CITY OF PLACENTIA

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

For the Fiscal Years Ending June 30, 2016, 2017 and 2018
(Optional Fiscal Years Ending June 30, 2019 and 2020)

Submitted By:
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Submitted On:
June 15, 2016
Contact Person:
Craig A. Hartzheim, CPA: Partner
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Larry Schroeder, Interim Chief Financial Officer
City of Placentia
401 E. Chapman Avenue
Placentia, CA 92870

Dear Mr. Schroeder,

We are pleased to respond to the Request for Proposal from the City of Placentia (City) for independent professional auditing services. We have prepared our proposal to address each of the specifications included in the City's Request for Proposal.

After 59 years in public accounting and 39 years of performing local governmental and non-profit audits, it is extremely gratifying to witness the continued growth of Moss, Levy & Hartzheim, LLP. The firm is a regional full service public accounting firm with offices in Culver City, Beverly Hills, and Santa Maria and clients throughout the State of California, as well as thirty-one other states. We and the entire staff are pleased with not only the continuing development of the firm but also the progress and economic health of our clients. We understand that governmental accounting is a specialized industry with its own accounting standards and requirements, and that is why we strive to constantly improve the quality of our professional services. This degree of dedication, coupled with our ability to inform our clients of any new accounting and auditing issues, is paramount to our success.

We feel that our size is such that we are large enough to provide a broad spectrum of services and experience backed by an in-house training program, professional development courses, and an extensive professional library, yet not so large as to become impersonal and rigid. Our informal style allows us to be flexible enough to complete our engagements in a timely manner that is the most convenient for each client. Also, this style allows us to be more accessible to our clients when our clients have questions or concerns.

It is our understanding that we will perform an audit of the City's basic financial statements in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, with the objective of expressing an opinion on the fair presentation of the basic financial statements, which will be in full compliance with the Government Finance Officers Association's (GFOA) Blue Book. We will express an "in-relation-to" opinion on the combining and individual fund financial statements and supporting schedules based on the auditing procedures applied during the audit of the basic financial statements. We will also perform a single audit on the expenditures of federal grants in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and test compliance with the Single Audit Act as amended in 1996, Uniform Guidance, and applicable laws and regulations.

OFFICES: BEVERLY HILLS · CULVER CITY · SANTA MARIA

MEMBER AMERICAN INSTITUTE OF C.P.A.'S · CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS · CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

In addition to the procedures deemed necessary to express our opinion on the basic financial statements, we understand that we will also be responsible for performing certain limited procedures involving the management's discussion and analysis (MD&A) and the required supplementary information (RSI), as mandated by auditing standards generally accepted in the United States of America.

Our audits would be conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States, including all applicable auditing standards issued by the American Institute of Certified Public Accountants; the provisions of the Single Audit Act Amendments of 1996; the U.S. Office of Management and Budget (OMB) Circular A-133 *Audits of State, Local Governments, and Nonprofit Organizations*; the new Uniform Guidance for single audit reports; and all relevant Governmental Accounting Standards Board (GASB) Statements. Also, our firm will provide guidance, if necessary, on any new accounting standards.

It is our understanding that we will be responsible for issuing the following reports: an independent auditor's report on the fair presentation of the City's basic financial statements; an independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of the basic financial statements of the City performed in accordance with *Government Auditing Standards*; an "in-relation to" report on the schedule of federal financial assistance; an independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133; a single audit report which includes a schedule of expenditures of federal awards, footnotes, findings and questioned costs, including significant deficiencies and material weaknesses; a report on the compliance with the Proposition 111, Article XIII.B of the California State Constitution and Government Code 7900 on its appropriations limit (GANN limit calculation); and a management letter which includes Statement on Auditing Standards (SAS) No. 114 and No. 115 letters.

We also understand that we will prepare the statistical tables of the Comprehensive Annual Financial Report in accordance with GASB Statement No. 44. We will also perform a review of employee compensation and interview three elected officials. In addition to the procedures above, we will perform two agreed-upon procedures each year, which could include a review of investment transactions, wire transfers, journal entries, check stock sequence and cancelled checks, and cash receipts. Even though these procedures are included in our normal audit procedures, we will issue separate reports on two agreed-upon procedures each year. We will also prepare the City's Annual Financial Transactions Report and Annual Street Report.

We will be responsible for retaining all working papers and reports, at our expense, for a minimum of seven (7) years, unless the firm is notified in writing by the City of Placentia of the need to extend the retention period. We will make available all original working papers for examination, upon request, to the City of Placentia or any federal and state agencies designated by the City.

We understand that we will be responsible for preparing, editing, printing, and binding of all reports. We also understand that we will be responsible for preparing one (1) PDF copy of all reports and 30 bound copies of the City's Comprehensive Annual Financial Report for submission to the Government Finance Officers Association by November 28th.

All noncompliance and significant deficiencies found during the audit will be communicated in writing. In the required reports on compliance and internal controls, we shall communicate any significant deficiencies and noncompliance issues found during the audit. Significant deficiencies that are also material weaknesses will be identified as such in the report. Non-reportable conditions discovered will be reported in a separate letter to management, which will be referred to in the reports on internal controls. All irregularities and illegal acts or indications of illegal acts of which we become aware of during the course of our audit will be immediately reported, in writing, to the City Administrator, City Attorney, Chief Financial Officer and the City's Audit Committee.

In light of the misappropriation of funds that has occurred at the City, we will perform additional audit work that provides added value to the City. These procedures would include a thorough review of internal controls to ensure that segregation of duties are adequate. We would also review City Council minutes to determine if all warrants and bank transfers are reported to the City Council on a regular basis. Also, we will review bank account information to determine which bank accounts are authorized for wire transfers and review wire transfer procedures to ensure that proper controls are in place, such as call back procedures by the bank, and proper segregation of duties between transmission and authorization of wire transfers.

Moss, Levy & Hartzheim, LLP will perform the audit work within the specified time period, pending no unforeseen circumstances which the City imposes on our work.

The percentage of the audit work we expect to accomplish in each month is shown below:

August	September/October	November	Total
40%	50%	10%	100%

This proposal for auditing services is an irrevocable offer for fiscal years 2015-16, 2016-17, and 2017-18.

Thank you for your consideration and please do not hesitate to contact the authorized representatives listed below with any questions, problems, or concerns.

