

9. **CONSENT AGENDA**

- q. Approval of an Audit Engagement Letter from LarsonAllen, LLP for the fiscal year ending September 30, 2008, and pursuant to Section 9 of the Audit Agreement and authorize the City Manager to execute same

MEMORANDUM

SEPTEMBER 22, 2008

TO: CITY COUNCIL

VIA: CITY MANAGER JUDIE ZIMOMRA

FROM: FINANCE DIRECTOR SYLVIA EDWARDS 

RE: LARSONALLEN LLP, ENGAGEMENT LETTER FOR AUDITING SERVICES FOR FISCAL YEAR ENDING SEPTEMBER 30, 2008

RECOMMENDATION: Authorize the City Manager to execute the engagement letter for auditing services with LarsonAllen LLP for fiscal year ending September 30, 2008.

Pending approval of auditor selection and in accordance with the Audit Agreement, Section 9, 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.

CITY OF SANIBEL

September 19, 2008

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

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 ("City", "you" or "your") for the year ending September 30, 2008.

Scope

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information, which collectively comprise the City's basic financial statements, as of and for the year ended September 30, 2008. 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 accompany the City's basic financial statements. As part of our engagement, we will apply certain limited procedures to the City's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. 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'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 will provide an opinion on it in relation to the basic financial statements:

1. Combining Financial Statements and Schedules
2. Schedule of Expenditures of Federal Awards and State Financial Assistance

The following additional information accompanying the basic 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 disclaim an opinion.

1. Introductory Section
2. Statistical Section

Audit objectives

The objective of our audit is the expression of an opinion 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 basic financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major federal programs and major state projects, and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts, and grant agreements that could have a direct and material effect on each major federal program and major state project, in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and Chapter 215.97 Florida Statutes "Florida Single Audit Act," respectively.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of City Council, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; the provisions of OMB Circular A-133, the Florida Single Audit Act, and will include tests of accounting records, a determination of major federal program(s) in accordance with OMB Circular A-133 and major state project(s) in accordance with the Florida Single Audit Act, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation in the financial statements of the financial position of the City and the change in financial position and cash flows in conformity with U.S. generally accepted accounting principles; and for federal award program and state award project compliance with applicable laws and regulations and the provisions of contracts, grant agreements. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. 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 or illegal acts affecting the City 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 City received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements and grants. Additionally, as required by OMB Circular A-133 and the Florida Single Audit Act, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or 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 or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

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 or noncompliance 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 or major programs or major state projects. However, we will inform you 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. We will include such matters in the reports required for a Federal or State Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any 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, 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 also 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*.

As required by OMB Circular A-133 and the Florida Single Audit Act, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program or major state project. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133 or the Florida Single Audit Act.

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 professional standards, *Government Auditing Standards*, and OMB Circular A-133 and the Florida Single Audit Act.

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's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures 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*.

OMB Circular A-133 and the Florida Single Audit Act require that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal programs and major state projects. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* or the *State Projects Compliance Supplement*, as applicable, for the types of compliance requirements that could have a direct and material effect on each of the City's major programs/projects. The purpose of those procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs/projects in our report on compliance issued pursuant to OMB Circular A-133 and the Florida Single Audit Act.

Administration

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

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide our reports to the City; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse, and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement is the property of LarsonAllen LLP ("LarsonAllen") and constitutes confidential information. However, pursuant to the City 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. If we are aware that a federal or state awarding agency, pass-through entity, 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.

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 2007 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 Internet website, you understand that electronic sites are a means of distributing 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.

Dispute resolution

The following procedures shall be used to resolve any disagreement, controversy or claim that may arise out of any aspect of our services or relationship with you, including this engagement, for any reason ("Dispute"). Specifically, we agree to first mediate and, if unsuccessful, then arbitrate all Disputes between us, including

without limitation any issue concerning the extent to which any Dispute is subject to arbitration, any Dispute concerning this agreement, the limitations of remedy provided by this agreement, or claims for breach of contract, negligence, fraud, fraud in the inducement, breach of fiduciary duty, violation of statute and any other cause of action or remedy.

Mediation

All Disputes between us shall first be submitted to non-binding mediation by written notice ("Mediation Notice") to the other party. In mediation, we will work with you to resolve any differences voluntarily with the aid of an impartial mediator. The mediator will be selected by mutual agreement, but if we cannot agree on a mediator, one shall be designated by the American Arbitration Association ("AAA").

The mediation will be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with the assistance of the mediator, to reach an amicable resolution of the Dispute.

Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

Arbitration

If any Dispute has not been resolved within ninety (90) days after the written mediation notice, the mediation shall terminate and the Dispute will be settled by arbitration. The arbitration will be conducted in accordance with the procedures in this document and the Arbitration Rules of the Dispute Resolution Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association, except where this agreement differs.

The arbitration will be conducted in Lee, Florida, before a panel of three (3) neutral arbitrators, regardless of the size or amount of the Dispute.

Any issue concerning the extent to which any Dispute is subject to arbitration, or concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators.

Time limitation

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any Dispute. We both agree that any action or legal proceeding by you against us must be commenced within the period of limitations as delineated in Florida Statute 95.11(4)(a), regardless of whether we do other services for you relating to the audit report, or you shall be forever barred from commencing a lawsuit or obtaining any legal or equitable relief or recovery.

Fees

We estimate that our fees for these services will \$53,000 for the 2008 audit. The fee estimate 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, we will discuss it with City management 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

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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, including those other than the instant case, 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 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 the City of Sanibel.

Authorized Signature: _____

Title: _____

Date: _____



APPROVED FINANCIAL SUFFICIENCY
Sylvia A. Edwards, Finance Director

APPROVED AS TO FORM:

CITY ATTORNEY



September 28, 2007

To the Principals of LarsonAllen LLP
and the Center for Public Company Audit
Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of LarsonAllen LLP (the firm) (formerly known as Larson, Allen, Weishair & Co., LLP) applicable to non-SEC issuers in effect for the year ended March 31, 2007. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, 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 that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of LarsonAllen LLP (formerly known as Larson, Allen, Weishair & Co., LLP) in effect for the year ended March 31, 2007 has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

Clifton Gunderson LLP