

# CITY OF CLAYTON, OHIO

## RESOLUTION NO. R – 04 – 22 - 37

### **A RESOLUTION AUTHORIZING THE CITY MANAGER TO ENTER INTO AN AGREEMENT WITH THE AUDITOR OF STATE TO AUDIT THE BASIC FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDING DECEMBER 31, 2021 AND AT A COST NOT TO EXCEED \$30,012.00**

**WHEREAS**, Clayton Charter Section 8.02(C)(3)(g) permits Council to exempt "professional services . . . not to exceed One Hundred Fifty Thousand Dollars" from competitive bidding requirements; and

**WHEREAS**, the Auditor of State is required to perform the subject audit once every 10 years.

**WHEREAS**, Council desires to authorize the City Manager to enter into an agreement with the Auditor of State to audit the basic financial statements of the City for the year ending December 31, 2021.

### **NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF CLAYTON, STATE OF OHIO:**

1. That the City Manager is hereby authorized to enter into an engagement letter agreement with the Auditor of State in substantially the same form appended hereto as **Exhibit A**, necessary to audit the basic financial statements of the City of Clayton, Ohio for the year ending December 31, 2021 and at a cost not to exceed \$30,012.00.

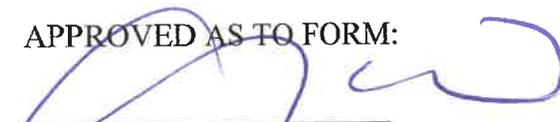
ADOPTED BY COUNCIL ON APRIL 21, 2022.

#### AUTHENTICATION:

  
\_\_\_\_\_  
Mayor (Presiding Officer of Council)

  
\_\_\_\_\_  
Clerk of Council

#### APPROVED AS TO FORM:

  
\_\_\_\_\_  
Law Director

CERTIFICATION OF PUBLICATION

This shall certify that that the text of the above referenced enactment or a summary thereof was published once in the following newspaper and a summary posted in three places of public access as designated by Council.

Name of newspaper

Krookville Star

Date of publication

April 27, 2022

Barbara Seir

CLERK

# OHIO AUDITOR OF STATE KEITH FABER



Attachment A  
One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

March 30, 2022

Kevin Schweitzer, Director of Finance  
City of Clayton  
Montgomery County  
PO Box 280  
Clayton, Ohio 45315

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

## **SUMMARY OF SERVICES**

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

We will audit the City's basic financial statements as of and for the year ended December 31, 2021 to express our opinion concerning whether the basic financial statements and related disclosures present fairly, in all material respects, the City's financial position, changes in financial position, required budgetary comparisons, and cash flows (where applicable), in conformity with U.S. generally accepted accounting principles.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements for each opinion unit and related disclosures are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

We also will read the other information included in the introductory and statistical sections of the Annual Comprehensive Financial Report and consider whether this information, including the manner of its presentation, is materially consistent with information appearing in the financial section. However, we will not express an opinion or any other assurance on the introductory or statistical sections of the Annual Comprehensive Financial Report.

We expect to deliver our report on or about June 30, 2022.

### **Engagement Team**

The engagement will be led by:

- \* Donna K. Waldron, CPA, CFE, Chief Auditor, and Scott Bowser, Assistant Chief Auditor, who will be responsible for assuring the overall quality, value, and timeliness of our services to you;
- \* Teresa Gray, CPA, CFE, Senior Audit Manager, who will be responsible for managing the delivery of our services to you; and
- \* Kevin Garber, CFE, Audit Manager, who will be responsible for on-site administration of our services to you.

### **OUR AUDITOR RESPONSIBILITIES**

We will conduct our audit in accordance with GAAS and the Comptroller General of the United States' standards for financial audits included in *Government Auditing Standards*. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
4. Test the City's compliance with certain provisions of laws, regulations, contracts, and grants if noncompliance might reasonably directly and materially affect the financial statements. However, our objective is not to opine on overall compliance with these provisions.
5. Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about your ability to continue as a going concern for a reasonable period of time.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatement, whether due to fraud or error, may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. It is not cost-efficient to design procedures to detect immaterial error or immaterial fraud. Also, because of the characteristics of fraud noted above, a properly designed and executed audit may not detect a material fraud.

