

**CITY OF MARATHON, FLORIDA
RESOLUTION 2006-130**

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARATHON, FLORIDA, AUTHORIZING THE CITY MANAGER TO ENTER INTO AN ENGAGEMENT FOR PROFESSIONAL AUDITING SERVICES WITH RACHLIN COHEN & HOLTZ LLP; PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the City desires to enter into a contract for auditing services with a certified public accounting firm duly licensed under Chapter 473, Florida Statutes, and qualified to conduct audits in accordance with government auditing standards as adopted by the Florida Board of Accountancy; and

WHEREAS, the City Council established an audit committee which issued a request for proposals for auditing services, evaluated proposals in accordance with the auditor selection procedures outlined in Section 281.391, Florida Statutes, and provided the City Council with its rankings and recommendations; and

WHEREAS, the City Council selected Rachlin Cohen and Holtz LLP as the number one ranked firm in response to the City's Request for Proposals for Professional Auditing Services and authorized the City Manager to negotiate a contract with Rachlin Cohen and Holtz LLP for professional auditing services.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MARATHON, FLORIDA, THAT:

Section 1. The above recitals are true and correct and incorporated herein.

Section 2. The City Council of the City of Marathon, Florida, authorizes the City Manager to enter into an engagement with Rachlin Cohen and Holtz LLP for professional auditing services as attached hereto as Exhibit "A".

Section 4. This resolution shall take effect immediately upon its adoption.


PASSED AND APPROVED by the City Council of the city of Marathon, Florida, this 12th day of September, 2006.

THE CITY OF MARATHON, FLORIDA


Christopher M. Bull, Mayor

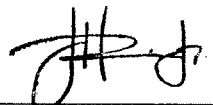
AYES: Mearns, Pinkus, Tempest, Worthington, Bull
NOES: None
ABSENT: None
ABSTAIN: None

ATTEST:


Diane Clavier
City Clerk

(City Seal)

**APPROVED AS TO FORM AND LEGALITY FOR THE USE AND RELIANCE OF THE
CITY OF MARATHON, FLORIDA ONLY:**


City Attorney

August 21, 2006

Michael Puto, City Manager
City of Marathon
10045-55 Overseas Highway
Marathon, Florida 33050

Dear Mike:

We are pleased to confirm our understanding of the services we are to provide to the City of Marathon, Florida (the City) for the years ended September 30, 2006 through September 30, 2008, with the option of auditing the City's financial statements for each of the two subsequent fiscal years. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements, of the City of Marathon as of and for the years ended September 30, 2006 through September 30, 2008. The document we submit to you will include the following additional information required by generally accepted accounting principles that will be subjected to the auditing procedures applied in our audit of the financial statements upon which we will provide an opinion in relation to the basic financial statements:

1. Management's Discussion and Analysis.
2. Schedule of expenditures of federal awards and state financial assistance, as applicable.
3. Combining and individual fund statements and schedules.
4. Required supplementary information.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your 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 additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program, as applicable, 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 the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida, as applicable.



Rachlin Cohen & Holtz LLP

One Southeast Third Avenue ■ Tenth Floor ■ Miami, Florida 33131 ■ Phone 305.377.4228 ■ Fax 305.377.8331 ■ www.rachlin.com

An Independent Member of Baker Tilly International

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 2

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the City Council, management, specific legislative or regulatory bodies, federal or state 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.

As applicable, 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; and the provisions of OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General of the State of Florida, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133, and 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 you 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 effective internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal and state award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for 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

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 3

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 government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. Additionally, as required by OMB Circular A-133 and Chapter 10.550 rules of the Auditor General, 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.

As part of the audit, we will prepare a draft of your financial statements, schedule of expenditures of federal awards, and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

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. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, and the Florida Single Audit Act and Chapter 10.550 Rules of the Auditor General, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. 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. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes 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 Single

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 4

Audit. 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. Our liabilities for this engagement are limited to the fees paid for the work performed.

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 Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the City's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. 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 applicable, as required by OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General, 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 or state award program. 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 and Chapter 10.550 Rules of the Auditor General.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 5

any nonreportable conditions or other matters involving internal control, if any, as required by *Government Auditing Standards*, OMB Circular A-133, and Chapter 10.550 Rules of the Auditor General.

Audit Procedures—Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. 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 Chapter 10.550 Rules of the Auditor General 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 programs. As applicable, our procedures will consist of the applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. 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 in our report on compliance issued pursuant to OMB Circular A-133 and the Florida Single Audit Act.