(1) Craig A. Hartzheim, CPA
Partner
5800 Hannum Avenue
Suite E
Culver City, CA 90230
(310) 670-2745
chartzheim@mlhcpas.com

(2) Ron A. Levy, CPA
Partner
2400 Professional Parkway
Suite 205
Santa Maria, CA 93455
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rlevy@mlhcpas.com

(3) Hadley Y. Hui, CPA
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Sincerely,

Craig A. Hartzheim, CPA
Partner

INDEPENDENCE

Moss, Levy & Hartzheim, LLP is independent of the City of Placentia (City), and all of its component units, as defined by auditing standards generally accepted in the United States of America, the U.S. General Accounting Office's *Government Auditing Standards,* the U.S. Securities and Exchange Commission, and all other authoritative bodies with standard or rule-making authority over the auditing profession.

The firm uses checklists and questionnaires to determine that staff members are independent of each client being audited and each staff member signs a personal independence declaration prior to commencing work on an audit client. The partner in charge of the audit reviews all independence work papers prior to staffing each audit.

The firm has not had a professional relationship involving the City or component units within the past five years.

The firm will give the City written notice of any professional relationships entered into during the period of this engagement.

LICENSE TO PRACTICE IN THE STATE OF CALIFORNIA

Moss, Levy & Hartzheim, LLP is a properly licensed certified public accounting firm in the State of California. All certified public accountants engaged in the audit of the City are licensed to practice in the State of California and have received at least the minimum number of governmental continuing professional education hours required by the State Board of Accountancy and *Government Auditing Standards* to perform governmental audits.

FIRM QUALIFICATIONS AND EXPERIENCE

Moss, Levy & Hartzheim, LLP is a regional firm that performs audits of governmental and non-profit entities throughout the State of California, from the Oregon border to the Mexico border. For most of our governmental clients, we also prepare their Comprehensive Annual Financial Report. Our firm also performs review and compilation engagements as well as tax and consulting services to clients throughout the United States. The firm currently employs 28 professionals, all of whom are trained in governmental auditing, and has annual gross revenues in excess of $4 million dollars. The firm has three offices in California: Culver City, Beverly Hills, and Santa Maria.

The audit work will be completed by staff from our Culver City office.

The Culver City office is currently staffed by six certified public accountants (three partners, one manager, and two senior accountants). In addition, the Culver City office employs ten professional staff, consisting of managers, senior accountants, and staff accountants. All certified public accountants, managers, and senior accountants are part of the governmental and non-profit audit practice.

The City of Placentia will have one partner, one manager, and one senior accountant assigned to the audits on a full-time basis. In addition, one or two accountant(s) will be assigned to the audits on a full-time basis. These employees will not be changed except due to unforeseen circumstances.

It is the firm's policy to have our partners and audit managers involved in the managing function of our governmental audits. Having both the partner and audit manager involved in the engagement allows the City to receive immediate response to questions about accounting and audit topics, concerns, and findings.

FIRM QUALIFICATIONS AND EXPERIENCE (CONTINUED)

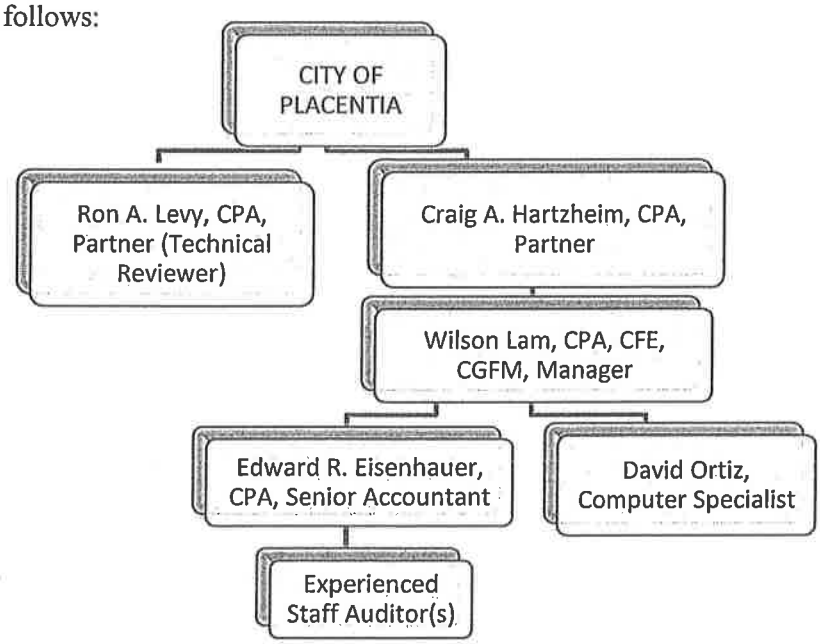
Please see *Appendix A – Current and/or Recently Completed Governmental Audits* for a list of current governmental audits performed by the firm.

Please see *Appendix B – Peer Quality Review Report* for a copy of our firm's December 31, 2011 quality review report, which includes a review of governmental and non-profit engagements. Our 2014 report is in the review stage with the California Society of CPAs.

Our firm has never been the object of any disciplinary action from any federal or state regulatory body or professional organization, nor is there any disciplinary action pending.

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE

The audit team will be as follows:



It is expected that Mr. Ron A. Levy, CPA would be the technical (concurring) partner in charge of the City's audits. He will be responsible for reviewing the City's basic financial statements and all other required statements and reports. He may also be responsible for addressing any City questions or concerns that arise during the year. He has assisted numerous municipal clients and has prepared award-winning CAFRs.

Mr. Craig A. Hartzheim, CPA will be the engagement partner assigned to the audits. As engagement partner, he will oversee the day-to-day operations of the audits, review all audit areas, and be on-site for a majority of the fieldwork. He has assisted many municipal clients and has also prepared numerous award-winning CAFRs. It is the firm's policy during the first year on the audit engagement to have a partner on-site for a majority of the fieldwork. This policy enables the partner to become acquainted with the City's daily operations and key personnel.

Mr. Wilson Lam, CPA, CFE, CGFM will be the manager assigned to the audits. He will oversee the day-to-day operations of the audits and perform more difficult audit sections. Mr. Lam is a Certified Fraud Examiner

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE (CONTINUED)

Mr. Edward R. Eisenhauer, CPA will be the supervising senior auditor assigned to the audits. As supervising senior auditor, it will be his responsibility to oversee the staff accountant(s), do preliminary reviews of audit sections, and perform more difficult audit sections.

