



CITY OF DEL REY OAKS

Staff Report

DATE: March 26, 2024

TO: Honorable Mayor and Members of City Council

FROM: John Guertin, City Manager

SUBJECT: Consider Three-year Contract with Chavan & Associates for Annual Audit Services

CEQA: This action does not constitute a “project” as defined by the California Environmental Quality Act (CEQA) guidelines section 15378 as it is an administrative activity of the City that will not result in direct or indirect physical changes in the environment.

Recommendation

Approve a three-year contract with Chavan & Associates to provide financial statement audits for the fiscal years ending 2024 through 2026.

Background

Each year the City is required by law to conduct an independent audit of the previous year’s financial statements. The City has utilized Chavan & Associates as its independent auditing firm since fiscal year 2015.

Summary & Discussion

The City has utilized Chavan & Associates its independent auditor for the past several years. During that time, Chavan & Associates has provided three specific services: the required financial statements audit, the required TAMC Measure X audit, and a true-up audit related to the police services agreement with the Monterey Peninsula Airport District.

Chavan & Associates is intimately familiar with the City’s financial and accounting procedures, fiscal history, and the challenges it faces with limited resources and staff. Chavan & Associates has a history of working well with staff and with our contract accounting personnel. Because of the City’s history of working with Chavan & Associates, their knowledge of its finance and accounting practices, and Chavan & Associates past work quality, Staff believes that a three-year contract for their services would be appropriate. A three-year contract would lock-in current market rates for the term of the contract and save staff time revisiting the contract on a yearly basis.

Fiscal Impacts

The yearly breakdown of services will be:

Fiscal year ending June 30, 2024 - \$40,075
Fiscal year ending June 30, 2024 - \$40,900
Fiscal year ending June 30, 2024 - \$42,525

ATTACHMENTS:

- Letter of understanding Financial Statements Audit
- Letter of understanding Measure X Audit
- Letter of understanding Airport Police Services True-Up

Respectfully Submitted,

John Guertin
City Manager



March 18, 2024

City of Del Rey Oaks
650 Canyon Del Rey Rd.
Del Rey Oaks, CA 93940

We are pleased to confirm our understanding of the services we are to provide for the City of Del Rey Oaks (the “City”) for the fiscal years ending June 30, 2024, 2025 and 2026. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. In addition, we will perform the services as noted in **Exhibit A**, as applicable each fiscal year. We are pleased to confirm our acceptance of this audit engagement by means of this letter. Our audits will be conducted with the objectives of our expressing an opinion on each opinion unit.

Accounting principles generally accepted in the United States of America, (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), require that the items noted below be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation and comparing the information for consistency with management’s responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP and will be subjected to certain limited procedures but will not be audited:

1. Management’s discussion and analysis.
2. Major fund budget to actual schedules.
3. Pension schedules.
4. Other postemployment benefit schedules.

Supplementary Information Other than RSI

Supplementary information other than RSI will accompany the City’s basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with U.S. GAAS.



We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

1. Nonmajor governmental fund combining balance sheets and schedules of revenues, expenditures and changes in fund balances.

Audit of the Financial Statements

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America (GAGAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance (whether caused by errors, fraudulent financial reporting, misappropriation of assets, detected abuse, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

In making our risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Our responsibility as auditors is limited to the period(s) covered by our audit and does not extend to any other periods.



We will issue a written report upon completion of our audit of the City's basic financial statements. Our report will be addressed to the governing body of the City. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will 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 opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

Management's Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements;
3. For the design, implementation, and maintenance of internal control over compliance;
4. For identifying and ensuring that the City complies with laws, regulations, grants, and contracts applicable to its activities and implementing systems designed to achieve compliance with applicable laws, regulations, grants, and contracts applicable to activities;
5. For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
6. For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
7. For making the auditor aware of any significant vendor / contractor relationships where the vendor / contractor is responsible for program compliance;
8. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, and relevant to federal award programs, such as records, documentation, and other matters;



- b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.
9. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the City's auditor;
 10. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
 11. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
 12. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
 13. For informing us of any known or suspected fraud affecting the City involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials;
 14. For the accuracy and completeness of all information provided;
 15. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
 16. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding the supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to 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 you of the supplementary information and our reports thereon.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit.

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.



Audit Administration and Fees

Our all-inclusive maximum fee for these services will be as follows (see Exhibit A):

Fiscal year ending June 30, 2024	\$31,675
Fiscal year ending June 30, 2025	\$32,500
Fiscal year ending June 30, 2026	\$34,125

Our fees include out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.).

