

### City of Fayetteville Item Review Form

2013-0137

Legistar File Number

11/19/2013

City Council Meeting Date - Agenda Item Only  
N/A for Non-Agenda Item

Marsha Hertweck

Submitted By

Finance and Int Services

Department

Action Required:

Approval of the engagement contract with Grant Thornton for the 2013 annual financial audit.

Does this item have a cost?

\$85,000.00

Cost of this request

\$85,000.00

Category or Project Budget

various funds

Account Number

Funds Used to Date

\$0.00

Remaining Balance

Project Number

Fund Name

Budgeted Item?

Budget Adjustment Attached?

V20130812

Previous Ordinance or Resolution # \_\_\_\_\_

Original Contract Number: \_\_\_\_\_

Comments:

*Paul A. Behm* 11-5-13

*Paul a. Behm* 11-5-2013

*Don May* 11-5-2013

*Freddie Dyer* 11/2/13

11-04-13 P05:17 RCVD

*dm*




THE CITY OF FAYETTEVILLE, ARKANSAS

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To: Mayor Lioneld Jordan and the Fayetteville City Council

Thru: Paul Becker, Finance Director **P.B.**

From: Marsha Hertweck, Accounting Director 

Date: November 1, 2013

Subject: Annual Audit

### **Recommendation**

Approval of the second year of a five year contract with Grant Thornton for annual audit services for the 2013 audit.

### **Discussion**

The City is required, under Arkansas statutes and applicable bond issues, to have an annual financial audit conducted by either Legislative Audit or a Certified Public Accounting firm licensed in Arkansas. Because of the requirements of bond indentures, the City has for the past thirty plus years utilized the services of a private CPA firm to perform these mandated financial audits.

Grant Thornton was selected by the City following the applicable rules and regulations concerning the procurement of auditing services for a five year contract beginning with the 2012 audit. Under this contract Grant Thornton will provide an annual audit of the City's financial statements and a review of the City's internal control system as required by state law. In addition to the financial audit, Grant Thornton will issue a report on internal control and compliance requirements for major federal award programs as required by the Single Audit Act. The single audit is the primary mechanism used by federal agencies to ensure accountability for federal awards to non-federal entities.

Finally, Grant Thornton will also provide technical assistance to the City in producing the Comprehensive Annual Financial Report (CAFR). The CAFR includes the City's financial statements as well as statistical information required by the City's bond covenants.

### **Budget Impact**

The cost of the 2013 audit is \$85,000. The audit will be budgeted in General Fund and allocated to the various funds of the City.

**RESOLUTION NO. \_\_\_\_\_**

A RESOLUTION APPROVING A CONTRACT WITH GRANT THORNTON  
LLP IN THE AMOUNT OF \$85,000.00 TO PROVIDE INDEPENDENT AUDIT  
SERVICES TO THE CITY OF FAYETTEVILLE

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF  
FAYETTEVILLE, ARKANSAS:**

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby approves a contract with Grant Thornton LLP, in the amount of \$85,000.00 to provide independent audit services to the City of Fayetteville. A copy of the engagement letter for services marked Exhibit "A" is attached hereto, and made a part hereof.

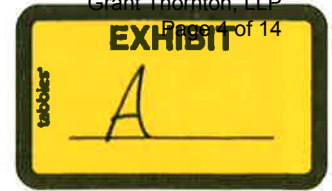
**PASSED and APPROVED** this 19<sup>th</sup> day of November, 2013.

**APPROVED:**

**ATTEST:**

By: \_\_\_\_\_  
**LIONELD JORDAN, Mayor**

By: \_\_\_\_\_  
**SONDRA E. SMITH, City Clerk/Treasurer**



October 10, 2013

Mr. Lioneld Jordan  
City Administration Building – City Hall  
113 West Mountain Street  
Fayetteville, Arkansas 72701

**Audit • Tax • Advisory**  
**Grant Thornton LLP**  
1717 Main Street, Suite 1500  
Dallas, TX 75201-4667  
T 214.561.2300  
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Dear Mr. Jordan:

This letter (the “Engagement Letter”) documents our mutual understanding of the arrangements for the services described herein.

#### **Scope of services**

Grant Thornton LLP (“Grant Thornton”) will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information, which collectively comprise the entity’s basic financial statements (“financial statements”) of the City of Fayetteville, Arkansas (collectively, the “City”), as of and for the year ended December 31, 2013.