#### **Additional Auditor Communication**

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

1. Misstatements for correction, whether corrected or uncorrected

- a. We will present those charged with governance our Summary of Identified Misstatements (if any) at the conclusion of our audit;
2. Instances where we believe fraud may exist. These would include instances where we:
  - a. Have persuasive evidence that fraud occurred.
  - b. Determined fraud risks exist and were unable to obtain convincing evidence to determine that fraud was unlikely;
3. Noncompliance that comes to our attention. However, our audit provides no assurance that noncompliance generally will be detected and only reasonable assurance that we will detect noncompliance directly and materially affecting the determination of financial statement amounts;
4. Significant risks identified during the audit.
5. Any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our opinion;
6. Our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters;
7. Significant, unusual transactions;
8. Major issues that were discussed with management related to retaining our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards;
9. Significant difficulties we encountered during the audit, including significant delays by management, the unavailability of Government personnel, or an unwillingness by management to provide information necessary to perform our procedures; and
10. Matters that are difficult or contentious for which we consulted outside the engagement team and that are, in our professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process.

We will also communicate pertinent information, as necessary in our professional judgment, to those that have ongoing oversight responsibilities for the audited entity, including contracting parties or legislative committees, if any.

Our evaluation of internal control may provide evidence of waste or abuse. Because the determination of waste and abuse is subjective, we are not required to perform specific procedures to detect waste or abuse. If we detect waste or abuse, we will determine whether and how to communicate such matters.

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

#### **YOUR MANAGEMENT RESPONSIBILITIES AND IDENTIFICATION OF THE APPLICABLE REPORTING FRAMEWORK**

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

1. Preparing the financial statements and other financial information, including related disclosures and selecting and applying accounting principles in accordance with accounting principles generally accepted in the United States of America. This includes compliance with Ohio Admin. Code 117-2-01 which requires designing, implementing and maintaining internal controls relevant to preparing and fairly presenting financial statements free from material misstatement whether due to fraud or error.

2. Providing us with:
  - a. Draft financial statements, including all information relevant to their preparation and fair presentation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation and fair presentation of disclosures) and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timeline;
  - b. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, including an expectation that management will provide access to information relevant to disclosures;
  - c. Written representations as part of the engagement, from management and/or attorneys, understanding separate legal fees from attorneys may result;
  - d. Additional information that we may request from management for the audit; and
  - e. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.
  - f. The initial selection of and changes in significant accounting policies and their application;
  - g. The process management uses to formulate particularly sensitive accounting estimates and the basis for their conclusions regarding the reasonableness of those estimates;
3. Informing us of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements.
4. Preparing supplementary information in accordance with the applicable criteria.
  - a. Include our report on the supplementary information in any document that includes the supplementary information and that indicates that the auditor has reported on this supplementary information.
  - b. Present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the City of the supplementary information and the auditor's report thereon.
5. Reporting fraud and noncompliance of which you are aware to us.
6. Reviewing drafts of the audited financial statements, disclosures, any supplemental information, auditor's reports and any findings; and informing us of any edits you believe may be necessary.
7. Designing and implementing programs and controls to prevent and detect fraud.

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

Compliance with Laws and Regulations

Management and those charged with governance are responsible for:

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

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

Internal Control

Management and those charged with governance are responsible for designing, implementing and maintaining internal control relevant to compliance and the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error. Appropriate supervisory reviews are necessary to reasonably assure that adopted policies and prescribed procedures are followed.

Service Organizations

Service organizations are other governmental entities, organizations, or companies that provide services to you, as the user Government, relevant to your internal controls over financial reporting. Service organizations process transactions reflected in your Government's financial statements, and therefore fall within the scope of our audit. While service organizations are responsible for establishing and maintaining their internal control, you are responsible for being aware of the service organizations your Government uses, and for establishing controls to monitor the service organization's performance. Because the complexity of service organization transaction processing can vary considerably, your monitoring activities can vary accordingly.

When transaction processing is complex and the volume of transactions is relatively high, obtaining and reviewing a service organization auditor's *Independent Service Auditor's Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls* Report (Type 2 Service Organization Control Report (SOC 1)) may be the most effective method of meeting your responsibility to monitor a service organization, and may also be the only efficient means by which we can obtain sufficient evidence regarding their internal controls. AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* discusses the aforementioned report. (In some circumstances, we can accept a suitably-designed agreed-upon procedures report (AUP) in lieu of a SOC 1 report.)

