



Dave Yost • Auditor of State

March 1, 2012

Joseph Reigelsperger, Finance Director
City of Mason
Warren County
6000 Mason-Montgomery Road
Mason, Ohio 45040

This letter of arrangement between the City of Mason (the City) and the Auditor of State describes the nature 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 will audit the City's basic financial statements as of and for the year ended December 31, 2011. We will follow U.S. generally accepted auditing standards and the Comptroller General of the United States' standards for financial audits contained in *Government Auditing Standards*, and the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of an audit is to express our opinion concerning whether the basic financial statements 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.

We will audit to form an opinion on the basic 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 expect to deliver our report on or about June 30, 2012.

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 Comprehensive Annual Financial Report (CAFR) 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 CAFR.

Engagement Team

The engagement will be led by:

- * Loren S. Crisp, CPA, Chief Auditor, who will be responsible for assuring the overall quality, value, and timeliness of our services to you;
- * Cristal Jones, CPA, Senior Audit Manager, who will be responsible for managing the delivery of our

services to you; and

- * Teresa Gray, CPA, Audit Manager, who will be responsible for on-site administration of our services to you.

The Auditing Process

Our Responsibilities:

The *Summary of Services* above describes our responsibilities for the City's basic statements and other financial information.

We will plan and perform the audit to reasonably assure that the financial statements are free of material misstatement, whether caused by error or fraud. However, there are inherent limitations in auditing that prevent an auditor from providing absolute assurance on the fair presentation of the financial statements. For example, we may limit certain procedures to selective testing of data. Therefore we might not detect material error and fraud if it exists. It is not cost-efficient to design procedures to detect immaterial error or immaterial fraud. Also, because of the characteristics of fraud, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material fraud.

We will communicate all instances where we believe fraud *may* exist to you. These would include instances where we:

- Have persuasive evidence that fraud occurred.
- Determined fraud risks exist and were unable to obtain convincing evidence to determine that fraud was unlikely.

Similarly, illegal acts may have occurred. However, our audit provides no assurance that illegal acts generally will be detected and only reasonable assurance that we will detect illegal acts directly and materially affecting the determination of financial statement amounts. We will inform you regarding material error or illegal acts that come to our attention.

If we find indications of abuse, we will expand our tests to determine its financial statement effect. *Government Auditing Standards* defines *abuse* as behavior which while not necessarily a legal violation, is behavior a prudent person would deem improper or deficient. Because this determination is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.

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 Responsibilities:

Management and those charged with governance are responsible for:

1. Preparing the financial statements and other financial information, including related disclosures and selecting and applying accounting principles.
2. Preparing supplementary information (including the Federal Awards Expenditure Schedule) 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 entity of the supplementary information and the auditor's report thereon.
3. Reporting fraud and illegal acts of which you are aware to us.
4. Reviewing drafts of the audited financial statements, footnotes, any supplemental information, auditor's reports and any findings; and informing us of any edits you believe may be necessary.
5. 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

Our Responsibilities

As part of reasonably assuring whether the financial statements are free of material misstatement, we will 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, except for major federal financial assistance programs, our objective is not to opine on overall compliance with these provisions.

Your Responsibilities:

Management and those charged with governance are responsible for:

1. Being knowledgeable of, 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 Organization (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, illegal acts, violations of provisions of laws, regulations, contracts or grant agreements, or abuse we may report.
5. Providing your views and planned corrective action on audit findings we may report.

Internal Control

Our Responsibilities:

As a part of our audit, we will obtain an understanding of your City and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies.

While our audit is not designed to identify significant deficiencies, as required by *Government Auditing Standards*, we will prepare a written report to those charged with governance describing any significant deficiencies or material weaknesses we may detect.

Your Responsibilities:

Maintaining internal control over financial reporting and over compliance is management's responsibility. Appropriate supervisory reviews are necessary to reasonably assure that adopted policies and prescribed procedures are followed.

