

**From:** [Phil Koen](#)  
**To:** [Gitta Ungvari](#); [Linda Reiners](#)  
**Cc:** [Laurel Prevetti](#); [Mary Badame](#); [Gabrielle Whelan](#); [Matthew Hudes](#); [Rob Rennie](#)  
**Subject:** RFP for ACFR  
**Date:** Tuesday, April 16, 2024 11:11:39 PM  
**Attachments:** [RFP for ACFR.pdf](#)

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[EXTERNAL SENDER]

Hello Gitta,

I listened to the TC discussion tonight of this agenda item and I am very concerned there was a fundamental misunderstanding regarding the FC's recommendation with regard to auditor independence, the preparation of the Town's financial statements and compliance with the Code of Professional Conduct with regard to non-attest services. It was very clear the TC was not adequately informed of the FC's core concerns.

While I realize the TC ultimately agreed with our recommendation, I would request that we add this item to our next FC agenda to ensure we are all in agreement as to the next steps. I would also request Staff not prepare an RFP until we have collectively discussed the breadth of services we are seeking and the deliverables.

Thank you,

Phil Koen



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

ITEM NO. 19.

MEETING DATE: 4/16/2024

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**DATE:** April 5, 2024  
**TO:** Mayor and Town Council  
**FROM:** Laurel Prevetti, Town Manager  
**SUBJECT:** Discuss and Provide Direction Regarding the Finance Commission Recommendation to Issue a Request for Qualification (RFQ) for the Preparation of the Annual Comprehensive Financial Report (ACFR).

**RECOMMENDATION:**

Discuss and provide direction regarding the Finance Commission recommendation to issue a Request for Qualification (RFQ) for the preparation of the Annual Comprehensive Financial Report (ACFR).

**BACKGROUND:**

At the December 11, 2023 Finance Commission meeting, the Commissioners passed a motion to recommend that the Town Council adopt a practice to hire a separate entity to perform work necessary for the preparation of the Town's ACFR. The work includes preparing the financial statements, notes disclosures, supplemental information, the Management Discussion and Analysis (MD&A) template and tables, and statistical schedules that are derived from the financial statements. Currently, this work is performed by the Town's external auditor, Chavan & Associates, LLP.

**DISCUSSION:**

Based on staff research, most municipalities within Santa Clara County, with the exception of the City of San José, use their current audit firm to assist with compiling and preparing their Annual Comprehensive Financial Report. While management is responsible for the financial statements, the production of the Annual Comprehensive Financial Report involves the synchronization of the actual financial statements with the footnotes, supporting statistical and required supplementary data, Letter of transmittal, and the MD&A. This is a very time intensive effort for staff and can be done more efficiently through the use of a third party who has

**PREPARED BY:** Gitta Ungvari  
Finance Director

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Reviewed by: Town Manager, Town Attorney, and Assistant Town Manager

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DISCUSSION (continued):

software dedicated for this purpose and has expertise providing ACFR preparation service to multiple local government clients. This approach is most time and cost efficient, taking advantage of economies of scale, allowing for lower cost of production, and saving staff resources for other Council and Finance Commission priorities.

If Council directs staff to hire a different firm to assist with the ACFR preparation, staff recommends that Council authorize the Town Manager to prepare and issue a Request for Qualifications (RFQ) for ACFR preparation. Staff anticipates the contract amount being within Town Manager's contract authority and would not need to return to Council to approve the consultant selection.

CONCLUSION:

Discuss and provide direction regarding the Finance Commission's recommendation to issue a Request for Qualification (RFQ) for the preparation of the Annual Comprehensive Financial Report (ACFR).

FISCAL IMPACT:

If Council approves the Finance Commission's recommendation, any additional cost beyond using our current external auditor (Chavan & Associates, LLP) will be included in the Proposed FY 2024/25 Operating Budget. The potential cost of the additional services is estimated at approximately \$10,000 to \$15,000 for the fiscal year FY 2023/24 ACFR, pending results of the RFQ submittals.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

**From:** [Phil Koen](#)  
**To:** [Gitta Ungvari](#)  
**Cc:** [Linda Reiners](#)  
**Subject:** FC meeting  
**Date:** Friday, April 19, 2024 6:41:35 PM  
**Attachments:** [Chaganty and Associates Engagement Letter.pdf](#)

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[EXTERNAL SENDER]

Gitta,

Please include the attached engagement letter in the FC package for April 29 with the Staff report to the TC.

Thank you,

Phil Koen





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March 9, 2022

Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

We are pleased to confirm our understanding of the services we are to provide for the Town of Los Gatos (the "Town") for the fiscal years ending June 30, 2022, 2023 and 2024, with options for 2025 and 2026. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. In addition, we will audit the Town's compliance over major federal award programs, and 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 and an opinion on compliance regarding the Town's major federal award programs.

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 Town'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.



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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 statements of revenues, expenditures and changes in fund balances.
2. Nonmajor budgetary comparison schedules.
3. Proprietary funds combining balance sheets and statements of revenues, expenditures and changes in net position, and cash flows, as applicable.
4. Fiduciary fund statements, as applicable.

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. ACFR introductory section.
2. Statistical tables.

### Schedule of Expenditures of Federal Awards

We will subject the schedule of expenditures of federal awards to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the schedule 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 auditing standards generally accepted in the United States of America. We intend to provide an opinion on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements as a whole.

### Data Collection Form

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the federal audit clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the federal audit clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the *earlier* of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.





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### 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), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America (GAGAS), and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Town'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 Town'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 Town's basic financial statements. Our report will be addressed to the governing body of the Town. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is



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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.

