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Audit Engagement Letter

Friday, September 6, 2024

Housing Authority of the City of Needles
908 Sycamore Dr.
Needles, CA 92363

To the Governing Body of Housing Authority of the City of Needles (“Authority”):

The following represents our understanding of the services we will provide to the Authority.

You have requested that we audit the financial statements of the business-type activities of the Authority, as of June 30, 2024, and for the year then ended and the related notes, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

In addition, we will audit the Authority’s compliance over major federal award programs for the period ended June 30, 2024. We are pleased to confirm our acceptance and our understanding 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 authority’s major federal award programs. The objectives of our audit of the financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

The objectives of our compliance audit are to obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirement about whether the authority complied in all material respects with the applicable compliance requirements and identify audit and reporting requirements specified in the governmental audit requirement that are supplementary to GAAS and *Government Auditing Standards*, if any, and perform procedures to address those requirements.



Accounting principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require certain information 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 accounting principles generally accepted in the United States of America. This RSI will be subjected to certain limited procedures but will not be audited:

Management's Discussion and Analysis

Supplementary information other than RSI will accompany the Authority'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 basic financial statements or to the basic 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 basic financial statements as a whole:

Schedule of Expenditures of Federal Awards
Statement and Certification of Actual Costs
Financial Data Schedule

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.

Also, the document we submit to you will include the following other additional information that will be subjected to the auditing procedure applied in our audit of the financial statements:

Schedule of Findings & Questioned Costs
Summary Schedule of Prior Year Findings and Questioned Costs



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.

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; 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). As part of an audit of financial statements in accordance with GAAS *and in accordance with Government Auditing Standards* we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit 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 authority's internal control.² 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.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Conclude, based on the audit evidence obtained, whether there are conditions or events considered in the aggregate, that raise substantial doubt about Authority's ability to continue as a going concern for a reasonable period of time.

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 may not be detected exists, even though the audit is properly planned and performed in accordance with 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.

Our responsibility as auditors is limited to the period 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 Authority's basic financial statements. Our report will be addressed to the governing body of the Authority. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. 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 Authority's major federal award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the 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.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether material noncompliance with applicable laws and regulations, the provisions of contracts and grant agreements applicable to major federal award programs, and the applicable compliance requirements occurred, whether due to fraud or error, and express an opinion on the authority's compliance based on the audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the authority's compliance with the requirements of the federal programs as a whole.

As part of a compliance audit in accordance with GAAS and in accordance with *Government Auditing Standards* we exercise professional judgment and maintain professional skepticism throughout the audit. We also identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Our procedures will consist of determining major federal programs and, performing the applicable procedures described in the U.S. Office of Management and Budget *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the authority's major programs, and performing such other procedures as we consider necessary in the circumstances. The purpose of those procedures will be to express an opinion on the authority's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.



Also, as required by the Uniform Guidance, we will obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design and 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 authority's major federal award programs. 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. However, we will communicate to you, regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we have identified during the audit.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the authority'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.

Management Responsibilities

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance 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 fraud or error;
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 prior to December 26, 2014 (if any), and those 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 expenditures of federal awards (including notes and noncash assistance received) in accordance with the Uniform Guidance;
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 authority 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 authority complies with federal statutes, regulations, and the terms and conditions of federal award programs and implementing systems designed to achieve compliance with applicable federal statutes, regulations, and the terms and conditions of 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 contractor relationships where the contractor is responsible for program compliance;



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 authority from whom we determine it necessary to obtain audit evidence.
17. 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;
18. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
19. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
20. For informing us of any known or suspected fraud affecting the authority involving management, employees with significant role in internal control and others where fraud could have a material effect on compliance;
21. For the accuracy and completeness of all information provided;
22. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
23. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

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 regard to the schedule of expenditures of federal awards referred to above, you acknowledge and understand your responsibility: (a) for the preparation of schedule of expenditures of federal awards in accordance with the Uniform Guidance; (b) to provide us with the appropriate written representations regarding the schedule of expenditures of federal awards; (c) to include our report on the schedule of expenditures of federal awards in any document that contains the schedule of expenditures of federal awards and that indicates that we have reported on such supplementary information; and (d) to present this supplementary information with the audited financial statements, or if the schedule of expenditures of federal awards will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by you of the schedule and our report thereon.