Mr. David Ortiz will be the computer specialist assigned to the audits, when needed. Mr. Ortiz has extensive knowledge in auditing EDP functions. Mr. Ortiz may also perform the statistical sampling procedures for the audit and also document and test the internal control structure of the computer systems.

In addition to the supervisory staff listed above, one or two staff accountant(s) will be assigned to the audits. All staff accountants have degrees from accredited colleges or universities, have received in-house governmental audit training, and at present, have at least one year of governmental auditing experience. All staff accountants will be directly supervised by the partner and manager assigned to the audits at all times. All partners, managers, and staff members have worked on numerous governmental engagements together. Consistently working together will provide the City with a knowledgeable, proficient, and efficient audit team.

Please see *Appendix C – Resumes* for each individual's qualifications and experience.

The firm conducts an annual firm-wide two-day training seminar to update all governmental auditors on new pronouncements and improved audit techniques. In addition to this firm sponsored seminar, each governmental auditor attends the annual governmental accounting conference and many other continuing education courses and is updated on current accounting/auditing issues through our journals and supplements, which we receive on a regular basis.

The firm will maintain staff continuity on the engagement throughout the term of the contract, barring any terminations, illnesses, or other unforeseen circumstances (departure from the firm, promotion, or assignment to another office). At the written request of the City, any Moss, Levy & Hartzheim, LLP employee assigned to the audits can be removed and replaced by another qualified employee. The City retains the right to approve or reject replacements.

SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES

Moss, Levy & Hartzheim, LLP has an extensive background in auditing governmental and non-profit entities with over thirty-nine years of experience in this specialized field. The firm currently performs thirty-one municipal audits, over seventy-five special district audits, as well as the audit of the County Sanitation Districts of Los Angeles County (all 25 districts), and thirty-five school district and related audits. We have also recently completed monitoring of one hundred contractors for the County of Los Angeles, for contract compliance and fiscal monitoring. Additionally, we are also on the master lists and have signed master contracts with the County of San Diego and the County of Los Angeles for Compliance and Financial Audits.

The following are the most significant engagements performed in the last five years that are similar to the engagement described in the RFP:

CITY OF CULVER CITY
Audit of basic financial statements, former Redevelopment Agency, Single Audit Report, Municipal Bus Line, REAC Report, and prepared City, RDA, and Transit State Controller Reports
2011 to Present
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Jeff Muir, (310) 253-6016
Received GFOA Certificate of Achievement in Financial Reporting
1000 Hours

SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES (CONTINUED)

The following are the most significant engagements performed in the last five years that are similar to the engagement described in the RFP: (Continued)

CITY OF YUBA CITY
Audit of basic financial statements, former Redevelopment Agency, and Single Audit Report
Prepared the State Controller's Report and Street Report
2008 to Present
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Robin Bertagna, (530) 822-4615
Received GFOA Certificate of Achievement in Financial Reporting
600 Hours

CITY OF INDIO
Audit of basic financial statements/CAFR, former Redevelopment Agency,
Single Audit Report, and review of the City's GANN Limit
2011 to 2015
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Veronica Alvarado (760) 541-4238
Received GFOA Certificate of Achievement in Financial Reporting
750 Hours

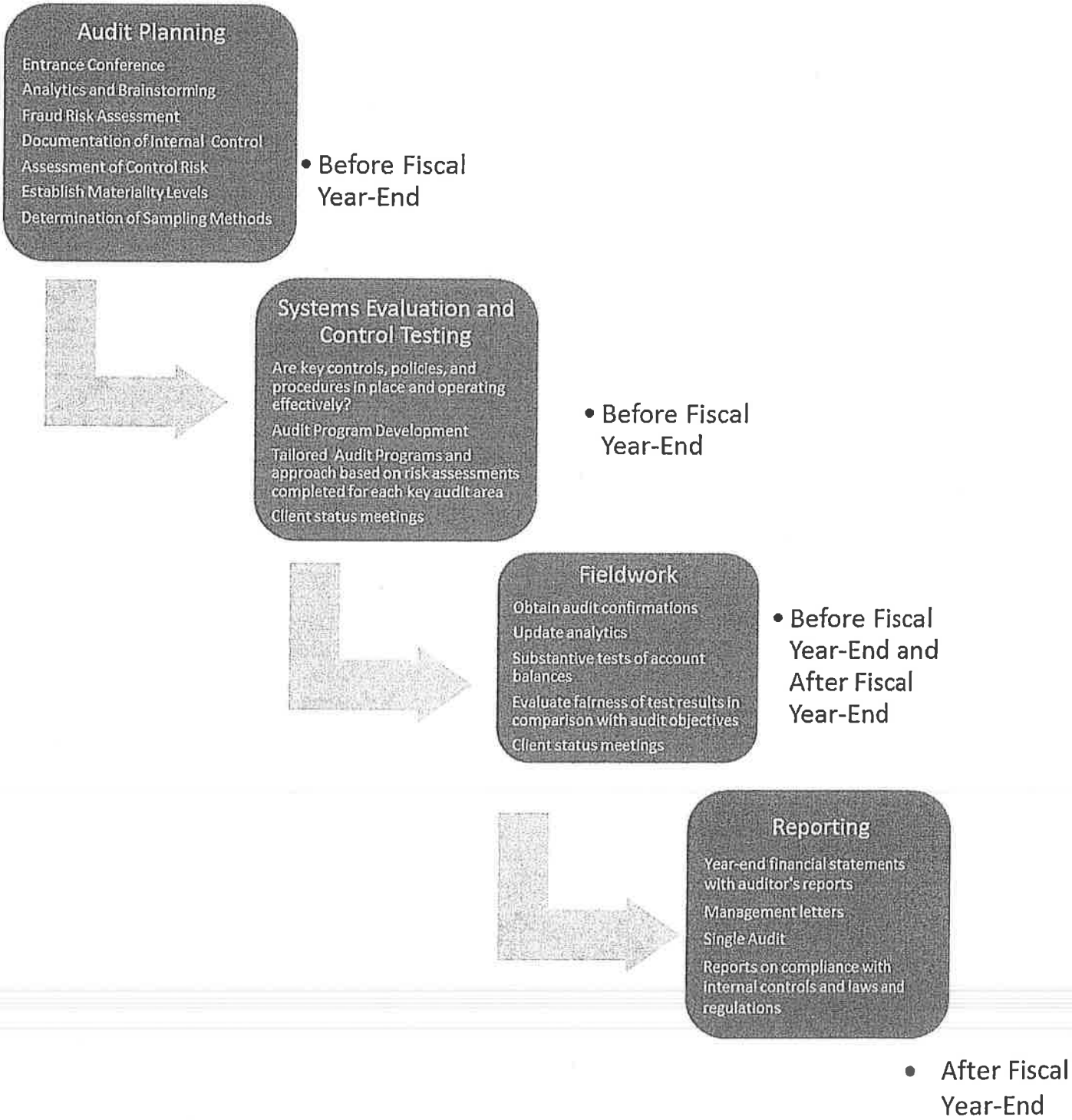
CITY OF EL CENTRO
Audit of basic financial statements, former Redevelopment Agency, Single Audit Report, GANN Limit,
and prepared the City's State Controller Report
2007 to Present
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Leticia Salcido, (760) 773-4573
Received GFOA Certificate of Achievement in Financial Reporting
500 Hours