**Audit of Major Program Compliance**

Our audit of the Town's major federal award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget's (OMB) Uniform Guidance; and will include tests of accounting records, a determination of major programs in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the Town has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Town's major programs. The purpose of those procedures will be to express an opinion on the Town's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance.

Also, as required by the Uniform Guidance, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the Town's major federal award programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the Town's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.





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### 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 identifying, in its accounts, all federal awards received and expended during the period and the federal programs under which they were received, including federal awards and funding increments received in accordance with the Uniform Guidance generally received after December 26, 2014;
4. For maintaining records that adequately identify the source and application of funds for federally funded activities;
5. For preparing the schedule of expenses of federal awards (including notes and noncash assistance received) in accordance with the Uniform Guidance requirements;
6. For the design, implementation, and maintenance of internal control over federal awards;
7. For establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the nonfederal entity is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards;
8. For identifying and ensuring that the Town complies with laws, regulations, grants, and contracts applicable to its activities and its federal award programs and implementing systems designed to achieve compliance with applicable laws, regulations, grants, and contracts applicable to activities and its federal award programs;
9. For disclosing accurately, currently, and completely the financial results of each federal award in accordance with the requirements of the award;
10. 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;
11. For taking prompt action when instances of noncompliance are identified;
12. 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;
13. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
14. For submitting the reporting package and data collection form to the appropriate parties;
15. For making the auditor aware of any significant vendor / contractor relationships where the vendor / contractor is responsible for program compliance;



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16. 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 Town from whom we determine it necessary to obtain audit evidence.
17. 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 Town's auditor;
18. 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;
19. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
20. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
21. For informing us of any known or suspected fraud affecting the Town involving management, employees with significant role in internal control and others where fraud could have a material effect on compliance and the financials;
22. For the accuracy and completeness of all information provided;
23. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
24. 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 and schedule of expenditures of federal awards (SEFA) referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information and SEFA in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding the supplementary information and SEFA, (c) to include our report on the supplementary information and the SEFA in any document that contains the supplementary information and that indicates that we have reported on such supplementary information and the SEFA, and (d) to present the supplementary information and the SEFA with the audited financial statements, or if the supplementary information and the SEFA 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 and the SEFA no later than the date of issuance by you of the supplementary information and the SEFA 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.





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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, 2022	\$36,500
Fiscal year ending June 30, 2023	\$36,500
Fiscal year ending June 30, 2024	\$36,500
Fiscal year ending June 30, 2025	\$38,750
Fiscal year ending June 30, 2026	\$39,750

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	\$175 per hour
Associate Partner	\$125 per hour
Manager	\$95 per hour
Senior Auditor	\$80 per hour
Staff Auditor	\$65 per hour
Administrative	\$50 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 Town 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 Town, the Town 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,





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C&A may seek to bring the performance of services to a level that is acceptable to the Town, and the Town may rescind the cancellation if such action is in Town's best interest. Notwithstanding the above provisions, the Town 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 Town provided those goods or services were provided in a manner acceptable to the Town. Payment for those goods and services shall not be unreasonably withheld.

**Sheldon Chavan, 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 Town'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;



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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, audit adjusting entries, a template MD&A with tables, the schedule of expenditures of federal awards, the data collection form, the state controller's annual reports; statistical schedules that are derived from the audited financial statements. These items will be prepared from information prepared and provided by the Town during our audit, such as the Town's trial balance.

We will not assume management responsibilities on behalf of the Town. 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, GAGAS and Uniform Guidance 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 Town with regard to the nonattest services provided, but the Town 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 Town'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;





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- 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](mailto: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,

Sheldon Chavan, CPA, Managing Partner  
Chavan & Associates, LLP

**RESPONSE:**

This letter correctly sets forth the understanding of the Town of Los Gatos.

Signature: 

Title: **Director of Finance**

Date: 3/22/2022





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**Exhibit A**

Services	Hours	Optional				
		2022	2023	2024	2025	2026
Town Audit	288	\$ 24,500	\$ 24,500	\$ 24,500	\$ 26,000	\$ 27,000
Single Audit	30	3,000	3,000	3,000	3,000	3,000
GANN Limit	4	500	500	500	500	500
ACFR Preparation	30	3,000	3,000	3,000	3,000	3,000
Consulting, Updates and Guidance	N/A	Included	Included	Included	Included	Included
Present Reports to Board and Committees	N/A	Included	Included	Included	Included	Included
Conversion Entries	N/A	Included	Included	Included	Included	Included
<b>Subtotal Base Audit</b>	<b>352</b>	<b>31,000</b>	<b>31,000</b>	<b>31,000</b>	<b>32,500</b>	<b>33,500</b>
Annual Financial Transactions Report	16	2,000	2,000	2,000	2,250	2,250
SCO Compensation Report	8	1,000	1,000	1,000	1,250	1,250
Measure G AUP	24	2,500	2,500	2,500	2,750	2,750
<b>Total All-Inclusive Maximum Price</b>	<b>400</b>	<b>\$ 36,500</b>	<b>\$ 36,500</b>	<b>\$ 36,500</b>	<b>\$ 38,750</b>	<b>\$ 39,750</b>

**From:** [Phil Koen](#)  
**To:** [sheldon@cnallp.com](mailto:sheldon@cnallp.com)  
**Cc:** [Linda Reiners](#); [Gitta Ungvari](#)  
**Subject:** Pages from Chevan and Associates- proposal and contract(1).pdf  
**Date:** Monday, April 22, 2024 2:55:28 PM  
**Attachments:** [Pages from Chevan and Associates- proposal and contract\(1\).pdf](#)

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[EXTERNAL SENDER]

Hello Sheldon,

At this past Tuesday's Town Council meeting, the Council discussed and agreed with the FC's recommendation made last December to separate the non-attest services as outlined in your engagement letter of March 9, 2022 from the attest services. I would encourage you to watch the discussion because it did raise in the minds of several Council members the question as to whether your firm was auditing the financial statements as opposed to auditing only the underlying accounts and supporting records. It would be helpful if you clarified for Staff and the Town Council the scope of your services, and the opinions you are expressing, so the Town Council clearly understands the work being performed.

