007-2008, 2008-2009, 2009-2010 and further provided that the Audit Agreement may be renewed for two (2) additional one (1) year terms upon written agreement of both parties; and

**WHEREAS**, CITY and AUDITOR find it appropriate to extend the Audit Agreement for both additional one (1) year terms;

**NOW, THEREFORE, IT IS AGREED** by and between the parties hereto, each in consideration of the mutual promises and covenants of the other and other good and valuable consideration, acknowledged by both parties to be sufficient and received:

1. CITY and AUDITOR agree that, as authorized in Section 2(c) of the Audit Agreement, the Audit Agreement shall be extended for two (2) additional terms of one (1) year each.
2. Compensation and Terms of Payment.
  - a. In consideration of the services to be performed by AUDITOR, the CITY shall pay AUDITOR the sums as outlined in Paragraph 2(b) below, together with such additional compensation for additional work beyond the scope of normal auditing procedures as provided in Paragraph 5 of the Audit Agreement.
  - b. 

2010-2011	\$58,500
2011-2012	\$58,000
  - c. Fees will be paid in payments based on the work completed.
3. All other terms, provisions and sections of the Audit Agreement dated October 7, 2008 shall remain in full force and effect and operative for purposes of this First Amendment to Audit Agreement and such Audit Agreement is hereby confirmed as amended herein.



10/11-123

July 13, 2011

Honorable Mayor and  
Members of the City Council  
City of Sanibel, Florida  
800 Dunlop Road  
Sanibel, Florida 33957-0750

Honorable Mayor and Members of the City Council:

We are pleased to confirm our understanding of the services we are to provide the City of Sanibel, Florida ("you" or "your") for the year ended September 30, 2011, as documented in the Audit Agreement dated October 7, 2008.

**Scope**

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprises the basic financial statements of the City of Sanibel, Florida as of and for the year ended September 30, 2011. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City of Sanibel, Florida's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 City of Sanibel, Florida's 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us 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. Schedule of Funding Progress - General Employees' Pension Plan.
3. Schedule of Funding Progress - Municipal Police Officers' Pension Plan.
4. Schedule of Funding Progress - Other Post Employment Benefits Plan.

Supplementary information other than RSI also accompanies the City of Sanibel, Florida's financial statements. We will subject the following supplementary information to the auditing procedures applied in our 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 will provide an opinion on it in relation to the financial statements as a whole.

1. Combining and individual fund statements.
2. Information for a Comprehensive Annual Financial Report (CAFR).

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditors' report will not provide an opinion or any assurance.

1. Introductory Section.
2. Statistical Section.

#### **Audit objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the third paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the City of Sanibel, Florida and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully 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.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the City of Sanibel, Florida is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

#### **Management responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities to help ensure that appropriate goals and objectives are met; for the selection and

application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sanibel, Florida and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. Management's responsibilities include 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.

You are 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 government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present the supplementary information with the audited financial statements or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the "Audit objectives" section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

#### **Audit procedures - general**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute 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 entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. 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, we will inform the appropriate level of management of any material errors and 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. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We 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 our audit, we will require certain written representations from you about the financial statements and related matters.

#### **Audit procedures - internal control**

Our audit will include obtaining an understanding of the entity 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

#### **Audit procedures - compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City of Sanibel, Florida's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

#### **Engagement administration**

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

We will provide copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of LarsonAllen LLP (LarsonAllen) and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal or state agency providing direct or indirect funding, the U.S. Government Accountability Office, or the Auditor General of the State of Florida for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of LarsonAllen personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the Auditor General of the State of Florida. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Martin A. Redovan is the engagement principal and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We expect to begin our audit January 9, 2012.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2010 peer review report accompanies this letter.

#### **Use of financial statements**

If you and your management intend to reproduce and publish the financial statements and our report thereon, they must be reproduced in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval of the document.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

#### **Limitation of remedies**

Our role is strictly limited to the engagement described in this letter, and we offer no assurance as to the results or ultimate outcomes of this engagement or of any decisions that you may make based upon our communications with, or our reports to, you. The City will be solely responsible for making all decisions concerning the contents of our communications and reports, for the adoption of any plans, and for implementing any plans you may develop, including any that we may discuss with you.

You agree that it is appropriate to limit the liability of LarsonAllen LLP (LarsonAllen), its principals, directors, officers, employees, and agents (“we” or “us”) and that this limitation of remedies provision is governed by the laws of the state of Florida, without giving effect to choice of law principles.

The exclusive remedy available to you in the event of a disagreement, controversy, or claim (“Dispute”) shall be the right to pursue claims for actual damages that are directly caused by acts or omissions that are breaches by us of our duties under this agreement, but any recovery on any Dispute shall not exceed \$500,000.

**Fees**

We estimate that our fees for these services will be \$58,500 for the 2011 audit (base fee of \$55,500 plus \$3,000 for the estimated additional audit effort relating to the new software implemented for the G/L, A/P and Purchasing, Special Assessments and P-Cards). The fee estimate is based on anticipated cooperation from your personnel and their assistance with preparing confirmations and requested schedules. If unexpected circumstances require significant additional time, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination.

In addition, we will be compensated for any time and expenses, including time and expenses of legal counsel, we may incur in conducting or responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings as a result of our firm’s performance of these services.

**Agreement**

We appreciate the opportunity to be of service to the City of Sanibel, Florida 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.

Sincerely,

**LarsonAllen LLP**

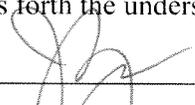


Martin A. Redovan, CPA, CVA  
Principal  
239-226-9900  
mredovan@larsonallen.com

Enclosure

Response:

This letter correctly sets forth the understanding of City of Sanibel, Florida.

Authorized Signature: 

Title: City Manager

Date: 7/23/11

**APPROVED AS TO FORM:**

  
**CITY ATTORNEY**

  
**Sylvia A. Edwards, Finance Director**

## System Review Report

To the Principals of LarsonAllen LLP  
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of LarsonAllen LLP (the firm) applicable to non-SEC issuers in effect for the year ended March 31, 2010. 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. 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](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*; audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of LarsonAllen LLP in effect for the year ended March 31, 2010 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*. LarsonAllen LLP has received a peer review rating of *pass*.

*Clifton Gunderson LLP*

August 13, 2010