COUNTY OF SAN DIEGO
San Diego Geographic Information Source (2006-2009 and 2014-2015), Special Districts – Governmental Funds (2005 and 2006), Special Districts – Mentally Ill Offenders Crime Reduction Grant (2004), Regional Law Enforcement Training Center Grant (2004), Enterprise Funds (2006), Records Retention Agreed-Upon Procedures (2004-2007), Regional Building Authority (2003-2013), Emergency Services Organization (2003-2009 and 2014-2015), Redevelopment Agency (2003-2012), In-Home Supportive Services Public Authority (2003-2013), In-Home Supportive Services Public Authority Pension (2003-2013), Auto Insurance Fraud, Workers' Compensation Fraud, and Urban Auto Grant Audits (2004-2015), San Diego Intergovernmental Training and Development Center (2007-2015), Health and Human Services Agency Child Development (2005-2013), and the First 5 Commission (2010-2013)
Engagement Partners – Craig A. Hartzheim, CPA and Hadley Y. Hui, CPA
Contact: Brian Nesvig, (858) 495-5673
1,000 Hours

Please see *Appendix D – References* for a list of five (5) references for whom we have performed governmental auditing services.

SPECIFIC AUDIT APPROACH

Overview of the MLH Audit Process



SPECIFIC AUDIT APPROACH (CONTINUED)

The chart below is a sample of MLH's preliminary audit procedures:

Documents	Strategy	Procedure
Obtain Budget and budget amendments	Ensure budgetary compliance	Analyze budget-to-actual variances. Look at capital projects, status of property tax assessments as part of the focus; looking at water rates to see how cost coverage exists.
Obtain grant documents, any service concession agreements	Ensure grant compliance	Analyze grants
Obtain policies and procedures, as indicated in the 6/30/15 MD & A	Evaluate effectiveness of policies, updates and relate to key compliance matters	Analyze policies and procedures
Obtain client internal control memos of client if they exist	Evaluate internal controls Short interviews of accounting and selected operating personnel for documentation of process	Analyze internal controls, including computer controls
Obtain prior year financials	Determine which items are important for testing	Set preliminary "materiality" limits
Obtain appropriate schedules	Ensure effective procedures	Testing of cash receipts, cash disbursements, and payroll transactions
Obtain Council minutes	Ensure knowledge of government key communication	Analyze important events highlighted in Council meetings
Draft confirmations – third party letters for independent verification of cash, property taxes, attorney, etc. for client to sign and auditor to mail	Independent verification of selected balances	Client to prepare letters and auditor to send letters
Develop document request list for client to review and agree upon	To clarify client – auditor requests	Meet with client and agree upon document request list for audit
Preliminary trial balance	Ensure preliminary results make sense	Perform selected testing on balances such as receipts, disbursements, and payroll
Obtain updates on retirement plans	Discuss GASBs 45 and 68, and any changes	Audit selected components of any new reports and changes for compliance
Request screen view access only for computer analysis	Minimize client interruptions and view transactions	Scan ledgers and accounts for accounting propriety
Consider site visitations on areas where there are significant cash, card, deposits and billing controls, internet site controls	Focus on controls where the risk assessment of material misstatement of cash, card and internet transactions could occur	Site visitations
Legal bills, key litigation	Look for commitments, contingencies and disclosure	Discuss with client prepare attorney letters for response and read relevant documents
Obtain Council minutes	Look for major agreements and key decisions	Analyze for audit relevance and test and inquire as necessary
Obtain Long-term debt agreements	Analyze for disclosure and compliance	Obtain and prepare long term lease schedules
Commitments and Contingencies	Ensure auditing standards are applied for proper accrual and disclosure	Send legal letters, talk with client, review disclosures

SPECIFIC AUDIT APPROACH (CONTINUED)

Please see *Appendix E – Segmentation and Budgeted Hours by Segment* for a schedule of the level of staff and number of hours to be assigned to each segment of the engagement.

During the first year of the engagement, we will utilize the prior year's financial statements, the current year's budget, and our knowledge of the City's systems to determine materiality for the different audit sections. Each year, we will select a sample of transactions to determine to what extent the systems are functioning as described to us. The extent of our sample size will depend upon our assessment of the internal control structure and the results of our assessment in accordance with Statement on Auditing Standards. These standards require auditors to perform test of controls and transactions based on a risk approach.

The selection of transactions for testing will be made using a combination of random, systematic, and haphazard sampling techniques. We will identify the strength of the systems upon which we can rely in planning our substantive tests. Our internal control review will meet all of the following requirements of AICPA: Statement on Auditing Standards (SAS) No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, as amended by SAS No. 78; SAS No. 99, *Consideration of Fraud in a Financial Statement Audit;* SAS No. 106, *Audit Evidence*; SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*; SAS No. 108, *Planning and Supervision*; SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; and SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained.*

It is estimated that the sampling size for transaction testing for compliance with systems as actually implemented would be as follows:

I. Minimum of 60 disbursement items, including automatic and manual checks and bank debits
II. Minimum of 40 payroll checks, including direct deposits
III. Minimum of 60 receipt items

We have extensive knowledge in auditing computer systems. We have assisted numerous clients with the implementation of accounting software and database business systems. This assistance has provided our firm with a thorough background in computer systems with respect to both the software applications aspect and also insight into auditing such systems. It is our policy to have a computer specialist as part of the audit team and to be used on an as-needed basis. This individual assists the audit team in documenting the computer system internal control structure and highlighting strengths and weaknesses relating to the computer structure of the City.