The video of the session can be found here

- <https://securisync.intermedia.net/im/s/5qbBZ9dBlZaOnBBjSXpW91000fc297> .

My concern is, now that the Town Council has agreed with our recommendation, how do we separate the non-attest services from the attest services? Is there a way to do this in a way that doesn't add too much incremental complexity and cost to the task at hand? As you know our primary goal is to create an air gap between the preparation of the financial statements, including the footnotes and the ACFR, and the audit. The FC was focused on making sure there are no independence issues created resulting from the multiple non-attest services being provided and eliminating the need to rely on the application of the safeguards in the general requirements for performing non-attest services interpretation.

In reviewing your proposal, I noted the scope of services you are performing for the City of Saratoga include the audit and a review of the ACFR, as opposed to

the preparation of the ACFR. Is that correct? If that is correct, should the Town replicate Saratoga's approach? Is that a model Staff should review?

Any advice you can provide the FC on this would be greatly appreciated. We will be taking this up at our next meeting which will be April 29.

Thank you,

Phil Koen  
Chair of the FC



## Section C - Similar Engagements

### Town of Los Gatos Proposal for Auditing Services

#### Client References and Similar Engagements

The following projects were completed by C&A in 2019-20 and are ongoing in 2020-21:

Entity Name	City of Del Rey Oaks	City of Saratoga	City of Carmel
Contact Person	Roberto Moreno	Dennis Jaw	Robin Scattini
Title	Chief Business Officer	Finance Manager	Finance Director
Address	650 Canyon Del Rey Road, Del Rey Oaks, CA 93940	13777 Fruitvale Ave, Saratoga, CA 95070	PO Box CC, Carmel-by-the Sea, CA 93921
Phone	831-394-8511	408-868-1227	831-620-2019
E-mail	RobertoM@GovernmentFinancialSolutionsinc.com	djaw@saratoga.ca.us	rscattini@ci.carmel.ca.us
Audit Period	6/30/2021	6/30/2021	6/30/2021
Hours	260	360	320
Fiscal Years Audited	3	5	3
Partner	Sheldon Chavan	Sheldon Chavan	Sheldon Chavan
GFOA Award	No	Yes	Yes
Entity Type	City	City	City
Finance Dept Staff	3	6	3
Scope of Work	Report Prep GAGAS Audit SAS 114 Report Management Letter GANN Limit AUP Measure S Audit Year Round Consultation	CAFR Review GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter TDA Audit GANN Limit AUP Year Round Consultation	CAFR Prep Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP Measure S Audit SCO FTR/Streets Year Round Consultation

Entity Name	City of Rocklin	City of Suisun City	City of Pacific Grove
Contact Person	Angela Doyle	Elizabeth Luna	Tori Hannah
Title	Senior Accountant	Accounting Services Manager	Administrative Services Director
Address	3970 Rocklin Road, Rocklin, CA 95677	701 Civic Center Blvd., Suisun City, CA 94533	300 Forest Ave, Pacific Grove, CA 93950
Phone	916-625-5033	707-421-3215	831-648-3103
E-mail	angela.doyle@rocklin.ca.us	eluna@suisun.com	thannah@cityofpacificgrove.org
Audit Period	6/30/2021	6/30/2021	6/30/2021
Hours	340	400	340
Fiscal Years Audited	4	5	5
Partner	Sheldon Chavan	Sheldon Chavan	Sheldon Chavan
GFOA Award	No	Yes	Yes
Entity Type	City	City	City
General Fund Budget	\$10,000,000	\$36,800,000	\$17,500,000
Finance Dept Staff	2	10	6
Scope of Work	ACFR GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP PFA Audit Successor Agency Audit Year Round Consultation	ACFR GAGAS Audit Single Audit/OMB SAS 114 Report Management Letter GANN Limit AUP TDA Audit Successor Agency Audit Year Round Consultation	ACFR GAGAS Audit Single Audit/OMB GANN Limit AUP SAS 114 Report Management Letter Measure S Audit Year Round Consultation

From: Phil Koen  
To: Sheldon Chavan  
Cc: Linda Reiners; Gitta Ungvari  
Subject: Re: Pages from Chevan and Associates- proposal and contract(1).pdf  
Date: Monday, April 22, 2024 4:53:39 PM  
Attachments: image001.png  
inly-injection:inliner-209b06d63f1139b7bbda7129634c80da.png  
inly-injection:inliner-03755809cc10337ec572b1f12a6beedf.png  
inly-injection:inliner-03755809cc10337ec572b1f12a6beedf.png  
inly-injection:inliner-209b06d63f1139b7bbda7129634c80da.png  
image001.png

[EXTERNAL SENDER]

Sheldon,

Thanks for the quick response. The Staff want to issue an RFQ for the non-attest services. It would be good to make sure your scope and the other scope of services are coordinated.

We look forward to your advice.

Thank you

Phil

Sent from my iPhone

On Apr 22, 2024, at 4:45 PM, Sheldon Chavan <Sheldon@cnallp.com> wrote:



Hi Phil,

I received your email. I have sent my response to Town management.