Our financial statement audit will be conducted in accordance with auditing standards generally accepted in the United States of America (“US GAAS”) established by the American Institute of Certified Public Accountants (“AICPA”) and the standards for financial audits of the U.S. Government Accountability Office’s (“GAO”) *Government Auditing Standards* (“GAGAS”) issued by the Comptroller General of the United States. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

In assessing the risks of material misstatement, an auditor considers 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 circumstance. GAGAS further requires us to perform tests of the City’s compliance with laws, regulations and provisions of contracts or grant agreements, in which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, a financial statement audit is not designed to provide assurance on compliance or internal control over financial reporting or to identify immaterial instances of noncompliance or internal control deficiencies.

When conducting an audit, the auditor is required to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, to enable the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in

accordance with accounting principles generally accepted in the United States of America. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance. However, an audit is not a guarantee of the accuracy of the financial statements. Even though the audit is properly planned and performed in accordance with professional standards, an unavoidable risk exists that some material misstatements or noncompliance with laws, regulations, and provisions of contracts or grant agreements may not be detected due to the inherent limitations of an audit, together with the inherent limitations of internal control. Also, an audit is not designed to detect errors or fraud that is immaterial to the financial statements.

It should be noted that because the determination of abuse is subjective, we have no responsibility to design the audit to provide reasonable assurance of detecting abuse. Abuse is distinct from fraud and noncompliance. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

Pursuant to the Single Audit Act Amendments of 1996 and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("OMB Circular A-133"), we will also audit the City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. We will conduct our compliance audit in accordance with US GAAS, GAGAS, and OMB Circular A-133. Those standards and OMB Circular a-133 require the auditor to plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on each major federal program occurred, to enable the auditor to express an opinion on the City's compliance with these requirements in all material respects. A compliance audit includes determining major programs, examining, on a test basis, evidence about the City's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances, including performing tests of internal control to evaluate the effectiveness of the design and operation of controls considered relevant to preventing, or detecting and correcting material noncompliance with requirements applicable to major programs. Absolute assurance is not attainable because the compliance audit is conducted on a test basis and compliance with the specific program requirements is subject to the inherent limitations of internal control over compliance, which may not prevent or detect intentional or unintentional noncompliance. Accordingly, material noncompliance may remain undetected. Also, a compliance audit is not designed to detect noncompliance, whether intentional or unintentional, that is immaterial. Our compliance audit does not provide a legal determination of the City's compliance with those requirements.

Upon the completion of the foregoing financial statement and compliance audits and subject to their findings, we will render our reports on the City's financial statements and on the City's compliance with the requirements referred to above that are applicable to each of its major federal programs and will communicate our findings in accordance with US GAAS, GAGAS, and OMB Circular A-133. Our report on the City's compliance will include our findings on internal control over compliance; however, no opinion will be expressed on internal control over compliance.

As required by GAGAS, we will also render a report that includes our findings on the City's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grants, and other matters based on our financial statement audit. Such report will be considered integral to the basic financial statements and will be referred to in our report thereon. However, providing an opinion on internal

control over financial reporting or on compliance with those provisions is not an objective of our financial statement audit, and accordingly, we will not express such an opinion.

It is possible that circumstances may arise in which our reports may differ from their expected form and content, resulting in a modified report or disclaimer of opinion. Further, if in our professional judgment the circumstances necessitate, we may resign from the engagement prior to completion.

### **Required supplementary information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress for the pension plans and other postemployment benefit plan be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We will apply certain limited procedures to the required supplementary information in accordance with US GAAS. These limited procedures consist of inquiries of management about 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 obtain 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 will not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other information**

Management is responsible for providing us with other information that will be included in an annual report or similar document containing audited financial statements and our auditor's report thereon, including the introductory and statistical sections presented to fulfill the requirements of the Government Finance Officers' Association Comprehensive Annual Financial Report ("CAFR"). Management should provide the information prior to the release of our auditor's report. Our responsibility for such information does not extend beyond the financial information identified in our report. We do not perform any procedures to corroborate the other information contained in these documents. Professional standards require us to read the other information and consider whether the other information, or the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We will bring to management's attention any information that we believe is a material misstatement of fact.