Your Responsibility for Service Organizations:

Service organizations are entities to which you have outsourced accounting functions. Service organizations process transactions reflected in your City'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 City 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 Section 801, *Reporting on Controls at a Service Organization* (SSAE No. 16) discusses the aforementioned report. (In some circumstances, we can accept a suitably-designed agreed-upon procedures report (AUP) in lieu of a SSAE No. 16.) Our staff can discuss SSAE No. 16 and possible monitoring controls you might use with you.

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

Service organizations of which we are aware are:

- Warren County, which processes your property taxes.
- Medicount, which processes your emergency medical services billing.
- Greater Cincinnati Waterworks, which processes your utility billing.
- Recreation Management Services, which processes your golf course financial activity.
- Custom Design Benefits, which administers your health self-insurance.
- RBC, investment advisor.

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 SSAE No. 16 (or AUP) report are:

- Medicount, which processes your emergency medical services billing.

- Custom Design Benefits, which administers your health self-insurance.

Without an acceptable SSAE No. 16 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 SSAE No. 16 or AUP report to these service organizations.

Additional Responsibilities and Reporting Under Circular A-133

Our Responsibilities:

As OMB Circular A-133 requires, we will consider and test the City's internal control policies and procedures used in administering the federal award programs we determine to be major programs, using criteria from A-133. Based on this consideration and these tests, we will assess risk and determine the nature, timing, and extent of tests of compliance with requirements that, if not complied with, could materially affect a major federal financial assistance program's compliance.

In accordance with A-133, we will prepare the following report:

Independent Accountants' Report on Compliance With Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Our report on compliance will include our opinion on compliance with major federal financial assistance programs and also describe instances of noncompliance with Federal requirements we detect that require reporting per Circular A-133. This report will also describe any significant deficiencies we identify relating to controls used to administer Federal award programs, and identify any significant deficiencies we determine to be material weaknesses. However, this report will not opine on internal control used to administer Federal award programs.

We are also responsible for completing certain parts of OMB Form SF-SAC (the Data Collection Form).

Your Responsibilities:

You are responsible for identifying laws and regulations relating to Federal award programs, and for complying with them. You are responsible for compiling the Federal Awards Expenditure Schedule and accompanying notes. You are also responsible for establishing and maintaining internal control sufficient to reasonably assure compliance with laws and regulations relating to Federal award programs and controls related to preparing the Federal Awards Expenditure Schedule.

You are responsible for following up and taking corrective action on audit findings. You are also responsible for informing us of significant subrecipient relationships and vendor relationships, when a vendor is responsible for complying with Federal program requirements.

You are responsible for completing your City's Data Collection Form and assuring the reporting package (including the Data Collection Form) is filed in accordance with the revised electronic submission requirements effective for audit periods ending in 2008.

Representations from Management

Your Responsibilities

At the conclusion of the engagement, the City's management will provide to us a representation letter that, among other things, will confirm, to the best of their knowledge and belief:

- Management's responsibility for preparing the financial statements in conformity with generally

accepted accounting principles, and the federal awards expenditure schedule in conformity with the applicable accounting basis;

- 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 entity'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 component units, and the disclosure of all joint ventures and other related organizations;
- The proper classification of funds, net assets and fund balances;
- The proper approval of reserves of fund equity;
- 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 GASB-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 or federal awards expenditure schedule.

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 footnotes and required and other supplemental information*).

Communication

Our Responsibilities

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

- The initial selection of and changes in significant accounting policies and their application;
- The process management uses to formulate particularly sensitive accounting estimates and the basis for their conclusions regarding the reasonableness of those estimates;
- Audit adjustments, whether posted or waived;
- 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;
- Our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters;
- 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; and
- Serious difficulties we encountered in dealing with management during the audit.

We will present those charged with governance our Summary of Unadjusted Differences (if any) at the

conclusion of our audit.

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 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. 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 Letter of Arrangement*.