Thanks,  
Sheldon



Chavan and Associates, llp  
Certified Public Accountants

Sheldon Chavan, CPA, Managing Partner  
Chavan & Associates, LLP  
15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037  
Office: 408-217-8749 ~ Fax: 408-872-4159  
Skills, Knowledge and Experience

From: Phil Koen <[REDACTED]>  
Sent: Monday, April 22, 2024 2:55 PM  
To: Sheldon Chavan <Sheldon@cnallp.com>  
Cc: Linda Reiners <[REDACTED]>; Gitta Ungvari <GUnvari@losgatosca.gov>  
Subject: Pages from Chevan and Associates- proposal and contract(1).pdf

External Email: Use caution before replying, clicking links, and opening attachments.

Hello Sheldon,

At this past Tuesday's Town Council meeting, the Council discussed and agreed with the FC's recommendation made last December to separate the non-attest services as outlined in your engagement letter of March 9, 2022 from the attest services. I would encourage you to watch the discussion because it did raise in the minds of several Council members the question as to whether your firm was auditing the financial statements as opposed to auditing only the underlying accounts and supporting records. It would be helpful if you clarified for Staff and the Town Council the scope of your services, and the opinions you are expressing, so the Town Council clearly understands the work being performed.

The video of the session can be found here - <https://securisync.intermedia.net/im/s/5qbBZ9dBlZaOnBBjSXpW91000fc297> .

My concern is, now that the Town Council has agreed with our recommendation, how do we separate the non-attest services from the attest services? Is there a way to do this in a way that doesn't add too much incremental complexity and cost to the task at hand? As you know our primary goal is to create an air gap between the preparation of the financial statements, including the footnotes and the ACFR, and the audit. The FC was focused on making sure there are no independence issues created resulting from the multiple non-attest services being provided and eliminating the need to rely on the application of the safeguards in the general requirements for performing non-attest services interpretation.

In reviewing your proposal, I noted the scope of services you are performing for the City of Saratoga include the audit and a review of the ACFR, as opposed to the preparation of the ACFR. Is that correct? If that is correct, should the Town replicate Saratoga's approach? Is that a model Staff should review?

Any advice you can provide the FC on this would be greatly appreciated. We will be taking this up at our next meeting which will be April 29.

Thank you,

Phil Koen  
Chair of the FC



**From:** [Phil Koen](#)  
**To:** [Linda Reiners](#); [Gitta Ungvari](#)  
**Cc:** [Wendy Wood](#); [Gabrielle Whelan](#); [Mary Badame](#); [Laurel Prevetti](#)  
**Subject:** RE: April 29th Special Meeting - Draft Agenda  
**Date:** Tuesday, April 23, 2024 2:52:47 PM  
**Attachments:** [image001.png](#)  
[image002.png](#)

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[EXTERNAL SENDER]

Gitta and all,

Terrific - Looks like Linda agrees, so let's proceed. Could you also include for agenda item #1 the minutes from the December 11, 2023 FC meeting which captured the motions that were made regarding the ACFR. Let's make sure everyone is clear as to what was discussed.

Also, regarding agenda item #2, since there is a ton of material in the budget book, I would ask Staff to present both the operating budget and the CIP budget. The FC should primarily be in listen mode. The goal of the meeting is for the FC to:

- Gain an in depth understanding of how the budget was prepared and will deliver the Council's desired outcomes for FY 25 (what are those outcomes and how do we know when they will be achieved?)
- Gain insight to the major assumptions (probably no more than 5 critical assumptions)
- Understand the risks Staff has identified with the budget (what is assumed in the budget that could "fall out" and what is assumed outside the budget that can "fall in")
- How the budget "bridges" off FY 23 actual results and most likely outcome for FY 24 (explain with a variance

analysis all material changes from prior year's actual results)

- Staff's overall degree of confidence in executing this budget based on an understanding the risks.

This should give you enough direction to guide the conversation. To be effective as an advisory body to the TC, we first need to understand the document Staff has prepared. Let's focus on understanding and then our next meeting we can discuss our comments/views.

Please let me know if you have any questions.

Thank you,

Phil Koen

---

**From:** Linda Reiners [REDACTED]  
**Sent:** Tuesday, April 23, 2024 2:17 PM  
**To:** Phil Koen <[REDACTED]>  
**Cc:** Gitta Ungvari <GUngvari@losgatosca.gov>; Wendy Wood <WWood@losgatosca.gov>; Gabrielle Whelan <GWhelan@losgatosca.gov>  
**Subject:** Re: April 29th Special Meeting - Draft Agenda



External [REDACTED]



I'm good.  
Sent from my iPad

On Apr 23, 2024, at 2:13 PM, Phil Koen [REDACTED] wrote:

Hello Gitta,

I would suggest the following agenda, but would like Linda's input/agreement before running with this.

1. Review Staff Report to Town Council of April 16, 2024 and discuss options and scope of services potentially required arising from the FC's recommendation to retain a separate firm to provide the non-attest services as outlined in the Chavan and Associates engagement letter.
  1. Attach the following documents: Chavan Engagement Letter dated 3/9/2022; Chavan Technical Proposal dated 10/8/21; Town issued RFP dated 9/2021; AICPA Code of Professional Conduct - section 1.295 – non-attest services; Staff Report Item 19 – 4/16/24
2. Review and discuss the preliminary FY 24/25 Operating and CIP Budget. Provide preliminary comments and recommendations regarding the proposed budgets taken as a whole.

Please let me know if you have any comments on the draft agenda. I have attached for your convenience



the AICPA Code of Professional Conduct section 1.295.  
You should check to make sure this is the most recent  
version.