Audit Administration, Fees, and Other

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 (required under the Federal Single Audit Act only) 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 Rachlin Cohen & Holtz LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to regulatory agencies or its designee, a federal or state agency providing direct or indirect funding, or the U.S. Government Accountability Office 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

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 6

will be provided under the supervision of Rachlin Cohen & Holtz LLP 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 three years after the date the auditors' report is issued or for any additional period requested by any regulatory agency. 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.

We estimate that our fees for the fiscal year ended September 30, 2006 through the fiscal year ended September 30, 2008 are as presented in the attached "Dollar Cost Proposal" that was provided as part of our response to your RFP for audit services. Our hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to the audit. 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 additional time is required because of unexpected circumstances or for changes in the requirements of the Governmental Accounting Standards Board or our professional auditing standards or changes in the funds structure of the City, we will discuss these circumstances with you and arrive at a new fee estimate before we incur the additional costs.

In addition, if the City of Marathon is required to undergo an audit in accordance with the Federal Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* during any year of this contract, the additional fee will be as presented in the attached "Dollar Cost Proposal". This fee is also dependent on the number of federal programs that have to be tested as a major program in accordance with the requirements of the Federal Single Audit Act and OMB Circular A-133.

If, during any year of this contract, the City of Marathon is subject to the Florida Single Audit Act and Chapter 10.550 Rules of the Auditor General, the additional fee will be as presented in the attached "Dollar Cost Proposal". This fee is also dependent on the number of state programs that have to be tested as a major program in accordance with the requirements of the Florida Single Audit Act and the Rules of the Auditor General, Chapter 10.550.

Our invoices for these fees will be rendered as the work progresses, and are payable on presentation. In accordance with our firm policies, should any invoices remain unpaid for more than thirty days, we reserve the right to defer providing any additional services until all outstanding invoices are paid. You agree that we are not responsible for the impact on the City of any delay that results from such non-payment by you.

We acknowledge your right to terminate our services at any time, and you acknowledge our right to resign at any time (including instances where in our judgment, our independence has been impaired or we can no longer rely on the integrity of management), subject in either case to our right to payment for charges incurred to the date of termination or resignation.

Michael Puto, City Manager
City of Marathon
August 21, 2006
Page 7

It is our goal to maintain a constructive and positive relationship with you. If for any reason you are dissatisfied with the quality or costs of our services, please let us know so we can discuss and, hopefully, rectify the problem. Should we be unable to amicably resolve any such dispute, we believe a prompt and fair resolution, without the time and expense of formal court proceedings, would be in our mutual interests. To this end, we both agree that any controversy (including fee disputes and malpractice claims) we may have shall be submitted to binding arbitration to be conducted in Florida before the American Arbitration Association (AAA) in accordance with the Commercial Arbitration Rules of the AAA. We both waive any right to bring a court action, or to have a jury trial, and agree that the party prevailing in any arbitration shall be entitled to recover from the non-prevailing party its reasonable attorney's fees and costs, including fees and costs which might be incurred in litigation related to the arbitration. In accordance with our firm's policy, the terms of this engagement letter are subject to approval by our internal Client Acceptance Committee.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our most recent (dated 2004) peer review report has been provided to you in our response to your request for proposal.

This contract is renewable at the option of the City. We appreciate the opportunity to be of continued service to the City of Marathon 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,



Michael D. Futterman, CPA
Partner

RESPONSE:

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

By: Michael Puto

Title: CITY MANAGER

Date: 10/17/06

CITY OF MARATHON
DOLLAR COST PROPOSAL

	<u>2006 (2)</u>	<u>2007</u>	<u>2008</u>
Financial Audit	\$ 35,000	\$ 36,750	\$ 38,500
Federal Single Audit	7,000	7,500	8,000
Florida Single Audit	<u>7,000</u>	<u>7,500</u>	<u>8,000</u>
	49,000	51,750	54,500
Travel and Out-of-Pocket	<u>2,300</u>	<u>2,500</u>	<u>2,700</u>
 Total All-Inclusive Maximum Price if all the services noted above are performed	 <u>\$ 51,300</u>	 <u>\$ 54,250</u>	 <u>\$ 57,200</u>

Notes:

- (1) A mutually agreed-upon fee will be discussed for the option years of this contract.
- (2) Financial audit fee includes impact of new audit standard (SAS 103 – Audit Documentation).
- (3) Fiscal year ending September 30, 2008 – the American Institute of Certified Public Accountants issued Statements on Auditing Standards Numbers 104 through 111, the Risk Assessment Standards, which will be effective for fiscal year 2008. The impact on audit procedures and documentation has not yet been determined but will impact the 2008 fee.
- (4) The estimates above do not contemplate accounting (FASB or GASB) or audit standards (GAGAS or GAAS) that have not yet been issued.