In addition, all of our staff is equipped with networked laptop computers. These computers are equipped with not only word processing and spreadsheet capabilities, but also various functional software, such as PPC Audit – e-Tools, Creative Solutions Accounting, Adobe Acrobat, random sampling software, Lacerte Tax Program, and Easy Accounting Software, which contain amortization programs and depreciation programs, and other applications as well (including the Governmental Accounting Research System, which includes all GASB publications).

SPECIFIC AUDIT APPROACH (CONTINUED)

We will perform preliminary analytical review procedures using the prior fiscal year's audited statements and the current fiscal year's budget. In the preliminary stage, we will adopt ratio analysis procedures to compare the relationships between account balances and classes of transactions between prior periods and against budgets and industry statistics. This may include budgets, trial balances, and/or draft financial statements to help us identify the source of individual fluctuations. We will then adopt trend analysis to compare current data with prior periods, which is particularly useful for analyzing revenue and expenditures. Any unexpected trends or deviations will be discussed with relevant City staff to obtain explanations.

We will also review the following documents in order to determine compliance with applicable laws and regulations:

1. Minutes of the governing body with special attention to: indications of new revenue sources, including federal and state grants; expense authorizations and related appropriations, including any special or restrictive provisions; appropriation transfers; authorization for bank or other debt incurred; awards to successful bidders; authorization for new leases entered into; changes in licenses, fines, or fees; authorization for fund balance commitments or assignments; and authorization for significant new employees hired.
2. New agreements and amendments to agreements including, but not limited to: grant agreements; debt and lease agreements; labor agreements; joint venture agreements; disposition and development agreements; and other miscellaneous agreements.
3. Administrative Code
4. Investment Policy

The main extent of our work would be what is required to enable us to express an opinion on the basic financial statements in accordance with:

1. *AICPA Industry Audit Guide for State and Local Governmental Units*
2. *AICPA Audit Standards*
3. *National Committee on Governmental Accounting, Auditing and Financial Reporting (Amended) Publication*
4. Laws of the State of California
5. Requirements of Office of Management and Budget's (OMB) Circular A-133, *Audits of State, Local Governments and Nonprofit Organizations*
6. *Uniform Guidance* (new Single Audit requirements)
7. *GAO Standards for Audit of Governmental Organizations, Activities and Functions, the Guidelines for Financial and Compliance Audits of Federally Assisted Programs*
8. Our firm's own additional standards and procedures

The audit will be conducted in accordance with auditing standards generally accepted in the United States of America. The primary purpose of the audit is to express opinions on the basic financial statements, and such an audit is subject to the inherent risk that material errors or fraud may exist and not be detected by us. If conditions are discovered which lead to the belief that material errors, defalcations, or fraud may exist, or if any other circumstances are encountered that require extended services, we will promptly advise the City.

SPECIFIC AUDIT APPROACH (CONTINUED)

If convenient for the City's staff, the approximate target dates for the fiscal year 2016 audits would be as follows:

1. Entrance conference and submission of audit plan – July 25th
2. Interim fieldwork – Week of August 8th
3. Exit conference – August 12th
4. Entrance conference and year-end fieldwork – Weeks of September 26th and October 3rd
5. Exit conference – No later than October 7th
6. Draft management letter, notes to the basic financial statements, and revisions and suggestions for improvements – No later than November 9th
7. Final management letter, financial statements, and other audit reports – No later than November 28th
8. Presentation to the City Council – Open

Our audit would begin when it is convenient for the City's staff. We estimate that in the second week of August we will perform interim fieldwork. Each year, the partner or manager of the firm will contact the Chief Financial Officer to set up an entrance conference meeting. The purpose of this meeting will be to discuss the scope and timing of the annual audit, to review any accounting issues known at that time, to provide our detailed audit plan, and to address any of the City's personnel concerns about the impending audit.

We will schedule approximately one week of interim work each year. During the first year, we will prepare narrative flow charts and other documentation of the internal control structure and of the major systems, such as revenue and cash receipts, purchasing and cash disbursements, payroll and personnel, inventory, property and equipment, grant compliance, investment activities, and the budget process. We will gain this information through discussions with appropriate City staff and the review of available documented policies, organizational charts, manuals, programs, and procedures. Once we obtain this information, we will evaluate the systems of internal controls and revise our standard governmental audit programs.

Before year-end fieldwork, we will discuss with the City any assistance the City may need with the year-end closing.

SPECIFIC AUDIT APPROACH (CONTINUED)

The chart below is a sample of MLH's final audit procedures:

Document	Strategy	Procedure
Obtain updated general ledger	Ensure proper closing of books	Analyze records and update analytical procedures
Obtain internal control memos, if there are any changes	Re-evaluate internal controls	Update understanding of internal controls and document key changes
Obtain joint venture agreement	Compliance with recharge and reclamation plan	Confirm balance with Treasurer/Auditor and test as necessary
Obtain prior GFOA CAFR comments	Ensure improvement in financial reporting	Implement significant changes in financial reporting methods
Obtain and further agree upon audit schedules as agreed upon in the contract and RFP	To commence audit properly on final numbers	Apply auditing procedures
Obtain/prior year GASB 34 conversion entries /prepare GASB 34 Entries	Ensure that all GASB 34 conversion entries are proper	Work on current year GASB 34 presentations
Analyze capital asset ledgers	Review or updates from preliminary and analyze for impairment	Obtain capital asset documents and update for impairments
Service Concession Agreements	Look for proper accruals and revenue payments	Look at selected billings and revenue agreements
Risk Management	Determine coverage	Confirm balances and analyze for proper accruals as necessary
Cost allocations	Internal service allocation propriety	Discuss and analyze internal service cost allocations
Allocation agreements	Ensure agreement compliance	Analyze allocations as necessary from client calculations and documents
Obtain OPEB and PERS documents	Review for any needed updates regarding GASBs 45 and 68	Read documents and update
Bond agreements	Bond compliance	Test bond compliance and obtain bond ratings
Contributions	Compliance	Analyze significant contributions for compliance
Receipt of third party letters	Independent verification of accounts	Match to year-end books and records and reconcile to accounts
None	Ensure proper audit process	Hold timely status meetings with the client
Adjusting entries, and any possible management points	Obtain client agreement	Post as necessary with client
None	Compliance with contract and governance	Attend finance and Council meetings
MD&A, prepare financials, reports and read supplementary information	Ensure documents match, are consistent and appropriately completed	Read MD&A, prepare financials, reports and read supplementary information

Our year-end fieldwork would begin on September 26th. The year-end audit work would begin with an analytical review of all significant balance sheet and revenues and expenditures/expense accounts for each fund, which includes substantive tests on all balance sheet accounts. Analytical procedures will be used to supplement the substantive tests, not supplant them. We will perform analytical procedures during interim and year-end fieldwork on all balance sheet and revenue and expense/expenditure accounts.