Thank you,

Phil Koen

---

**From:** Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>

**Sent:** Monday, April 22, 2024 4:55 PM

**To:** Phil Koen [REDACTED]; [REDACTED]

**Subject:** April 29th Special Meeting - Draft Agenda

<image001.png> External ([gungvari@losgatosca.gov](mailto:gungvari@losgatosca.gov)) <image002.png>

Good afternoon Chair and Vice Chair,

Please confirm the draft agenda by April 23<sup>rd</sup> at 5 p.m. for the April 29<sup>th</sup> Special Meeting. Since this is Special Meeting, the minutes will be presented on the May 13<sup>th</sup> regular meeting. The Town independent auditor is available to participate via Zoom and can address the Commissioners' questions on the ACFR preparation.

Draft Agenda:

Other Business:

1. Discuss, comment, and begin to make recommendations to the Town Council regarding the Town Proposed FY 2024/25 Proposed Operating and Capital Budgets
2. Discuss services required from the independent entity to assist with the preparation of the Annual Comprehensive Financial Report

Thanks,

Gitta

- .13** If the real party in interest in the litigation (for example, the insurance company) is also the *covered member's attest client* (the plaintiff client), *threats* to the *covered member's* compliance with the “[Independence Rule](#)” [1.200.001] may exist if the litigation carries a significant risk of a settlement or judgment in an amount that would be material to the *covered member's firm* or the plaintiff client.

### ***Termination of Impairment***

- .14** *Threats* to the *covered member's* compliance with the “[Independence Rule](#)” [1.200.001] would be eliminated or reduced to an *acceptable level* when the parties reach a final resolution of the matter(s) at issue and the matter(s) no longer affects the relationship between the *covered member* and the *attest client*, as described in [paragraph .01](#) of this interpretation. The *covered member* should determine whether the conditions of such resolution have effectively eliminated such *threats* or reduced them to an *acceptable level*. [Prior reference: paragraph .08 of ET section 101]

## **1.295 Nonattest Services**

### **1.295.010 Scope and Applicability of Nonattest Services**

- .01** When a *member* performs nonattest services for an *attest client*, self-review, management participation, or advocacy *threats* to the *member's* compliance with the “[Independence Rule](#)” [1.200.001] may exist. When significant *independence threats* exist during the *period of the professional engagement* or the period covered by the *financial statements* (except as provided for in [paragraph .03](#)), *independence* will be *impaired* unless the *threats* are reduced to an *acceptable level* and any requirements included in the *interpretations* of the “[Nonattest Services](#)” subtopic [1.295] under the “Independence Rule” have been met.
- .02** For purposes of the *interpretations* of the “[Nonattest Services](#)” subtopic [1.295] under the “Independence Rule” [1.200.001], the term *member* includes the *member's firm*.
- .03** *Period of engagement.* A *member's independence* would not be *impaired* if the *member* performed nonattest services that would have otherwise *impaired independence* during the period covered by the *financial statements* if all of the following conditions exist:
- a. The nonattest services were provided prior to *period of the professional engagement*.
  - b. The nonattest services related to periods prior to the period covered by the *financial statements*.
  - c. The *financial statements* for the period to which the nonattest services relate were audited by another *firm* (or in the case of a review engagement, reviewed or audited by another *firm*).

Nonauthoritative questions and answers regarding the period of the professional engagement are available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc).

- .04** *Activities related to attest services.* Performing attest services often involves communications between the *member* and *client management* regarding
- a. the *client's* selection and application of accounting standards or policies and *financial statement* disclosure requirements;
  - b. the appropriateness of the *client's* methods used in determining accounting and financial reporting;
  - c. adjusting journal entries that the *member* has prepared or proposed for *client management* consideration; and
  - d. the form or content of the *financial statements*.

These communications are considered a normal part of the *attest engagement* and are not considered nonattest services subject to the “[General Requirements for Performing Nonattest Services](#)” [1.295.040] and “[Documentation Requirements When Providing Nonattest Services](#)” [1.295.050] interpretations.

- .05 However, the member should exercise judgment in determining whether his or her involvement has become so extensive that it would constitute performing a separate service which would be subject to the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040].
- .06 For example, activities such as *financial statement* preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the *attest engagement* and, therefore, constitute a nonattest service. Such activities would not *impair independence* if the requirements of the *interpretations* of the “[Nonattest Services](#)” subtopic [1.295] are met.

Nonauthoritative questions and answers regarding routine activities are available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc).

- .07 *Engagements subject to independence rules of certain regulatory or standard-setting bodies. Threats to compliance with the “[Independence Rule](#)” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member is not in compliance with the independence regulations of authoritative regulatory bodies that are more restrictive than the interpretations of the “[Nonattest Services](#)” subtopic [1.295] under the “Independence Rule” (examples of such authoritative bodies are the SEC, the Government Accountability Office [GAO], the Department of Labor [DOL], the Public Company Accounting Oversight Board [PCAOB], and state boards of accountancy) when a member performs nonattest services for an attest client and is required to be independent of the attest client under the regulations of the applicable regulatory body. Independence would be impaired under these circumstances. [Prior reference: paragraph .05 of ET section 101]*

#### *Effective Date*

- .08 Paragraph .06 of this interpretation is effective for engagements covering periods beginning on or after December 15, 2014.