### **Responsibilities of those charged with governance**

Effective two-way communication with the City Council and Audit Committee (referred to as "those charged with governance") assists us in obtaining information relevant to the audit and also assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process. Those charged with governance play an important role in the City's internal control over financial reporting by setting a positive tone at the top and challenging the City's activities in the financial arena. Accordingly, it is important for those charged with governance to communicate to us matters they believe are relevant to our engagement. As indicated below, management also has a responsibility to communicate certain matters to those charged with governance and to Grant Thornton.

In connection with our engagement, professional standards require us to communicate certain matters that come to our attention to those charged with governance, such as the following:

- fraud involving senior management and fraud that causes a material misstatement
- illegal acts, unless clearly inconsequential
- violations of provisions of contracts or grant agreements and abuse that causes a material misstatement
- non-compliance with the provisions of a major federal financial assistance program.
- failure to report fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse to specified external parties when required by law or regulation. We may also be required to report such matters directly to the external party.
- significant deficiencies and material weaknesses in internal control over financial reporting and federal financial assistance
- disagreements with management and other serious difficulties encountered
- qualitative aspects of significant accounting practices, including accounting policies, estimates, and disclosures
- audit adjustments and uncorrected misstatements, including missing disclosures

### **Management responsibilities**

As you are aware, the financial statements are the responsibility of management. Management is responsible for preparing and fairly presenting the financial statements in accordance with accounting principles generally accepted in the United States of America, which includes adopting sound accounting practices and complying with changes in accounting principles and related guidance. Management is also responsible for:

- providing us with access to all information of which they are aware that is relevant to the preparation and fair presentation of the financial statements, including all financial records, documentation of internal control over financial reporting and federal financial assistance and related information, and any additional information that we may request for audit purposes
- providing us with unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence
- making us aware of any significant vendor relationships in which the vendor has the responsibility for program compliance
- ensuring that the City identifies and complies with all laws, regulations, contracts and grants applicable to its activities and for informing us of any known violations. The City should identify and disclose to us all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other significant financial data.
- taking timely and appropriate steps to remedy fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report
- designing, implementing, and maintaining effective internal control over financial reporting and federal financial assistance, which includes adequate accounting records and procedures to safeguard the City's assets, and for informing us of all known significant deficiencies and material weaknesses in, and significant changes in, internal control over financial reporting and federal financial assistance

- informing us of their views about the risk of fraud within the City and their awareness of any known or suspected fraud and the related corrective action proposed
- adjusting the financial statements, including disclosures, to correct material misstatements and for affirming to us in a representation letter that the effects of any uncorrected misstatements, including missing disclosures, aggregated by us during the current engagement, including those pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the financial statements as a whole
- establishing and maintaining a process to address and track the status of our findings, conclusions, and recommendations, including providing management's views on such matters as well as planned corrective actions to be included in the report to management, in a timely manner. This includes informing us of findings and recommendations from previous audits, attestation engagements, or other studies that could have a material effect on the financial statements and whether any related recommendations were implemented
- informing us of any events occurring subsequent to the date of the financial statements through the date of our auditor's report that may affect the financial statements or the related disclosures
- informing us of any subsequent discovery of facts that may have existed at the date of our auditor's report that may have affected the financial statements or the related disclosures
- taking corrective action on any reported findings or questioned costs reported to them and preparing a summary schedule of prior audit findings and a corrective action plan, if applicable, as required by OMB Circular A-133
- submitting the reporting package (including financial statements, schedule of expenditures of federal awards, auditor's reports and, if applicable, a summary schedule of prior audit findings 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 auditor's 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 the audit.
- distributing the report(s), including the financial statements, any supplementary information, and the report(s) thereon, to those officials and organizations requiring them.

To assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process, management should discuss with those charged with governance the:

- adequacy of internal control over financial reporting and federal financial assistance and the identification of any significant deficiencies or material weaknesses, including the related corrective action proposed
- significant accounting policies, alternative treatments, and the reasons for the initial selection or change in significant accounting policies



- process used by management in formulating particularly sensitive accounting judgments and estimates and whether the possibility exists that future events affecting these estimates may differ markedly from current judgments
- basis used by management in determining that uncorrected misstatements, including missing disclosures, are immaterial, both individually and in the aggregate, including whether any of these uncorrected misstatements could potentially cause future financial statements to be materially misstated.

We will require management's cooperation to complete our services. In addition, we will obtain, in accordance with professional standards, certain written representations from management, which we will rely upon.