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

Service organizations of which we are aware are:

- Medicount, which processes your City's EMS Billing transactions.
- Central Collection Agency (CCA), which assesses, bills, collects, and remits your City's income taxes
- Montgomery County Ohio who assesses, bills, collects and remits your City's property taxes

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

Of the service organizations above, those for which we believe the complexity of processing and volume of transactions warrant a SOC 1(or AUP) report are:

- Medicount, which processes your City's EMS Billing transactions.
- Central Collection Agency (CCA), which assesses, bills, collects, and remits your City's income taxes
- Montgomery County Ohio who assesses, bills, collects and remits your City's property taxes

Without an acceptable SOC 1 or AUP report for the above-listed organizations, generally accepted auditing standards may require us to qualify our opinion on your City's financial statements due to an insufficiency of audit evidence regarding service organization transactions included in your City's financial statements. You are responsible for communicating the need for a SOC 1 or AUP report to these service organizations, and also for communicating the deadline for which we need the report to meet your reporting deadline. We will require the reports by approximately May 6, 2022 to meet your reporting deadline of June 30, 2022.

Because the Auditor of State performs the financial audit for Montgomery County Ohio, you need not contact us regarding your deadline. However, you should read the most recent report as part of your monitoring activities.

### **REPRESENTATIONS FROM MANAGEMENT**

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

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

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

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

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

### **TERMS AND CONDITIONS SUPPORTING FEE**

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

#### **Our Auditor Responsibilities**

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

#### **Your Management Responsibilities**

The City will provide in a timely manner all financial records and related information to us, an initial list of which will be furnished to you, including timely communication of all significant accounting and financial reporting matters, as well as working space and clerical assistance as mutually agreed upon and as is

normal and reasonable in the circumstances. When and if for any reason the City is unable to provide these schedules, information and assistance, the Auditor of State and the City will mutually revise the fee to reflect additional services, if any, we require to achieve these objectives. These revisions will be set forth in the form of the attached *Amendment to Engagement Letter*.

#### Confidential Information

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

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

#### **Fee**

Except for any changes in fees and expenses which may result from the circumstances described above, we expect our fees and expenses for our audit services will not exceed \$30,012.

Pursuant to Ohio Rev. Code § 117.13, you may charge all of this audit's cost to the general fund or you may allocate the cost among the general fund and other eligible funds. While eligible funds may include federal grant funds, additional restrictions under the Uniform Guidance 2 CFR 200.425 should be considered. For more information, refer to the annual *Hourly Audit Rates and Allocation of Audit Costs* technical bulletin available at [www.ohioauditor.gov](http://www.ohioauditor.gov).

#### **REPORTING**

We will issue a written report upon completing our audit of your financial statements. We will address our report to those charged with governance. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, withdraw from the engagement.

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

#### **ACCESS TO OUR REPORTS AND WORKING PAPERS**

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

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

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

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

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

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

#### **PEER REVIEW REPORT**

As required by *Government Auditing Standards*, we have made our most recent external quality control review report (Peer Review) publicly available, at [https://ohioauditor.gov/publications/Peer\\_Opinion.pdf](https://ohioauditor.gov/publications/Peer_Opinion.pdf). Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The Auditor of State received a peer review rating of *pass*.

#### **ACKNOWLEDGEMENT AND AGREEMENT**

Please sign and return this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. If you have any questions, please call Teresa Gray, CPA, CFE, Senior Audit Manager at (937) 285-6677.

Sincerely,

KEITH FABER  
Auditor of State



Donna K. Waldron, CPA, CFE  
Chief Auditor, West Region

Attachment

cc: Mayor Mike Stevens  
City Manager Amanda Zimmerlin  
City Council

\_\_\_\_\_  
ACKNOWLEDGED AND AGREED TO BY

\_\_\_\_\_  
DATE

\_\_\_\_\_  
TITLE

**SAMPLE  
AMENDMENT #\_\_\_ TO ENGAGEMENT LETTER**

[Date]

Kevin Schweitzer, Director of Finance  
City of Clayton  
Montgomery County  
PO Box 280  
Clayton, Ohio 45315

Dear Mr. Schweitzer:

**The engagement letter dated \_\_\_\_\_ between the Auditor of State and the City is hereby amended to reflect the following:**

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

Please sign the copy of this letter in the space provided and return it to us. If you should have any questions, please call Teresa Gray, CPA, CFE, Senior Audit Manager at (937) 285-6677.

Sincerely,

KEITH FABER  
Auditor of State

Donna K. Waldron, CPA, CFE  
Chief Auditor, West Region

Attachment

cc: Mayor Mike Stevens  
City Manager Amanda Zimmerlin  
City Council

\_\_\_\_\_  
ACKNOWLEDGED AND AGREED TO BY

\_\_\_\_\_  
DATE

\_\_\_\_\_  
TITLE