### **1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services**

- .01 The *interpretations* of the “[Nonattest Services](#)” subtopic [1.295] under the “Independence Rule” [1.200.001] include various examples of nonattest services that individually would not *impair independence* because the *safeguards* in the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] reduce the self-review and management participation *threats* to an *acceptable level*. However, performing multiple nonattest services can increase the significance of these *threats* as well as other *threats to independence*.
- .02 Before agreeing to perform nonattest services, the member should evaluate whether the performance of multiple nonattest services by the member or member’s firm in the aggregate creates a significant *threat to the member’s independence* that cannot be reduced to an *acceptable level* by the application of the *safeguards* in the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040].
- .03 In situations in which a member determines that *threats* are not at an *acceptable level*, *safeguards* in addition to those in the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] should be applied to eliminate the *threats* or reduce them to an *acceptable level*. If no *safeguards* exist that will eliminate or reduce the *threats* to an *acceptable level*, *independence* would be *impaired*.
- .04 For purposes of this interpretation, the member is not required to consider the possible *threats to independence* created due to the provision of nonattest services by other *network firms* within the *firm’s network*. [Prior reference: paragraph .05 of ET section 101]



### *Effective Date*

- .05** This interpretation is effective for engagements covering periods beginning on or after December 15, 2014.

### **1.295.030 Management Responsibilities**

- .01** If a member were to assume a management responsibility for an *attest client*, the management participation *threat* would be so significant that no *safeguards* could reduce the *threat* to an *acceptable level* and *independence* would be *impaired*. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.
- .02** Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, *impair independence* if performed for an *attest client*, include ►
- a. setting policy or strategic direction for the *attest client*.
  - b. directing or accepting responsibility for actions of the *attest client's* employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.
  - c. authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an *attest client* or having the authority to do so.
  - d. preparing *source documents*, in electronic or other form, that evidence the occurrence of a transaction.
  - e. having custody of an *attest client's* assets.
  - f. deciding which recommendations of the member or other third parties to implement or prioritize.
  - g. reporting to *those charged with governance* on behalf of management.
  - h. serving as an *attest client's* stock transfer or escrow agent, registrar, general counsel or equivalent.
  - i. accepting responsibility for the management of an *attest client's* project.
  - j. accepting responsibility for the preparation and fair presentation of the *attest client's financial statements* in accordance with the applicable financial reporting framework.
  - k. accepting responsibility for designing, implementing, or maintaining internal control.
  - l. performing ongoing evaluations of the *attest client's* internal control as part of its monitoring activities.

[Prior reference: paragraph .05 of ET section 101]

Nonauthoritative questions and answers regarding management responsibilities and controllership services are available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc).

### **1.295.040 General Requirements for Performing Nonattest Services**

- .01** When a member performs a nonattest service for an *attest client*, *threats* to the member's compliance with the "[Independence Rule](#)" [1.200.001] may exist. Unless an *interpretation* of the "[Nonattest Services](#)"

subtopic [1.295] under the “Independence Rule” states otherwise, *threats* would be at an *acceptable level*, and *independence* would not be *impaired*, when all the following *safeguards* are met:

- a. The member determines that the *attest client* and its management agree to
    - i. assume all management responsibilities as described in the “[Management Responsibilities](#)” interpretation [1.295.030].
    - ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.
    - iii. evaluate the adequacy and results of the services performed.
    - iv. accept responsibility for the results of the services.
  - b. The member does not assume management responsibilities (See the “[Management Responsibilities](#)” interpretation [1.295.030] of the “Independence Rule”) when providing nonattest services and the member is satisfied that the *attest client* and its management will
    - i. be able to meet all of the criteria delineated in item a;
    - ii. make an informed judgment on the results of the member’s nonattest services; and
    - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.
- If the *attest client* is unable or unwilling to assume these responsibilities (for example, the *attest client* cannot oversee the nonattest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member’s performance of nonattest services would *impair independence*.
- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the *attest client* (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
    - i. objectives of the engagement,
    - ii. services to be performed,
    - iii. *attest client*’s acceptance of its responsibilities,
    - iv. member’s responsibilities, and
    - v. any limitations of the engagement.

- .02** The *safeguards* in [paragraph .01](#) and the “[Documentation Requirements When Providing Nonattest Services](#)” interpretation [1.295.050] of the “Independence Rule” [1.200.001] do not apply to certain routine activities performed by the member, such as providing advice and responding to the *attest client*’s questions as part of the *client*-member relationship. However, in providing such services, the member must not assume management responsibilities, as described in the “[Management Responsibilities](#)” interpretation [1.295.030] of the “Independence Rule.” [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative questions and answers regarding suitable skill, knowledge, and experience are available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc).

**From:** [Phil Koen](#)  
**To:** [Gitta Ungvari](#)  
**Cc:** [Linda Reiners](#); [Wendy Wood](#); [Gabrielle Whelan](#); [Laurel Prevetti](#)  
**Subject:** FW: Pages from Chevan and Associates- proposal and contract(1).pdf  
**Date:** Tuesday, April 23, 2024 3:19:23 PM  
**Attachments:** [image001.png](#)  
[inky-injection-inliner-209b06d63f3139b7bbda7129634c80da.png](#)  
[inky-injection-inliner-03755809cc10337ec572b1f12a6beedf.png](#)

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[EXTERNAL SENDER]

Gitta,

Please include the response from Sheldon in the FC package as well.

Thank you,

Phil Koen

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**From:** Sheldon Chavan <[Sheldon@cnaillp.com](mailto:Sheldon@cnaillp.com)>  
**Sent:** Monday, April 22, 2024 4:45 PM  
**To:** Phil Koen [REDACTED]  
**Cc:** Linda Reiners [REDACTED] Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>  
**Subject:** RE: Pages from Chevan and Associates- proposal and contract(1).pdf



**Caution:** External ([sheldon@cnaillp.com](mailto:sheldon@cnaillp.com))

First-Time Sender



Hi Phil,

I received your email. I have sent my response to Town management.