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select 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.

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



Nonattest Services

Below is the documentation of the nonattest services we plan on providing during this engagement:

Preparation of the basic financial statements and related disclosures (including the Statement of Expenditures of Federal Awards);
Preparation and input of the Financial Data Schedules (FDS) for the audited submission into the Real Estate Assessment Center (REAC) Financial Assessment Subsystem (FASS); and
Preparation of the single audit reporting package, including form SF-SAC for submission in the Internet Data Entry System (IDES) to the Federal Audit Clearinghouse required under the Single Audit Act of 1984 (amended in 1996), OMB Circular A-133, and the Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements for Federal Awards (Uniform Guidance).

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

With respect to any nonattest services we perform, the Authority'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. *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.

Fees and Timing

Cole Monroe, CPA, is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Smith Marion & Co.'s services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required for various levels of responsibility, plus actual out-of-pocket expenses. **We estimate that our fee for the audit will not exceed \$20,278.**

We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the Authority's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit.



Our fee is based on the anticipated cooperation from your personnel and the assumption that the accounting records are in satisfactory condition for the audit. We will schedule the engagement based in part on deadlines, working conditions, and the availability of your key personnel. We will plan the engagement based on the assumption that your personnel will cooperate and provide assistance by performing tasks such as preparing requested schedules, retrieving supporting documents, and preparing confirmations. We anticipate that when the draft report is received that management will be diligent in their review of the document and submit revisions once the review is complete. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner or more than one revision is made to the documents submitted to you for review, it may increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate. Items that would cause additional time and an increase in fees would include, but not limited to, prior period audit adjustments not being posted and changes to the report after finalization. If we encounter unexpected circumstances, we will bring them to your attention immediately, to avoid any delays in completing the audit.

Invoices will be payable upon presentation and will be submitted during the course of the engagement. Any discrepancy regarding a billing must be communicated within 10 days from the date received; otherwise, it shall be considered correct and payable. Billings become delinquent if not paid within 60 days of the invoice date. Past due accounts or invoices will incur a late payment penalty, assessed at the rate of 1.5% (18% annually) of the delinquent account balance each month, not to exceed maximum as permitted by law. Payments received on account will first be credited against any delinquency charges and then against the invoice balance. If billings are past due in excess of 60 days, we will stop work until your account is brought current or withdraw from the engagement.

In an action or proceeding to enforce any provision of this agreement, to collect unpaid fees or secure a judgment for nonpayment of fees, the prevailing party will be awarded reasonable attorneys' fees and costs incurred in that action or proceeding or in efforts to negotiate the matter. If this matter is referred to a collection agency, we shall be entitled to recover reasonable collection agency fees incurred in the matter.

It is our desire to make sure that our clients clearly understand the amount and the manner in which we bill for our services. If you have any questions on our fees or billing policies, feel free to contact us.

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.

The audit documentation for this engagement is the property of Smith Marion and constitutes confidential information. However, we may be requested to make certain audit documentation available to certain regulators 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 Smith Marion'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.

Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

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.



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.

At the conclusion of our audit engagement, we will communicate to those charged with governance the following significant findings from the audit:

- Our view about the qualitative aspects of the authority'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 can be obtained on our website smcocpa.com for your consideration and files.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements and compliance over major federal awards including our respective responsibilities.

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

Respectfully,

Cole Monroe, CPA | Partner
Smith Marion & Co.
4068 Rural Plains Circle, Ste. 180
Franklin, TN 37064

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of Housing Authority of the City of Needles by:

Name: _____

Title: _____

Date: _____