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit as follows:

Engagement Partner	\$400 per hour
Associate Partner	\$350 per hour
Manager	\$200 per hour
Senior Auditor	\$150 per hour
Staff Auditor	\$125 per hour
Administrative	\$100 per hour

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report.

You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. 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 cooperation is not provided as anticipated and at a level that hinders the progress of the services to be provided, we retain the right to terminate the contract for cause with thirty (30) days' notice. During that time, the City will have the opportunity to provide the cooperation required to complete the audit and C&A may rescind the cancellation.

If the services to be performed by C&A are not performed in an acceptable manner to the City, the City may cancel this contract for cause by providing notice to C&A, giving at least thirty (30) days' notice of the proposed cancellation and the reasons for same. During that time period, C&A may seek to bring the performance of services to a level that is acceptable to the City, and the City may rescind the cancellation if such action is in City's best interest. Notwithstanding the above provisions, the City may, upon the expiration of thirty (30) days written notice to C&A, terminate the agreement at will. Payment for services or goods received prior to termination shall be made by the City provided those goods or services were provided in a manner acceptable to the City. Payment for those goods and services shall not be unreasonably withheld.



Khoa (Paul) Pham, CPA, is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Chavan & Associates LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Other Matters

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

The audit documentation for this engagement is the property of Chavan & Associates LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to state and federal agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Chavan & Associates LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature. You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

With respect to any nonattest services we perform, the City's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Nonattest services include the preparation of the audited financial statements, note disclosures, supplemental information (as noted above), conversion entries, and the state controller's annual reports that are derived from the audited financial statements. These items will be prepared from information prepared and provided by the City during our audit, such as the City's trial balance.



We will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist management in performing its responsibilities.

Our responsibilities and limitations of the engagement are as follows:

- We will perform the services in accordance with applicable professional standards, including GAAS and GAGAS, as previously noted.
- This engagement is limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries. Our firm will advise the City with regard the nonattest services provided, but the City must make all decisions with regard to those matters.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

At the conclusion of our audit engagement, we will communicate to management and the Council the following significant items from the audit:

- Our view about the qualitative aspects of the City's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

In accordance with the requirements of *Government Auditing Standards*, a copy of our latest external peer review report of our firm is available upon request or on our website.



Chavan and Associates, llp
Certified Public Accountants

If the foregoing is in accordance with your understanding, please indicate your agreement by signing this letter and emailing it to us at info@cnallp.com. If you have any questions, please let us know.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Very truly yours,

C & A LLP

Khoa (Paul) Pham, CPA, Partner
Chavan & Associates, LLP

RESPONSE:

This letter correctly sets forth the understanding of the City of Del Rey Oaks.

Signature:

Title:

Date:



Exhibit A

Audit Services	2024	2025	2026
City Audit and Reports	\$ 27,675	\$ 28,500	\$ 30,125
SCO Annual Financial Transactions Report	2,500	2,500	2,500
SCO Annual Streets Report	1,500	1,500	1,500
Meals, Lodging and Transportation	Included	Included	Included
Management Letters	Included	Included	Included
Printing/Copying	Included	Included	Included
Total All-Inclusive Maximum Price	\$ 31,675	\$ 32,500	\$ 34,125



March 18, 2024

City of Del Rey Oaks
650 Canyon Del Rey Rd.
Del Rey Oaks, CA 93940

This letter sets forth our understanding for applying agreed-upon procedures to assist you in determining City of Del Rey Oaks' (the City) cost of police services to be charged to the Monterey Peninsula Airport District (the District), for the periods ending June 30, 2024, 2025 and 2026. Management is responsible for accounting records and is responsible for maintaining compliance with the terms outlined in the agreement with the Monterey Peninsula Airport District to provide law enforcement services.

This engagement is solely for the purpose of reporting our findings regarding the results of the procedures performed. This report is intended for use by management and is expected to be restricted to the use by management.

Prior to the completion of the engagement, you agree to provide us with written agreement and acknowledgment that the procedures performed are appropriate for the intended purpose of the engagement as noted above.

We will analyze, review and recalculate the City's costs for providing police services, which will be used as the basis for allocating costs to the District. This will include the City's costs related to compensated absences, pension plans, OPEB plan, and other related liabilities directly attributed to police services. We will perform these agreed-upon procedures upon the completion of the City's financial audit for each fiscal year. We expect to issue our agreed upon procedures report no later than December 31st of each year.