Thanks,  
Sheldon



**Chavan and Associates, LLP**  
Certified Public Accountants



**Sheldon Chavan, CPA, Managing Partner**  
Chavan & Associates, LLP  
15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037  
[REDACTED] ~ Office: 408-217-8749 ~ Fax: 408-872-4159  
**Skills, Knowledge and Experience**

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**From:** Phil Koen [REDACTED]  
**Sent:** Monday, April 22, 2024 2:55 PM  
**To:** Sheldon Chavan <[Sheldon@cnaillp.com](mailto:Sheldon@cnaillp.com)>  
**Cc:** Linda Reiners [REDACTED]; Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>  
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Hello Sheldon,

At this past Tuesday's Town Council meeting, the Council discussed and agreed with the FC's recommendation made last December to separate the non-attest services as outlined in your engagement letter of March 9, 2022 from the attest services. I would encourage you to watch the discussion because it did raise in the minds of several Council members the question as to whether your firm was auditing the financial statements as opposed to auditing only the underlying accounts and supporting records. It would be helpful if you clarified for Staff and the Town Council the scope of your services, and the opinions you are expressing, so the Town Council clearly understands the work being performed.

The video of the session can be found here  
- <https://securisync.intermedia.net/im/s/5qbBZ9dBlZaOnBBjSXpW91000fc297> .

My concern is, now that the Town Council has agreed with our recommendation, how do we separate the non-attest services from the attest services? Is there a way to do this in a way that doesn't add too much incremental complexity and cost to the task at hand? As you know our primary goal is to create an air gap between the preparation of the financial statements, including the footnotes and the ACFR, and the audit. The FC was focused on making sure there are no independence issues created resulting

from the multiple non-attest services being provided and eliminating the need to rely on the application of the safeguards in the general requirements for performing non-attest services interpretation.

In reviewing your proposal, I noted the scope of services you are performing for the City of Saratoga include the audit and a review of the ACFR, as opposed to the preparation of the ACFR. Is that correct? If that is correct, should the Town replicate Saratoga's approach? Is that a model Staff should review?

Any advice you can provide the FC on this would be greatly appreciated. We will be taking this up at our next meeting which will be April 29.

Thank you,

Phil Koen  
Chair of the FC

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**Cc:** Linda Reiners; Wendy Wood; Gabrielle Whelan; Mary Badame; Laurel Prevetti  
**Subject:** Re: April 29th Special Meeting - Draft Agenda  
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inky-injection-inliner-209b06d63f3139b7bbda7129634c80da.png  
image001.png  
image002.png

[EXTERNAL SENDER]

And you will include the requested attachments?  
Sent from my iPhone

On Apr 23, 2024, at 4:28 PM, Gitta Ungvari <GUngvari@losgatosca.gov> wrote:



Good Afternoon Chair and Vice Chair,

I am confirming the two agenda items for the April 29<sup>th</sup> meeting as follows:

1. Review Staff Report to Town Council of April 16, 2024 and discuss options and scope of services potentially required arising from the FC's recommendation to retain a separate firm to provide the non-attest services as outlined in the Chavan and Associates engagement letter.
2. Review and discuss the preliminary FY 24/25 Operating and CIP Budget. Provide preliminary comments and recommendations regarding the proposed budgets taken as a whole.

Our team is looking forward to the discussion.

Thanks,

Gitta

---

**From:** Phil Koen [REDACTED]  
**Sent:** Tuesday, April 23, 2024 2:53 PM  
**To:** Linda Reiners [REDACTED]; Gitta Ungvari <GUngvari@losgatosca.gov>  
**Cc:** Wendy Wood <WWood@losgatosca.gov>; Gabrielle Whelan <GWhelan@losgatosca.gov>; Mary Badame <MBadame@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>  
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[EXTERNAL SENDER]

Gitta and all,

Terrific - Looks like Linda agrees, so let's proceed. Could you also include for agenda item #1 the minutes from the December 11, 2023 FC meeting which captured the motions that were made regarding the ACFR. Let's make sure everyone is clear as to what was discussed.

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- Gain an in depth understanding of how the budget was prepared and will deliver the Council's



desired outcomes for FY 25 (what are those outcomes and how do we know when they will be achieved?)

- Gain insight to the major assumptions (probably no more than 5 critical assumptions)
- Understand the risks Staff has identified with the budget (what is assumed in the budget that could “fall out” and what is assumed outside the budget that can “fall in”)
- How the budget “bridges” off FY 23 actual results and most likely outcome for FY 24 (explain with a variance analysis all material changes from prior year’s actual results)
- Staff’s overall degree of confidence in executing this budget based on an understanding the risks.

This should give you enough direction to guide the conversation. To be effective as an advisory body to the TC, we first need to understand the document Staff has prepared. Let’s focus on understanding and then our next meeting we can discuss our comments/views.

Please let me know if you have any questions.

Thank you,

Phil Koen

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**From:** Linda Reiners [REDACTED]  
**Sent:** Tuesday, April 23, 2024 2:17 PM  
**To:** Phil Koen [REDACTED]  
**Cc:** Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>; Wendy Wood <[WWood@losgatosca.gov](mailto:WWood@losgatosca.gov)>; Gabrielle Whelan <[GWWhelan@losgatosca.gov](mailto:GWWhelan@losgatosca.gov)>  
**Subject:** Re: April 29th Special Meeting - Draft Agenda



I'm good.  
Sent from my iPad

On Apr 23, 2024, at 2:13 PM, Phil Koen [REDACTED] wrote:

Hello Gitta,

I would suggest the following agenda, but would like Linda’s input/agreement before running with this.

1. Review Staff Report to Town Council of April 16, 2024 and discuss options and scope of services potentially required arising from the FC’s recommendation to retain a separate firm to provide the non-attest services as outlined in the Chavan and Associates

engagement letter.