Your Responsibilities:

The City will provide in a timely manner all financial records and related information to us, an initial list of which has been 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 Letter of Arrangement*.

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 \$34,850.

Pursuant to Ohio Rev. Code Section 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 in accordance with Auditor of

State Bulletin 2009-011.

Access to Our Reports and Working Papers

Statement on Auditing Standards No. 87, *Restricting the Use of an Auditor's Report* (AU 532), requires our reports to disclose the following:

Our Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards, and our Independent Accountants' Report on Compliance With Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 are intended solely for the information and use of the management, those charged with governance and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

AU 532 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 Section 117.26, an audit report becomes a public record under Section 149.43, Revised Code, 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 532 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.

Peer Review Report

As required by *Government Auditing Standards*, we have attached a copy of our most recent external quality control review report (Peer Review). The report was unqualified.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us. If you have any questions, please call Cristal Jones at 1-800-368-7419.

City of Mason
Warren County
March 1, 2012
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Very truly yours,

Dave Yost
Auditor of State of Ohio



Loren S. Crisp, CPA
Chief Auditor

Attachment

cc: David Nichols
Victor Kidd
Barbara Berry-Spaeth
Rich Cox
Tom Grossman
Charlene Pelfrey
Don Prince
Eric Hansen

ACCEPTED BY

DATE

TITLE

A-133 REPORTING PACKAGE

A-133 Ref.	Item	Responsibility	
		Auditee	Auditor
.300(d); .310(a)	Financial Statements	✓	
.505(a)	Report (opinion) on financial statements		✓
.300 (d); .310 (b)	Schedule of Federal Awards Expenditures	✓	
.505 (a)	Report ("in-relation-to" opinion) on Schedule of Federal Awards Expenditures		✓
.505 (b) .505(c)	Report on Compliance and Internal Controls - Financial Statements		✓
505 (b) .505(c)	Report on Compliance and Internal Controls - (Major) Federal Awards		✓
.505 (d)	Schedule of Findings and Questioned Costs ¹		✓
.300 (f); .315 (a), (b)	Schedule of Prior Audit Findings	✓	
.320 (b)	Data Collection Form ²	✓	✓
.300(f); .315 (c)	Corrective Action Plan	✓	

¹ Required in all cases

² For audit periods ending in and subsequent to 2008, you may only submit the reporting package and Data Collection Form electronically. You will not resubmit the reporting package to the Federal Clearinghouse or your cognizant or oversight agency as in the past. The reporting package will be uploaded and submitted along with the Data Collection Form. The Federal Audit Clearinghouse will distribute the required reporting packages to the Federal agencies per Section __.320(d) of the Circular, if the audit requires distribution to a Federal-funding agency. Complete the auditee certification process and submit the single audit reporting package and the Data Collection Form electronically to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of our reports or nine months after the end of the audit period, unless the cognizant or oversight agency for audit agrees to a longer period in advance.

**SAMPLE
AMENDMENT #___ TO LETTER OF ARRANGEMENT**

[Date]

[ENGAGEMENT LETTER ADDRESSEE]
Government

Dear _____:

The letter of arrangement dated _____ between the Auditor of State and the Government 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 _____ at _____.

Very truly yours,

Dave Yost
Auditor of State of Ohio

Loren S. Crisp, CPA
Chief Auditor

cc: [Engagement Letter cc's]

ACCEPTED BY

DATE

TITLE



National State Auditors Association

April 8, 2009

The Honorable Mary Taylor, CPA
Ohio Auditor of State
Office of Auditor of State
88 East Broad Street, 5th Floor
Columbus, Ohio 43215

Dear Ms. Taylor:

We have reviewed the system of quality control of the Ohio Auditor of State (the office) in effect for the period April 1, 2008 through March 31, 2009. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Ohio Auditor of State in effect for the period April 1, 2008 through March 31, 2009, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Team Leader
National State Auditors Association
External Peer Review Team

Concurring Reviewer
National State Auditors Association
External Peer Review Team