The primary objective of the year-end audit work is to audit the final numbers that will appear in the City's basic financial statements. **Our fieldwork would also consist of procedures required under SAS No. 99, *Consideration of Fraud in a Financial Statement Audit.***

SPECIFIC AUDIT APPROACH (CONTINUED)

We will perform procedures such as:

(a) Confirmations by positive and negative circularization including but not limited to all cash and investment accounts; selected receivable and revenue balances; all bonds, loans, notes payable, and capital leases; all notes receivable; all insurance carriers; all legal firms employed on the City's business; and other miscellaneous confirmations deemed necessary
(b) Physical verifications and observations
(c) Analysis and review of evidential material
(d) Interviews and investigative efforts
(e) Electronic data processing testing for computer and software reliability
(f) Numerous other procedures

During the entire engagement, our audit team will be determining whether an audit in compliance with *OMB Circular A-133* is required through review of the City Council minutes, examination of the general ledger, and discussion with finance personnel. If a compliance audit is required, we would perform tests of: specific requirements; claims for advances and reimbursements; and amounts claimed or used for matching in compliance with the Single Audit Act. The compliance audit will be conducted in accordance with auditing standards generally accepted in the United States of America, the GAO *Standards for Audits of Governmental Organizations, Programs, Activities, and Functions*, and the GAO *Guidelines for Financial and Compliance Audits of Federally Assisted Programs.*

The year-end fieldwork should be completed no later than October 7th.

The *Governmental Accounting, Auditing and Financial Reporting* (GAAFR), issued by the Government Finance Officers Association (the "Blue Book") and other GFOA publications are often used as additional tools when preparing and reviewing the financial statements of our governmental clients. The firm has and uses its extensive library of current AICPA, GFOA, and GASB publications and pronouncements.

As part of our audit engagements we issue our clients management letters if we note certain observations or recommendations that we feel need to be disclosed. Our firm's philosophy regarding the management letter is that the management letter is to help management improve its internal control and accounting procedures and not to criticize the management in charge. This is why we present our management letters to management in draft form for open discussion prior to issuance.

The workpapers for this engagement are the property of Moss, Levy & Hartzheim, LLP and constitute confidential information. However, we may be requested to make certain workpapers available to any Cognizant Agency pursuant to authority given to it by law or regulation, any parties designated by the federal or state governments or by the City as part of an audit quality review process, and other audits of entities of which the City is a sub-recipient of grant funds or component unit.

We understand that we shall respond to the reasonable inquiries of successor auditors and allow them to review working papers relating to matters of continuing accounting significance. If requested, access to such workpapers will be provided under the supervision of Moss, Levy & Hartzheim, LLP personnel.

IDENTIFICATION OF ANTICIPATED POTENTIAL AUDIT PROBLEMS

We do not anticipate any problems with the audit except for items listed in past management letters. In the event of a problem, the City Administrator, City Attorney, Chief Financial Officer and the City's Audit Committee will be immediately notified in writing of any fraud, other illegal acts, or indications of illegal acts found during the course of our work. All other discrepancies or weaknesses in the internal control system that we become aware of will be communicated to management through discussion, the management recommendation letter, and/or if it is a reportable condition, as part of the single audit report, if necessary.

Minimal assistance of the City's staff is required during the course of the audit; however, we do ask that the City provide the following: cooperation in answering questions, requested confirmations, bank reconciliations, a general ledger, and other miscellaneous items.

Under penalties of perjury, I declare that I am an authorized signer and that there are no and have never been any financial interests between any officials or employees of the City of Placentia and Moss, Levy & Hartzheim, LLP.

Respectfully submitted,

Craig A. Hartzheim, CPA
Partner

CITY OF PLACENTIA

APPENDIX A – CURRENT AND/OR RECENTLY COMPLETED GOVERNMENT AUDITS

CITIES AND REDEVELOPMENT AGENCIES*

Adelanto, CA
Arcadia, CA
Arroyo Grande, CA
Atascadero, CA
Buellton, CA
Calabasas, CA
California City, CA
Carmel-by-the-Sea, CA
Covina, CA
Culver City, CA
Dinuba, CA
El Centro, CA
Eureka, CA
Greenfield, CA
Grover Beach, CA
Holtville, CA
Hughson, CA
La Cañada Flintridge, CA
La Habra Heights, CA
La Mirada, CA - new client for 6/30/16
Morgan Hill, CA
Ojai, CA
Paso Robles, CA
Santa Maria, CA
Signal Hill, CA
Taft, CA
Watsonville, CA
Westlake Village, CA
Windsor, CA
Yorba Linda, CA
Yuba City, CA

PUBLIC FINANCING AUTHORITIES

The majority of our Municipalities issue debt and do so through an established Public Financing Authority.

OTHER SCHOOL ENTITIES

Academia Semillas del Pueblo Charter School
Albert Einstein Academy
Antelope Valley Schools Transportation District
Bright Star Secondary Charter Academy
East Bay Regional Occupational Program
Garr Academy of Mathematics and Entrepreneurial Studies
Pacoima Charter School
Santa Ynez Valley Charter School
Southern California Regional Occupational Center
Stella Middle Charter Academy
Synergy Charter Academy
Tri-Valley Regional Occupational Program

*Current municipal clients

SCHOOL DISTRICTS

Acton-Agua Dulce Unified School District
Ballard School District
Bellflower Unified School District
Beverly Hills Unified School District
Blochman Union School District
Bradley Elementary School District
Buellton Union School District
Calaveras County Schools
Calexico Unified School District
Calipatria Unified School District
Carpinteria Unified School District
Casmalia School District
Castaic Union School District
Cayucos Elementary School District
Coast Unified School District
Cold Springs School District
College Elementary School District
Eastside School District
El Segundo Unified School District
Garvey School District
Goleta Union School District
Graves School District
Heber School District
Hughes-Elizabeth Lakes Union School District
Keppel Union School District
Lancaster School District
Magnolia Union School District
Manhattan Beach Unified School District
Mark Twain Union Elementary School District
Meadows Union School District
Mission School District
Monrovia Unified School District
Montecito Union School District
Mulberry School District
Novato Unified School District
Orcutt Union School District
Pacific Unified School District
Palmdale School District
Pleasant Valley Union School District
San Ardo Elementary School District
San Lucas School District
San Miguel Joint Union School District
Santa Maria Joint Union High School District
Shandon Unified School District
Solvang Elementary School District
Temple City Unified School District
Torrance Unified School District
Vallecito Union School District
Westmoreland Elementary School District
Wilsona School District