1. Attach the following documents: Chavan Engagement Letter dated 3/9/2022; Chavan Technical Proposal dated 10/8/21; Town issued RFP dated 9/2021; AICPA Code of Professional Conduct - section 1.295 – non-attest services; Staff Report Item 19 – 4/16/24
2. Review and discuss the preliminary FY 24/25 Operating and CIP Budget. Provide preliminary comments and recommendations regarding the proposed budgets taken as a whole.

Please let me know if you have any comments on the draft agenda. I have attached for your convenience the AICPA Code of Professional Conduct section 1.295. You should check to make sure this is the most recent version.

Thank you,

Phil Koen

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**From:** Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>  
**Sent:** Monday, April 22, 2024 4:55 PM  
**To:** Phil Koen [REDACTED]; [REDACTED]  
**Subject:** April 29th Special Meeting - Draft Agenda

<image001.png> External ([gungvari@losgatosca.gov](mailto:gungvari@losgatosca.gov)) <image002.png>

Good afternoon Chair and Vice Chair,

Please confirm the draft agenda by April 23<sup>rd</sup> at 5 p.m. for the April 29<sup>th</sup> Special Meeting. Since this is Special Meeting, the minutes will be presented on the May 13<sup>th</sup> regular meeting. The Town independent auditor is available to participate via Zoom and can address the Commissioners' questions on the ACFR preparation.

Draft Agenda:

Other Business:

<!--[if !supportLists]-->1. <!--[endif]-->Discuss, comment, and begin to make recommendations to the Town Council regarding the Town Proposed FY 2024/25 Proposed Operating and Capital Budgets

<!--[if !supportLists]-->2. <!--[endif]-->Discuss services required from the independent entity to assist with the preparation of the Annual Comprehensive Financial Report

Thanks,

Gitta

<Pages from 2014december15contentasof2014may15codeofconduct.pdf>

**From:** [Phil Koen](#)  
**To:** [sheldon@cnaip.com](mailto:sheldon@cnaip.com)  
**Cc:** [Gitta Ungvari](#); [Laurel Prevetti](#); [Linda Reiners](#); [Wendy Wood](#); [Gabrielle Whelan](#); [Mary Badame](#); [Matthew Hudes](#); [Rob Rennie](#)  
**Subject:** Agenda Item for the Upcoming FC meeting - non-attest services and threat to independence  
**Date:** Thursday, April 25, 2024 10:32:36 AM

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[EXTERNAL SENDER]

Hello Sheldon,

I have put on the agenda for our next FC meeting a discussion of how to separate the attest and non-attest services currently performed by your firm. I understand from Gitta, you will be available for that discussion. Your advice will be greatly appreciated.

Again, we are looking for the simplest way to do this with minimal impact on the cost and timing of the audit.

Furthermore, we understand it is common practice for small local jurisdictions to have their auditor prepare financial statements, while ensuring the necessary safeguards are in place to maintain independence when providing these non-attest services.

To be clear, this is not a best practice but rather an acknowledgment of the reality of local staffing levels and capability. Our understanding is by shifting these non-attest services to another firm, independence would be strengthened, which is a good outcome, while having very little impact on cost and timing of the audit. Given this, it would be reasonable to do, and you agreed with this recommendation at the December 2023 meeting.

As part of our discussion, I want to clarify for the public,



several statements made by Staff and several council members at the TC meeting regarding the basis for the FC recommendation. There appears to be a fundamental misunderstanding regarding the AICPA Code of Professional Conduct and the Government Auditing Standards (GAGAS) which provide the foundation for auditors to lead by example in the areas of independence, transparency and accountability and directly apply to the Town's FY 23 audit.

Staff and members of the Town Council on several occasions framed the independence concern as a difference between corporate accounting policies and municipal accounting policies. This is an incorrect view since the AICPA Code of Professional Conduct applies to all audit engagements regardless if it is an audit for a local municipality, a private company or even a public company. Furthermore, the Government Auditing Standards (GAGAS) incorporate the same independence standards outlined in the Code of Professional Conduct. For sake of clarity, the FC believes your firm has complied with both the AICPA and GAGAS independence rules. Our concern was how to strengthen independence by eliminating the need to apply safeguards. Removing non-attest services from your scope of work and moving it to another firm or to Staff would resolve this issue. The misstatements made by Staff and members of the Town Council implied the FC was misinformed and was incorrectly applying the GAGAS independence test regarding providing nonattest services to the Town. This comment is inaccurate

and undermines the FC credibility in the public's mind. It would be appropriate for you to explain the GAGAS independence rules, how they apply to the Town's audit and the safeguards your firm applied to reduce the threat to independence to an acceptable level.

Additionally, it is clear some members of the Town Council are not fully informed of the scope and purpose of the audit. One member of the Council asked - "What exactly is the auditor auditing? Is the auditor auditing the financial statements". The response from staff was "No, the auditor is not auditing the financial statements". We are troubled by this response.

This was a confusing response because the entire purpose of the audit is to enable your firm to express an independent opinion the Town's basic financial statements are free from material misstatement and that the amounts and disclosures in the financial statements present fairly, in all material respects, the financial position of the Town. In simple terms, you are auditing the basic financial statements including the footnotes to be able to render an opinion on these financial statements.

I would encourage you to review the Town Council discussion of agenda item 19 on April 16 and determine if the Town Council, who are the ones charged with governance, have been adequately informed under the required communication and fully understand the scope and significant audit findings that have been disclosed. This appears to be an open question based on the discussion at the Town Council meeting.

Thank you for your assistance. We look forward to hearing your comments next Monday.

Phil Koen

Chair of the FC