### **Use of our reports**

The inclusion, publication, or reproduction by the City of any of our reports in documents such as bond offerings, regulatory filings, and OMB Circular A-133 Data Collection Forms containing information in addition to financial statements may require us to perform additional procedures to fulfill our professional or legal responsibilities. Accordingly, our reports should not be used for any such purposes without our prior permission. In addition, to avoid unnecessary delay or misunderstanding, it is important that the City give us timely notice of its intention to issue any such document.

The report on compliance with laws, regulations, and provisions of contracts or grant agreements and internal control over financial reporting and the report on compliance and internal control over compliance related to major programs issued in accordance with OMB Circular A-133 will each include a statement that describes the purpose of the communication, which is to describe the scope of our testing of internal control over financial reporting, internal control over compliance, and compliance, and the result of that testing. Accordingly, these reports are not suitable for any other purpose.

### **Other services**

### **Supplementary information**

Management is responsible for separately preparing the schedule of expenditures of federal awards for the year ended December 31, 2013 in accordance with OMB Circular A-133 and the combining and individual fund statements and schedules in accordance with the requirements of the Government Finance Officers' Association Comprehensive Annual Financial Report ("CAFR"). Such supplementary information, which will be presented for purposes of additional analysis and is not a required part of the financial statements, will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These procedures will include comparing and reconciling the supplementary 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 US GAAS. The purpose of our procedures will be to form and express an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

In connection with our procedures, management is responsible for informing us about:

- the methods of measurement and presentation of the supplementary information

- whether those methods have changed from the methods used in the prior period and the reasons for the change, if any
- any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management will present the supplementary information with the audited financial statements. Management is responsible for including our report on the supplementary information in any document that contains the supplementary information and that indicates we reported on it.

We will require management to provide us with certain written representations related to their responsibilities described above, including whether management believes the supplementary information (including its form and content) is fairly presented in accordance with OMB Circular A-133 and CAFR and/or the applicable criteria, as appropriate.

#### **Other services**

Any other services that you request will constitute a separate engagement that will be subject to our acceptance procedures. Professional standards, laws, and regulations may prescribe limitations on non-audit services we may perform without impairing our independence.

#### **Fees**

##### **Standard billings**

Our billings for the services set forth in this Engagement Letter, will not exceed \$80,000 with additional out-of-pocket expenses not to exceed \$5,000 will be rendered on an estimated basis based on the hours worked in accordance with the following Schedule of Standard Billings and are payable within 30 days of receipt.

<u>Billing date</u>	<u>Fees</u>
March 30, 2014	\$25,000
April 15, 2014	\$25,000
May 1, 2014	\$35,000

##### **Adoption of new accounting standards**

Professional and regulatory bodies frequently issue new accounting standards and guidance. Sometimes, standards are issued and become effective in the same period, providing a limited implementation phase and preventing us from including the impact in our estimated fees. In such circumstances, we will discuss with you the additional audit procedures and related fees, including matters such as the retrospective application of accounting changes and changes in classification.

##### **Other costs**

Except with respect to a dispute or litigation between Grant Thornton and the City, our costs and time spent in legal and regulatory matters or proceedings arising from our engagement, such as subpoenas, testimony, or

consultation involving private litigation, arbitration, industry or government regulatory inquiries, whether made at the City's request or by subpoena, will be billed to the City separately.

Professional standards impose additional responsibilities regarding the reporting of illegal acts that have or may have occurred. To fulfill our responsibilities, we may need to consult with the City's counsel or counsel of our choosing about any illegal acts that we become aware of. Additional fees, including legal fees, will be billed to the City. The City agrees to ensure full cooperation with any procedures that we may deem necessary to perform.

#### **Right to terminate services for nonpayment**

In the event of nonpayment, we retain the right to (a) suspend the performance of our services, (b) change the payment conditions under this Engagement Letter, or (c) terminate our services. If we elect to suspend our services, such services will not be resumed until your account is paid as agreed. Alternatively, if we elect to terminate our services for nonpayment, the City will be obligated to compensate us for all time expended and to reimburse us for all expenses through the date of termination.

#### **Other matters**

##### **Relationship to Grant Thornton International Ltd**

Grant Thornton is the U.S. member firm of Grant Thornton International Ltd ("Grant Thornton International"), an organization of independently owned and managed accounting and consulting firms. References to Grant Thornton International are to Grant Thornton International Ltd. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms. These firms are not members of one international partnership or otherwise legal partners with each other internationally, nor is any one firm responsible for the services or activities of any other firm.