COUNTIES

Los Angeles County, CA (Master List)
San Diego County, CA (Master List)

SANITATION DISTRICTS

Carpinteria Sanitation District, CA
Cayucos Sanitation District, CA
County Sanitation Districts of Los Angeles County, CA - All 25 Districts
Encina Wastewater Authority, CA
Montecito Sanitation District, CA
Orange County Sanitation District, CA - Internal Audits
Ross Valley Sanitary District, CA
Triunfo Sanitation District, CA

UTILITY DISTRICTS

Georgetown Divide Public Utility District

WATER/IRRIGATION DISTRICTS

Aldercroft Heights County Water District, CA
Foothill Municipal Water District, CA
Main San Gabriel Basin Watermaster, CA
Marina Water District, CA
North Marin Water District, CA
Sweetwater Springs Water District, CA
Valley County Water District, CA
Valley of the Moon Water District, CA

AMBULANCE SERVICES DISTRICT

Cambria Community Healthcare District
North Coast Emergency Medical Services

CEMETERY DISTRICTS

Arroyo Grande Cemetery District, CA
Atascadero Cemetery District, CA
Gridley-Biggs Cemetery District, CA
San Miguel Cemetery District, CA
Santa Maria Cemetery District, CA

COMMUNITY SERVICES DISTRICTS

Cambria Community Services District, CA
Cuyama Community Services District, CA
Groveland Community Services District, CA
Heritage Ranch Community Services District, CA
Los Alamos Community Services District, CA
Nice Community Services District, CA
Rancho Murieta Community Services District, CA
Santa Ynez Community Services District, CA
Vandenberg Village Community Services District, CA

RECREATION AND PARK DISTRICTS

Conejo Recreation and Park District, CA
Isla Vista Recreation and Park District, CA
Mountains Recreation and Conservation Authority, CA
Rancho Simi Recreation and Park District, CA
Hayward Recreation and Park District, CA

BUILDING AUTHORITY

County of San Diego Regional Building Authority, CA

FIRE PROTECTION DISTRICTS

Cayucos Fire Protection District, CA
Lakeport Fire Protection District, CA
Orcutt Fire Protection District, CA

OTHER DISTRICTS

Beach Cities Health District
County of San Diego Emergency Services Organization
County of San Diego First 5 Commission
County of San Diego In-Home Supportive Services Public Authority
County of San Diego Health and Human Services Agency Child Development Program Grant
County of San Diego MIOCR Grant
County of San Diego RLETC Grant
County of Los Angeles Delta Sigma Theta, Head Start Program, Inc.
County of San Diego DA Office of Auto Ins. Fraud Grant, Urban Auto Fraud Grant, WC Ins Fraud Grant
Los Angeles County Flood Control District
Marin/Sonoma Mosquito and Vector Control District
Peninsula Health Care District
San Diego Geographic Information Source
Tracy Area Public Facilties Financing Agency
West Contra Costa Integrated Waste Management Authority

TRANSPORTATION DEVELOPMENT ACT

Arroyo Grande, CA
Beaumont, CA
Brawley, CA
Calexico, CA
El Centro, CA
Grover Beach, CA
Holtville, CA
Paso Robles, CA
San Luis Obispo County and Cities Area Planning Council:
- Local Transportation Fund
- State Transit Assistance Fund

South County Area Transit, CA
South County/San Luis Obispo Transit, CA
Transportation Agency for Monterey County, CA
Transportation Authority of Marin
Association of Monterey Bay Area Governments
Santa Cruz Regional Transportation Commission

TRANSIENT OCCUPANCY TAX AUDITS

Represented the following municipalities and/or counties in the audit of the hotel "bed tax" records:

Arroyo Grande, CA
Bellflower, CA
Bishop, CA
Calexico, CA
Carmel, CA
Ojai, CA
Pismo Beach, CA
Santa Maria, CA
South Lake Tahoe, CA
Whittier, CA

POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA
Licensed by the California Board of Accountancy
Members American Institute of Certified Public Accountants

System Review Report

To the Partners of
Moss, Levy & Hartzheim, LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Moss, Levy & Hartzheim, LLP (the firm) in effect for the year ended December 31, 2011. Our review was conducted in accordance with standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Moss, Levy & Hartzheim, LLP in effect for the year ended December 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency (ies)* or *fail.* Moss, Levy & Hartzheim, LLP has received a peer review rating of *pass.*

Powell & Spafford, LLP

July 11, 2012

664 W. Birch Court • San Bernardino, CA 92410 • P.O. Box 8847 • Redlands, CA 92375
Telephone 909-885-7721 • Fax 909-885-7541

Ron A. Levy, CPA – Partner

- California licensed C.P.A. with 39 years of audit experience with governmental and non-profit entities

- Technical partner (concurring) in charge of all governmental and non-profit audits, currently including 31 municipal audits, 75 special district audits, and 35 school district and related audits

- Has assisted governmental clients with year-end closing, key position interviews, preparation of award winning CAFRs, and preparation of State Controller's Reports

- Has met or exceeded all continuing education requirements, including recent courses in the following:

  2016, 2015, and 2014 Governmental Accounting Conference
  2016, 2015, and 2014 School District Conference
  GASB 34 Training Seminars
  Planning a Governmental Audit Engagement
  Auditor's Reports on Audits of Local Governments
  Governmental Accounting Update
  Audits of State and Local Governments
  Compliance Auditing, Auditing Sampling, and Concluding the Audit
  The Single Audit Act

- Member of the following:

  American Institute of Certified Public Accountants
  California Society of Municipal Finance Officers
  California Society of Certified Public Accountants
  California Association of School Business Officials
  Kiwanis Club

- Bachelor of Science degree from Oregon State University conferred in 1977

- Taught accounting courses at a branch of LaVerne College and Chapman College

- Knowledgeable about all areas of tax law including non-profit tax issues

- **Mr. Levy's ancestry is of Hispanic descent**

Craig A. Hartzheim, CPA – Partner

- California licensed C.P.A. with 32 years of audit experience with governmental, non-profit, and commercial entities

