



CITY OF COEUR D'ALENE

FINANCE DEPARTMENT

CITY HALL, 710 E. MULLAN
COEUR D'ALENE, IDAHO 83816-3964
208/769-2225 – FAX 208/769-2284

Staff Report

Date: December 3, 2012
From: Troy Tymesen, Finance Director
Subject: Annual Agreement for the City Audit

DECISION POINT:

To enter into the annual engagement agreement with Magnuson, McHugh & Company, PA accounting firm to conduct the 2011-2012 Fiscal Year audit.

HISTORY:

The City conducts an annual audit to comply with the state statutes and the National Recognized Municipal Securities Information Repositories (NRMSIRs).

FINANCIAL ANALYSIS:

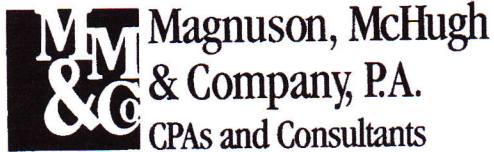
Last year the City solicited quotes for audit services from two other qualified municipal audit firms. One quote was received from Eide Bailey and one was received from LarsonAllen CPA firm in Spokane. Both of the quotes were over 22% higher than the proposal from Magnuson, McHugh. This year the City contacted Tompkins and Peter, CPA, P.C. from Missoula and they declined to quote because of the reasonable fee currently being charged. The financial plan for the City includes the quoted cost, of \$29,500.00, including the single audit as presented by Magnuson McHugh.

PERFORMANCE ANALYSIS:

Magnuson, McHugh & Company has provided audit services for the City and its bond holders in the past and it is being done at a reasonable cost when comparing it to other firms.

DECISION POINT:

To enter into the annual engagement agreement with Magnuson, McHugh & Company, PA accounting firm to conduct the 2011-2012 Fiscal Year audit.



COUNCIL PACKET
12-18-12

October 19, 2012

To the Honorable Mayor and City Council
City of Coeur d'Alene
710 Mullan Avenue
Coeur d'Alene, ID 83814

We are pleased to confirm our understanding of the services we are to provide for the City of Coeur d'Alene for the periods or year ended September 30, 2012. We will audit the basic financial statements of the City of Coeur d'Alene as of September 30, 2012 and for the fiscal year then ended. In addition, we will audit the entity's compliance over major federal award programs for the period ended September 30, 2012.

Accounting principles generally accepted in the United States of America require that 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 and Actual: General Fund.
3. Police Retirement Trust Fund: Schedule of Employer Contributions, Schedule of funding progress, Five Year Trend Information & Annual Development Pension Cost.
4. Schedule of Funding Progress for Postemployment Benefit Plans.

Supplementary information other than RSI will accompany the City of Coeur d'Alene'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.
2. Schedule of Expenditures of Federal Awards

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Audit of the Financial Statements

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards of the Comptroller General of the United States of America, and will include tests of the accounting records of the City of Coeur d'Alene and other procedures we consider necessary to enable us to express an unqualified opinion that the basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to express opinions on each opinion unit. If any of our opinions 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, we will not issue a report as a result of this engagement.

Our procedures will 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 customers, creditors, and financial institutions. Also, we will request written representations from your attorneys as part of the engagement, and they may bill you for responding to that inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

An audit of the financial statements 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. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements of each opinion unit are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. The entity's management is responsible for establishing and maintaining a sound system of internal control, which is the best means of preventing or detecting errors, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements and abuse. Because the determination of abuse is subjective, Government Auditing Standards does not expect auditors to provide reasonable assurance of detecting abuse. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

A financial statement audit includes obtaining an understanding of the entity 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 material weaknesses or significant deficiencies. However, we will communicate to you and those charged with governance any material weaknesses or significant deficiencies that come to our attention.

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 over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

Audit of Major Program Compliance

Our audit of the City of Coeur d'Alene's major federal award program(s) compliance will be made in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and will include tests of accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. If our opinion on compliance for any major program is other than unqualified, we will fully discuss the reasons with you in advance.

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Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the entity has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs. The purpose of those procedures will be to express an opinion on the entity's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Circular A-133.

Also, as required by Circular A-133, we will perform tests of controls 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 of the entity's major federal award programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the entity's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Management's Responsibilities

We understand that you are responsible for the financial statements and for making all financial records and related information required for our audit available to us on a timely basis, and that you are responsible for the accuracy and completeness of that information. This management responsibility includes: (a) establishing and maintaining adequate records and related internal control policies and procedures, (b) selecting and applying accounting principles, (c) safeguarding assets, (d) identifying all federal awards expended during the period, and (e) identifying and ensuring that the entity complies with laws, regulations, grants, and contracts applicable to its activities and its federal award programs.

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.

We may advise you about appropriate accounting principles and their application and may assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. Management is also responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the management representation letter that the effects of any uncorrected misstatements, resulting from errors or fraud, 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 agree that management is responsible for: (a) the design and implementation of programs and controls to prevent and detect fraud, (b) informing us about any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements or major federal award programs, and (c) informing us about any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

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In addition, as required by Circular A-133, it is management's responsibility to prepare the schedule of expenditures of federal awards in accordance with Circular A-133 requirements, follow up and take corrective action on reported audit findings from prior periods and to prepare a summary schedule of prior audit findings, and follow up on current year audit findings and prepare a corrective action plan for such findings. Management is also responsible for submitting the reporting package and data collection form to the appropriate parties. Management will also make the auditor aware of any significant vendor relationships where the vendor is responsible for program compliance. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your management representation letter.

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.

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.

Fees and Timing

The timing of our audit will be scheduled for performance and completion as follows: Interim fieldwork is to begin December 10th through 14th, final fieldwork to begin January 15th with the reports being issued as soon as possible after fieldwork is complete.

Toni Hackwith is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$29,500 with a single audit or \$26,900 without a single audit. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. 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 may 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 upon written notification of termination, even if we have not completed our report(s). 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. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

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Other Matters

The audit documentation for this engagement is the property of Magnuson, McHugh & Company and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulators and federal agencies and the U.S. Government Accountability Office 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's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least five years from the date of our report. 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, City of Coeur d'Alene'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. Within the scope of this engagement we will perform the following nonattest services:

1. With regard to our provision of health benefits administration, the City of Coeur d'Alene is the legal administrator and has assigned a competent individual who is familiar with the operation of the plan, oversees our work and internal controls and makes policy decisions regarding it. The service we provide is not complex and is reviewed by this individual on an ongoing basis.

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.

At the conclusion of our audit engagement, we will communicate to 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.

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.

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City of Coeur d'Alene
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If the foregoing is in accordance with your understanding, please indicate your agreement by signing the duplicate copy of this letter and returning it to us. If you have any questions, please let us know.

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.

The City of Coeur d'Alene

Approved by: _____

Title: _____

Date: _____

Magnuson, McHugh & Company, P.A.

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