Our engagement is limited to the specific services indicated above. We will conduct our engagement in accordance with the attestation standards for agreed-upon procedures engagements established by the American Institute of Certified Public Accountants (AICPA). We are responsible for carrying out the procedures and reporting findings in accordance with these standards. We have no responsibility to determine the differences between the procedures to be performed and the procedures that we would have determined to be necessary had we been engaged to perform another form of attestation engagement.

Our report will list the procedures performed and our findings. Our report will be addressed to City of Del Rey Oaks and will be intended for use by and restricted to the use of the specified parties as identified above. Our report will contain such restricted-use language. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Should we have any reservations with respect to the subject matter, we will discuss them with you before the report is issued.



We have no responsibility to update our report for events and circumstances occurring after the date of our report.

As part of our engagement, we will request from management, written confirmation concerning representations made to us in connection with the agreed upon procedures. You agree to provide such confirmation.

With respect to any nonattest services we perform, which includes the preparation of the City's financial statements, note disclosures, supplementary information and required supplementary information other than the MD&A as a part of a separate engagement to audit the City, we will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist management of the City in performing its responsibilities.

City management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the engagement are as follows: We will perform the services in accordance with applicable professional standards; this engagement is limited to the services previously outlined above and in our audit engagement letter to the City. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

Service Administration and Fees

Our all-inclusive maximum fee for these services will be **\$4,725** for each fiscal year. However, if we encounter unexpected circumstances that require us to devote more staff time to the engagement than anticipated, we will discuss the matter with you, and any additional fees required for increases in scope will be based upon the number of hours required by the staff assigned to complete the engagement.

Our invoices for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If cooperation is not provided as anticipated and at a level that hinders the progress of the services to be provided, we retain the right to terminate the contract for cause with thirty (30) days' notice. During that time, the City will have the opportunity to provide the cooperation required to complete the engagement and C&A may rescind the cancellation.



If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us through the date of termination.

Other Matters

Khoa (Paul) Pham is the engagement partner for the services specified in this letter. His responsibilities include supervising our services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the report.

In connection with this engagement, we may communicate with you or others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure of emails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure or communication of confidential or proprietary information.

In the event that we are or may be obligated to pay any cost, settlement, judgment, fine, penalty, or similar award or sanction as a result of a claim, investigation, or other proceeding instituted by any third party, and if such obligation is or may be a direct or indirect result of any inaccurate or incomplete information that you provide to us during the course of this engagement, you agree to indemnify us, defend us, and hold us harmless as against such obligation.

By your signature below, you acknowledge and understand that our engagement is limited in scope and will be confined to our agreed-upon procedures. Because these procedures do not constitute an examination, we will not express an opinion on these procedures, nor the sufficiency of these procedures for your intended purpose. In addition, as we will not audit or review the financial statements of City of Del Rey Oaks, we will not express an opinion or any other form of assurance on the financial statements, except as agreed to in a separate engagement letter.

This engagement letter is contractual in nature, and includes all of the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior oral or written representations or commitments by or between the parties. Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this letter, signed by all of the parties.



Chavan and Associates, llp
Certified Public Accountants

If, after full consideration and consultation with counsel if so desired, you agree that the foregoing terms shall govern this engagement, please sign the copy of this letter in the space provided and return the signed letter to me at info@cnallp.com, keeping a fully-executed copy for your records.

We appreciate the opportunity to be of service look forward to working with you.

Very truly yours,

C & A LLP

Khoa (Paul) Pham, CPA, Partner
Chavan & Associates, LLP

RESPONSE:

This letter correctly sets forth the understanding of City of Del Rey Oaks.

Signature:

Title:

Date:



March 18, 2024

City of Del Rey Oaks
650 Canyon Del Rey Rd.
Del Rey Oaks, CA 93940

We are pleased to confirm our understanding of the services we are to provide for the City of Del Rey Oaks (the “City”) for the fiscal years ending June 30, 2024, 2025 and 2026. We will audit the Measure X financial statements of the City and the related notes to the financial statements for each fiscal year, as required by the Transportation Agency for Monterey County’s (TAMC) Ordinance No. 2016-01 and the Measure X Master Programs Funding Agreement between TAMC and the City. Our audit will be conducted with the objective of expressing an opinion on each opinion unit of the City’s Measure X financial statements. In connection with our audit, we will also provide a compliance audit and report on the requirements noted TAMC Ordinance No. 2016-01 and in the Measure X Master Programs Funding Agreement as of June 30, 2024, 2025 and 2026.