##### **Use of third-party service providers**

Grant Thornton may use third-party service providers, such as independent contractors, specialists or vendors, to assist in providing our professional services. The partners and staff of the member firms of Grant Thornton International or other accounting firms are also considered third-party service providers.

Grant Thornton intends to engage the following third-party service provider(s) to assist us as follows:

- Capital Confirmation, Inc. – electronic bank confirmation services
- Harvest Investments, Ltd. – valuation of investment portfolio

You hereby authorize us to disclose City information to the above named third-party service providers.

##### **Peer review report**

GAGAS requires that we provide you with a copy of our most recent triennial quality control review report. Accordingly, our May 31, 2011 Peer Review Report accompanies the Engagement Letter.

##### **Privacy**

Grant Thornton is committed to protecting personal information. We will maintain such information in confidence in accordance with professional standards and governing laws. Therefore, any personal information provided to us by the City will be kept confidential and not disclosed to any third party unless

expressly permitted by the City or required by law, regulation, legal process, or professional standards. The City is responsible for obtaining, pursuant to law or regulation, consents from parties that provided the City with their personal information, which will be obtained, used, and disclosed by Grant Thornton for its required purposes.

### **Documentation**

The documentation for this engagement is the property of Grant Thornton and constitutes confidential information. We have a responsibility to retain the documentation for a period of time sufficient to satisfy any applicable legal or regulatory requirements for records retention.

Pursuant to law or regulation, we may be requested to make certain documentation available to regulators, governmental agencies, or their representatives (“Regulators”). If requested, access to the documentation will be provided to the Regulators under our supervision. We may also provide copies of selected documentation, which the Regulators may distribute to other governmental agencies or third parties. You hereby acknowledge we will allow and authorize us to allow the Regulators access to, and copies of, the documentation in this manner.

### **Electronic communications**

During the course of our engagement, we may need to electronically transmit confidential information to each other and to third-party service providers or other entities engaged by either Grant Thornton or the City. Electronic methods include telephones, cell phones, e-mail, and fax. These technologies provide a fast and convenient way to communicate. However, all forms of electronic communication have inherent security weaknesses, and the risk of compromised confidentiality cannot be eliminated. The City agrees to the use of electronic methods to transmit and receive information, including confidential information.

### **Standards of performance**

We will perform our services in conformity with the terms expressly set forth in this Engagement letter, including all applicable professional standards. Accordingly, our services shall be evaluated solely on our substantial conformance with such terms and standards.

To the extent permitted by law and subject to all sovereign immunities available to the City, the City shall accept responsibility for any damages or loss directly related to City’s knowing misrepresentations or fraudulent behavior in connection with this Engagement.

If because of a change in the City’s status or due to any other reason, any provision in this Engagement letter would be prohibited by, or would impair our independence under, laws, regulations, or published interpretations by governmental bodies, commissions, or other regulatory agencies, such provision shall, to that extent, be of no further force and effect and the Engagement Letter shall consist of the remaining portions.

### **Dispute resolution**

We both recognize that the matter will probably involve complex business or accounting issues that would be decided most equitably to us both by a judge hearing the evidence without a jury. Accordingly, to the extent now or hereafter permitted by applicable law, the City and Grant Thornton agree to waive any right to a trial

by jury in any action, proceeding, or counterclaim arising out of or relating to our services or this Engagement Letter.

**Authorization**

This Engagement Letter sets forth the entire understanding between the City and Grant Thornton regarding the services described herein and supersedes any previous proposals, correspondence, and understandings, whether written or oral. If any portion of this Engagement Letter is held invalid, it is agreed that such invalidity shall not affect any of the remaining portions.

Please confirm your acceptance of this Engagement Letter by signing below and returning one copy to us in the enclosed self-addressed envelope. In addition, please provide the signed copies of the Engagement Letter to the City's Finance Director, Paul Becker, in order for management to acknowledge the terms herein. We appreciate the opportunity to continue to work with the City and assure you that this engagement will be given our closest attention.

Sincerely,

GRANT THORNTON LLP



Dan Barrón  
Partner

cc: Paul Becker, Finance Director  
Enc: May 31, 2011 Peer Review Report

**Agreed and accepted by:**

City of Fayetteville, Arkansas

\_\_\_\_\_  
Lioneld Jordan, Mayor

Date: \_\_\_\_\_

**Attest by:**

\_\_\_\_\_  
City Clerk/Treasurer

Date: \_\_\_\_\_