- Engagement partner for governmental and non-profit audits (Culver City office) including 13 municipal audits, 40 special district audits (including Los Angeles County Flood Control District and the County Sanitation Districts of Los Angeles County), and 12 school districts and related audits

- Has assisted governmental clients with year-end closings, key position interviews, preparation of award winning CAFRs, and preparation of State Controller's Reports

- Has met or exceeded all continuing education requirements including recent courses in the following:

  2016, 2015, and 2014 Governmental Accounting Conference
  2016, 2015, and 2014 School District Conference
  Single Audits of Governmental Entities
  Preparing Governmental Financial Statements
  Yellow Book, Government Auditing Standards
  GAAS Guide
  Other Comprehensive Basis of Accounting (OCBOA) Statements
  Audit Standards update
  Implementing SAS 112 and 114
  Fraud in Audits
  Auditing update

- Bachelor of Science degree in Accounting from Marquette University conferred in 1982

- Member of the following:

  American Institute of Certified Public Accountants
  California Society of Certified Public Accountants

- Knowledgeable about all areas of tax law including non-profit and payroll tax issues

Hadley Y. Hui, CPA – Partner

- California licensed C.P.A. with 18 years of audit experience with governmental, non-profit, and commercial entities

- Partner in charge of 10 municipal audits, 26 special district audits, 8 special audits for the County of San Diego, and 20 school districts and related audits

- Supervisor for the CSS and DPSS Monitoring Projects for Los Angeles County

- Has met or exceeded all continuing education requirements including recent courses in the following:

  2016, 2015, and 2014 Governmental Accounting Conference
  2016, 2015, and 2014 School District Conference
  Fraud in Audits
  Risk-Based Auditing Part 1, Part 2
  Accounting and Auditing Update
  Guide to Auditing Control Course 1, Course 2

- Extensive knowledge of database systems, networking, and various accounting software

- Bachelor of Arts degree in Economics with a minor in Accounting from University of California – Los Angeles was conferred in 1997

- Member of the following:

  American Institute of Certified Public Accountants
  California Society of Certified Public Accountants

Wilson Lam, CPA, CFE, CGFM – Manager

- California licensed CPA with 9 years of audit experience with governmental and commercial entities.
- Auditor for 3 municipal audits, 4 special district audits, and 9 school district audits.
- Has met or exceeded all continuing education requirements including recent courses in the following:

  2016, 2015, and 2014 Governmental Accounting Conference
  2016, 2015, and 2014 School District Conference
  2016 and 2015 Single Audit Compliance
  GASB 34 Training Seminars
  Risk-Based Auditing Part 1 & Part 2
  2015 Accounting and Auditing Update
  Guide to Auditing Control Course 1 & Course 2

- Bachelor of Arts in Accounting and Finance from California State University Fullerton as conferred in 2005

Edward R. Eisenhauer, CPA – Senior Accountant

- California licensed CPA with 30 years of experience, and 10 years of audit experience with governmental, non-profit, and commercial entities
- Auditor for 12 municipal audits and 3 special district audits
- Has met or exceeded all continuing education requirements including recent-courses in the following:

  2016, 2015, and 2014 Governmental Accounting Conference
  2016, 2015, and 2014 School District Conference
  2009 Accounting and Auditing Standards Update: Risk Assessment Standards
  2009 Advanced Audit Standards Workshop: Understanding Risk Assessment
  2009 GAAS Update
  Auditors' Responsibilities for Detection of Fraud
  Internal Control and Fraud in Governmental Engagements
  Government Auditing Standards – Yellow Book
  Implementing SAS 112 & 114
  Advanced Fraud Techniques
  Grants Management

- Bachelor of Science degree in Accounting from University of Wisconsin- Whitewater conferred in 1982
- Knowledgeable about all areas of tax law including non-profit and payroll tax issues

David Ortiz – Computer Specialist

- Auditor with 24 years of audit experience with governmental and commercial entities
- Computer specialist – with emphasis in fund accounting software
- Extensive knowledge of database systems, networking, and accounting software
- Bachelor of Science degree in Business Administration with an emphasis in Accounting from California Polytechnic State University, San Luis Obispo

CITY OF CULVER CITY
Audit of basic financial statements, former Redevelopment Agency, Single Audit Report, Municipal Bus Line, REAC Report, and prepared City, RDA, and Transit State Controller Reports
2011 to Present
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Jeff Muir, (310) 253-6016
Received GFOA Certificate of Achievement in Financial Reporting

CITY OF EL CENTRO
Audit of basic financial statements, former Redevelopment Agency, Single Audit Report, GANN Limit, and prepared the City's State Controller Report
2007 to Present
Engagement Partner – Craig A. Hartzheim, CPA
Contact: Leticia Salcido, (760) 773-4573
Received GFOA Certificate of Achievement in Financial Reporting

CITY OF YORBA LINDA
Audit of basic financial statements, Single Audit Report, and review of City's GANN Limit
2014 to Present
Partner – Craig A. Hartzheim, CPA
Contact: David J. Christian, CPA, (714) 961-7141

CITY OF LAGUNA HILLS
Audit of basic financial statements, Single Audit Report, and review of the City's GANN Limit
Preparation of the City's State Controller Report and Street Report
2009 to 2014
Partner – Craig A. Hartzheim, CPA
Contact: Janice Mateo Reyes, (949) 707-2623
Received GFOA Certificate of Achievement in Financial Reporting

CITY OF LA MIRADA
Audit of basic financial statements, Single Audit Report, and review of City's GANN Limit
2016 to Present
Partner – Craig A. Hartzheim, CPA
Contact: Melissa Pascual, (562) 943-0131

CITY OF PLACENTIA
APPENDIX E – SEGMENTATION AND BUDGETED HOURS BY SEGMENT

	Estimated Hours					
AUDIT SEGMENTS	**Clerical**	**Staff**	**Senior**	**Manager**	**Partner/ Technical Partner**	**Total**
Planning		4	6	14	12	36
Risk Assessment		4	6	10	12	32
Audit Conferences				4	4	8
Correspondence	9	6	6	4	4	29
Review/Documentation of Internal Controls (including Single Audit):						
Documentation of systems		20	15			35
Testing of systems		40	30			70
Compliance Testing (including Single Audit)		12	14	16	12	54
Year End Balances Testing		24	32	76	62	194
Revenue and Expense/Expenditure Analysis (Analytical Procedures)		10	10	6		26
Preparation, Review, and Findings	20	20	14	30	10	94
GRAND TOTAL	29	140	133	160	116	578