Supplementary Information

Supplementary information will accompany the financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with U.S. GAAS.

We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

1. Statement of revenues, expenditures and changes in fund balance – budget and actual.

Audit of the Financial Statements

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America (GAGAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.



An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance (whether caused by errors, fraudulent financial reporting, misappropriation of assets, detected abuse, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

In making our risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Our responsibility as auditors is, of course, limited to the period(s) covered by our audit and does not extend to any other periods.

We will issue a written report upon completion of our audit of the Measure X financial statements. Our report will be addressed to the governing body of the City. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will 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 opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.



Management's Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements referred to above in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements;
3. For the design, implementation, and maintenance of internal control over compliance;
4. For identifying and ensuring that the City complies with laws, regulations, grants, and contracts applicable to its activities and implementing systems designed to achieve compliance with applicable laws, regulations, grants, and contracts applicable to activities;
5. For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
6. For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
7. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
8. For submitting the reports issued to the appropriate parties;
9. For making the auditor aware of any significant vendor / contractor relationships where the vendor / contractor is responsible for program compliance;
10. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, and relevant to Measure X program, such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.
11. For including the auditor's report in any document containing financial statements that indicates that such basic financial statements have been audited by the City's auditor;
12. For identifying and ensuring that the City complies with the laws and regulations applicable to its activities;
13. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;



14. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
15. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets; and
16. For informing us of any known or suspected fraud affecting the City involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials;
17. For the accuracy and completeness of all information provided; and
18. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding the supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to 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 you of the supplementary information and our reports thereon.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit.

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Audit Administration and Fees

Our all-inclusive maximum fee for these services will be as follows:

Fiscal year ending June 30, 2024	\$3,675
Fiscal year ending June 30, 2025	\$3,675
Fiscal year ending June 30, 2026	\$3,675

Our fees include out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.).



Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit as follows:

Engagement Partner	\$400 per hour
Associate Partner	\$350 per hour
Manager	\$200 per hour
Senior Auditor	\$150 per hour
Staff Auditor	\$125 per hour
Administrative	\$100 per hour

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report.

You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. 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 cooperation is not provided as anticipated and at a level that hinders the progress of the services to be provided, we retain the right to terminate the contract for cause with thirty (30) days' notice. During that time, the City will have the opportunity to provide the cooperation required to complete the audit and C&A may rescind the cancellation.

If the services to be performed by C&A are not performed in an acceptable manner to the City, the City may cancel this contract for cause by providing notice to C&A, giving at least thirty (30) days' notice of the proposed cancellation and the reasons for same. During that time period, C&A may seek to bring the performance of services to a level that is acceptable to the City, and the City may rescind the cancellation if such action is in City's best interest. Notwithstanding the above provisions, the City may, upon the expiration of thirty (30) days written notice to C&A, terminate the agreement at will. Payment for services or goods received prior to termination shall be made by the City provided those goods or services were provided in a manner acceptable to the City. Payment for those goods and services shall not be unreasonably withheld.

Khoa (Paul) Pham, CPA, is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Chavan & Associates LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Other Matters

The audit documentation for this engagement is the property of Chavan & Associates LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to state and federal agencies and the U.S. Government Accountability



Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Chavan & Associates LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature. You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

With respect to any nonattest services we perform, the City's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Nonattest services include the preparation of the audited Measure X financial statements, note disclosures, and supplemental information (as noted above). These items will be prepared from information prepared and provided by the City during our audit, such as the City's trial balance.

We will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist management in performing its responsibilities.

Our responsibilities and limitations of the engagement are as follows:

- We will perform the services in accordance with applicable professional standards, including GAAS and GAGAS, as previously noted.
- This engagement is limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries. Our firm will advise the City with regard the nonattest services provided, but the City must make all decisions with regard to those matters.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.



At the conclusion of our audit engagement, we will communicate to management and the Council the following significant items from the audit:

- Our view about the qualitative aspects of the City's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

In accordance with the requirements of *Government Auditing Standards*, a copy of our latest external peer review report of our firm is available upon request or on our website.

If the foregoing is in accordance with your understanding, please indicate your agreement by signing this letter and emailing it to us at info@cnallp.com. If you have any questions, please let us know.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Very truly yours,

Khoa (Paul) Pham, CPA, Partner
Chavan & Associates, LLP



Chavan and Associates, llp
Certified Public Accountants

RESPONSE:

This letter correctly sets forth the understanding of the City of Del Rey Oaks.

Signature:

Title:

Date: