



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 4/29/2024

ITEM NO: 1
ADDENDUM

DATE: April 26, 2024
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Staff Report to Town Council on April 16, 2024 (Item #19) and Discuss Options and Scope of Services Potentially Required Arising from the Finance Commission's Recommendation to Retain a Separate Firm to Provide the Non-Attest Services as Outlined in the Chavan and Associates Engagement Letter.

REMARKS:

Attachment 6 contains commissioner comments received after distributing the staff report and before 11:00 a.m. on Friday, April 26, 2024.

Attachments Previously Received with the Staff Report:

1. Council Staff Report 4/6/2-24 – Item 19
2. American Institute of Certified Public Accountants (AICPA) Professional Conduct – Section 1.295 – Non-Attest Services
3. Chavan and Associates Engagement Letter
4. Auditor Communication
5. Commissioner's Communications

Attachments received with this Addendum:

6. Commissioner's Communications received after distributing the staff report and before 11:00 a.m. on Friday, April 26, 2024

PREPARED BY: Eric Lemon, CPA
Finance & Accounting Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

From: [Phil Koen](#)
To: [Wendy Wood](#)
Cc: [Gitta Ungvari](#); [Linda Reiners](#)
Subject: Government Auditing Standards - agenda item #1
Date: Thursday, April 25, 2024 9:43:31 PM
Attachments: [Pages from GAO-24-106786.pdf](#)

[EXTERNAL SENDER]

Hello Wendy,

Please distribute the attached relevant sections from the Generally Accepted Government Auditing Standards (GAGAS) to the Finance Commission.

Thank you,

Phil Koen



United States Government Accountability Office

By the Comptroller General of the
United States

February 2024

GOVERNMENT AUDITING STANDARDS

2024 Revision

Requirements: Providing Nonaudit Services

3.83 Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skill, knowledge, or experience of the individual responsible for overseeing the nonaudit service was sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.

3.84 Auditors in a government entity may be required to provide a nonaudit service that impairs the auditors' independence with respect to a required engagement. If, because of constitutional or statutory requirements over which they have no control, the auditors can neither implement safeguards to reduce the resulting threat to an acceptable level nor decline to provide or terminate a nonaudit service that is incompatible with engagement responsibilities, auditors should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement as discussed in paragraph 2.17b accordingly. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.

Consideration of Specific Nonaudit Services

3.85 By their nature, certain nonaudit services directly support an entity's operations and, if provided to an audited entity, create a threat to the auditors' ability to maintain independence in mind and appearance. Some aspects of these services will impair auditors' ability to conduct GAGAS engagements for the entities to which the services are provided.

3.86 Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.87 through 3.106 without impairing independence if (1) the nonaudit services are not expressly prohibited by GAGAS requirements, (2) the auditors have determined that the requirements for providing nonaudit services in paragraphs 3.73 through 3.78 and paragraph 3.83 have been met, and (3) any significant threats to

independence have been eliminated or reduced to an acceptable level through the application of safeguards. The conceptual framework enables auditors to evaluate independence given the facts and circumstances of individual services that are not specifically prohibited.

Requirements: Preparing Accounting Records and Financial Statements

3.87 Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:

- a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- b. authorizing or approving the entity's transactions; and
- c. preparing or making changes to source documents without management approval.

3.88 Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.¹⁸

3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include

- a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;

¹⁸See fig. 2 at the end of ch. 3 for a flowchart on independence considerations for preparing accounting records and financial statements.

- b. preparing certain line items or sections of the financial statements based on information in the trial balance;
- c. posting entries that an audited entity's management has approved to the entity's trial balance; and
- d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation.

3.90 Auditors should evaluate the significance of threats to independence created by providing any services discussed in paragraph 3.89 and should document the evaluation of the significance of such threats.¹⁹

Application Guidance: Preparing Accounting Records and Financial Statements

3.91 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, even if the auditor assisted in drafting those financial statements. Consequently, an auditor accepting responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit or that will otherwise be the subject matter of an engagement would impair the auditor's independence.

3.92 Source documents include those providing evidence that transactions have occurred (for example, purchase orders, payroll time records, customer orders, and contracts). Such records also include an audited entity's general ledger and subsidiary records or equivalent.

3.93 Determining whether services, as discussed in paragraph 3.89, are significant threats and require safeguards is a matter of professional judgment.

3.94 Factors that are relevant in evaluating the significance of any threats created by providing services as discussed in paragraph 3.89 include

¹⁹See para. 3.33 for additional requirements related to documenting threats identified and safeguards applied to eliminate or reduce threats to an acceptable level.

- a. the extent to which the outcome of the service could have a material effect on the financial statements,
- b. the degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements, and
- c. the extent of the audited entity's involvement in determining significant matters of judgment.

3.95 Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.

Requirement: Internal Audit Assistance Services Provided by External Auditors

3.96 Internal audit assistance services involve assisting an entity in performing its internal audit activities. Auditors should conclude that the following internal audit assistance activities impair an external auditor's independence with respect to an audited entity:

- a. setting internal audit policies or the strategic direction of internal audit activities;
- b. performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and
- c. determining the scope of the internal audit function and resulting work.

Requirements: Internal Control Evaluation as a Nonaudit Service

3.97 Auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal control impairs independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.

From: [Phil Koen](#)
To: [Wendy Wood](#)
Cc: [Gitta Ungvari](#); [Linda Reiners](#)
Subject: Agenda Item 1
Date: Thursday, April 25, 2024 10:25:11 PM
Attachments: [Pages from GAO-24-106786\(1\).pdf](#)

[EXTERNAL SENDER]

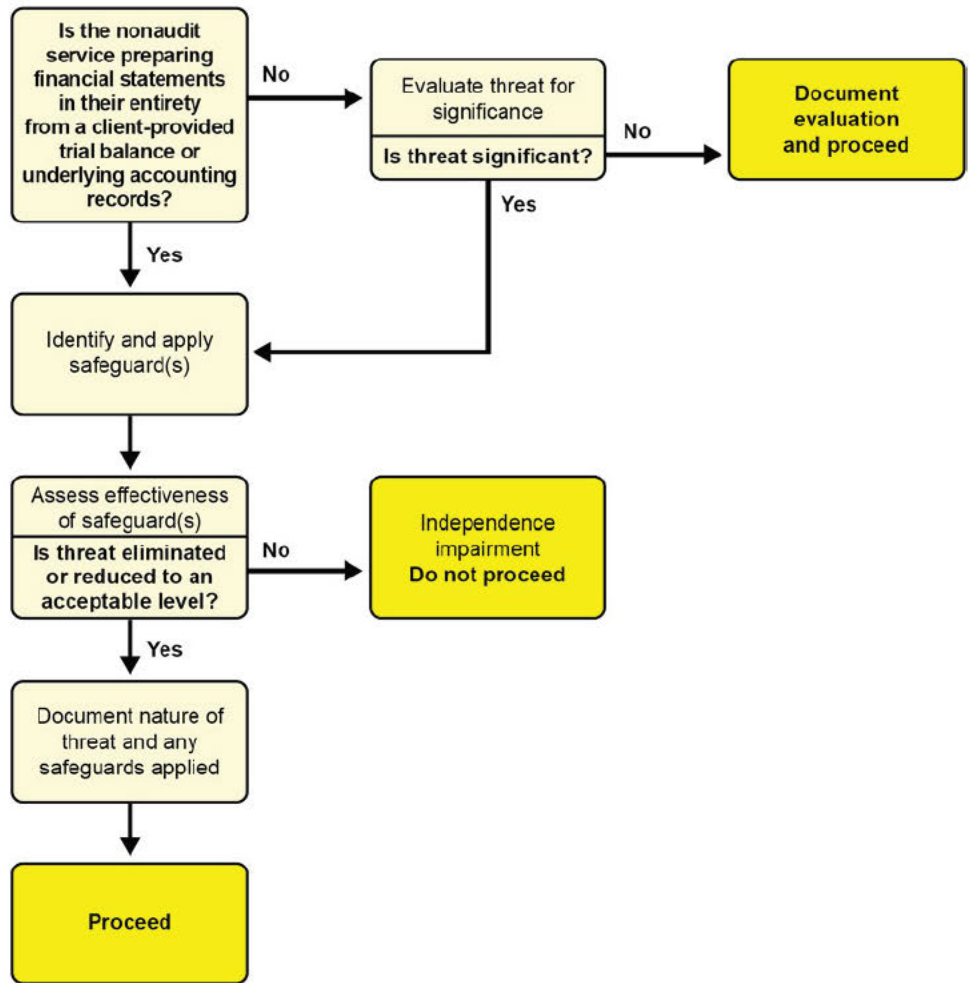
Wendy,

Please include this in the FC package.

Thank you,

Phil Koen

Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements



Source: GAO. | GAO-24-106786

From: [Phil Koen](#)
To: [Wendy Wood](#)
Cc: [Gitta Ungvari](#); [Linda Reiners](#); [Gabrielle Whelan](#)
Subject: RE: Agenda Item 1
Date: Friday, April 26, 2024 9:07:34 AM
Attachments: [image002.png](#)
[image004.png](#)
[RFP for Audit - Scope of Services.pdf](#)
[Pages from Chevan and Associates- proposal and contract\(2\).pdf](#)

[EXTERNAL SENDER]

Wendy,

Please include the attached documents as well in today's addendum.

1. Scope of Services – Town RFP for Audit Services, August 9, 2021
2. Chevan and Associates RFP Response – Specific Audit Approach, December 6, 2021

I know the Staff report included a link to the Town's RFP and Chevan and Associates response to the RFP. Unfortunately, it was not helpful since it was a link to the entire Finance Commission Package for the day that the items were discussed rather than the specific documents requested.

As mentioned before, we need to become more efficient in the data distribution so the FC can effectively and efficiently conduct a meeting. The current package contains multiple copies of the same documents and email correspondence which is purely administrative and not value add. This is making the FC package unwieldy and not user-friendly.

The attached documents are targeted and address the agenda item. They are extracted from the Town's RFP and Chevan and Associates response to the RFP.

Thank you,

Phil Koen

4. SCOPE OF WORK

- a. **Town of Los Gatos Audit.** Audit and issue a report on the fair presentation of the Basic Financial Statements of the Town of Los Gatos in accordance with generally accepted auditing standards; the standards set forth for financial audits in the U.S. General Accountability Office's most recent Government Auditing Standards; the provisions of the federal Single Audit Act of 1984 and the Single Audit Act Amendments of 1996; OMB guidance for federal awards and agreements as provided in the Code of Federal Regulation (CFR) 2 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; and relevant GASB Statements. The audit shall be conducted for the purpose of forming an opinion on the Town's Basic Financial Statements taken as a whole, and to determine whether the operations were conducted in accordance with legal and regulatory requirements.
- b. **Comprehensive Annual Financial Report.** Prepare, with limited involvement of the Town, the Comprehensive Annual Financial Report (Annual Report) for the Town of Los Gatos and the activities of the private-purpose trust funds of the Successor Agency to the Los Gatos Redevelopment Agency. The Town shall retain ultimate responsibility for the approval and dissemination of the Annual Report; however, the firm shall prepare the draft and complete related tasks, including but not limited to the following:
- Evaluate the document against the Annual Report reporting checklists of the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) to ensure eligibility for their respective Annual Report award programs. It is the Town's intention to continue to receive these awards annually and expect that the Annual Report will meet their requirements.
 - Verification of implementation of recommended improvements from prior year submissions to GFOA under the Annual Report award program.
 - Proofreading and overall review, including layout, design, and making suggested improvements to the document.
 - Printing and binding of the final document.
 - Assisting with the written responses to the recommendations and questions posed by the Finance Commission prior to the Annual Report's consideration by Town Council.
- c. **Reportable Conditions.** In the required reports on internal controls, the firm shall communicate any reportable conditions found during the audits. A reportable condition is defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses shall be identified as such in the report. Non-reportable conditions discovered by the auditors shall be reported in a separate letter to management, which

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The C&A audit approach begins with an entrance conference between Sheldon Chavan and management to gather information for risk assessment and audit planning. Upon the conclusion of the entrance conference, Sheldon will plan and schedule C&A's **three phase audit** approach and prepare a list of items to be provided for Phase I of the audit. Significant aspects of each phase are outlined below as augmented based on our review of the Town's financial reports, RFP, Budget documents, and Council and Finance Commission agendas and minutes:

Three Phase Audit Approach

Phase I - Planning and Risk Assessment

This phase is designed to evaluate your operating and accounting procedures and will provide the basis for a significant portion of our letter to management. The results of our work during this phase will determine our audit approach for significant accounts and compliance. We plan to begin this phase by meeting with management and the Finance Commission to plan the audit and discuss any significant issues with the proposed audit plan and timeline.

At least six weeks prior to the beginning of this phase, we intend to provide the Town with a link to Engagement Organize ("EO")r detailing the information and timing that will be needed in order to facilitate the completion of the audit in a timely manner. Having all items in EO uploaded prior to the beginning of the audit field work will allow us to complete the audit within the allotted time frame or earlier. We will also begin the testing of federal compliance for major programs during this phase, if applicable. The EO will include Phase I, II, and III items once uploaded and will updated during the year. The Town will be able to leave notes on each item, upload attachments and message our team through EO.

We plan the audit and obtain our **understanding of the internal control structure**, control environment, and accounting system through:

Internal Controls Documentation

- Inquiries of appropriate management and staff personnel.
- Inspection of the Town's documents, records, budget and related materials, organizational charts, manuals and programs.
- Observation of the Town's activities and operations to corroborate the results of inquiries.
- Testing of the controls to determine they are operating as planned.
- Performance of preliminary analytical review on interim financials. The analytical review entails comparing similar information for the same time frame from the prior year and also comparing current year-to-date information to the budget to determine areas that may need additional attention during Phase II.
- Review and evaluation of the Town's financial and other management **information system controls** and procedures. Our staff has gained invaluable experience with systems such as HTE, Multiple Operation Management (MOM), Springbrook, Pentamation, QuickBooks, Digital Schools, **SunGuard**, Escape, FUNDS\$, CECC, SACS, Financial 2000, SASi and many others. It is our goal to maximize the usage of your computer system during the audit.

This phase constitutes approximately 42% of all non-clerical hours of the engagement and may be combined with Phase II if desired. **At the completion of Phase I, an exit conference will be held to discuss findings and recommendations and prepare for Phase II.**

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Phase II - Substantive Audit Procedures and Compliance

This phase is designed to complete our substantive and compliance audit procedures on the accounts of the Town. The approach for Phase II will be based on the results of Phase I. Audit programs will be tailored for your Town's needs. This work will begin after the closing of your books.

Sample size and selection is based on our assessment of risk and planned or actual deviations. A typical **sample size will be 25 to 60** items and be randomly selected. Our sampling methods vary depending

Sampling Methods

on the type of tests we perform. Sample selection for compliance work will be based on the respective compliance and audit guides, KC, our experience and judgment, and other various sources. We use Knowledge Coach (KC) audit programs by Commerce Clearing House (CCH) to assist in our risk determination and sampling selection. We also use **ProSystems fx Engagement** paperless audit, Microsoft Excel, and Microsoft Word on laptops to perform the audit. Generally, we prefer

information **provided in electronic format**, however we use production scanners in the office and portable scanners in the field for information that is unavailable in electronic format.

Analytical procedures during Phase II involve comparing current data to prior year and budget data, calculating dollar and percentage variances and investigating differences. We also analyze trends and relationships of the various financial statement components and ratios.

Analytical Procedures & Laws and Regulations

Laws and regulations subject to audit will be determined based on inquiry and familiarity we gain with the Town and with state and federal compliance requirements. We also attend seminars and webinars related to state and federal regulations to keep abreast of new requirements.

Phase II will take approximately 42% of the engagement hours. At this time, an exit conference will be held to discuss findings and recommendations, the status of **new accounting principles and reporting requirements**, and prepare for Phase III.

Phase III - Financial Statement Preparation and Review

This phase consists of **preparing or assisting with the preparation of your financial statements, as required in the RFP**, in conformity with accounting principles generally accepted in the United States of America. We will also prepare all other financial and compliance reports required of us as listed on the RFP. The required reports and management letter will be submitted to management as noted in the timeline in the RFP, unless otherwise agreed. We will also ensure that new GASB pronouncements identified in phase I and II have been appropriately accounted for and disclosed in the financial statements and that the impact of these statements is sufficiently presented in our audit reports. The most efficient way to ensure we meet the reporting deadlines is to **have the audited trial balance and final adjustment completed by the last day of field work**. This, in combination of the automation provided by Prosystems engagement will reduce the lag time from the completion of field work and report issuance.

Our reporting process is automated through our audit software. **Once we obtain the Town's trial balance in electronic format, we can import that into our system, which will automatically code and update all financial statements and most note disclosures in the financial statements and notes.** We can



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also auto link tables, charts and other documents the Town would like to generate. All of this information can be shared through our online secure lockbox/filesshare website at www.cnallp.com and through our [online engagement portal](#) which is linked to our list of items. All agreed upon adjustments will be linked in our audit software. This greatly reduces the report preparation time and involvement of Town staff and creates more opportunity for review of information systems, internal controls and management recommendations. At the end of this phase we will provide a summary of audit adjustments and uncorrected misstatements (passed adjustments).

We anticipate that Phase III will comprise approximately 16% of the engagement hours, including the majority of the clerical hours. The timing of each phase of the audit is estimated based on the assumption that the Town will meet their close schedule and responsibilities as noted in the request for proposal.

Please note that we generally hold entrance conferences at the beginning of Phase I and II and exit conferences at the end of Phase I, II and III. However, we are available to meet with the Town at any time.

Compliance and Program Specific Auditing

Included in all phases are specific procedures required to complete individual compliance items. Analytic and sampling procedures generally follow those described in the preceding phase, but are modified, when needed, to meet specific guidelines of the programs audited.

Recommendations for Improved Operations

We feel we have accumulated valuable knowledge in accounting and auditing which has allowed us to offer a wide range of specific recommendations to increase the efficiency and effectiveness of our audit clients. With our background, we can provide services that may be very beneficial to you presently and in the future. As our client, you can look to us for informed support year-round in all areas of interest or concern. In the course of our engagement with the Town, we will provide prompt, knowledgeable answers to your questions regarding all aspects of accounting, finance, management, and operations. It is our policy to discuss discrepancies and recommendations with Town staff directly involved and then with management, as necessary. If an item warrants inclusion in the report as a finding, we will obtain management's responses to each finding. All responses will be reviewed with management and relevant committees before they are presented to the Town Council.

Irregularities and Illegal Acts

We will make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which we become aware to the Audit Committee (or similar) and Attorney.

Control Risk Assessment

As part of our audit approach, we use KC forms, narratives, questionnaires and summary schedules to gain an understanding of the control environment and assess its overall effectiveness. This helps us identify the types of potential misstatements and factors that affect the risk of material misstatement and their impact on the audit plan.

Analytical Procedures

Analytical procedures are used at three points of time during our audit; planning, substantive testing, and final review of the completed financial statements. Analytical procedures are used to obtain

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knowledge of conditions and events, to indicate the presence of possible misstatements, to provide substantive evidence of balances and to assess the financial condition of the Town.

As we obtain knowledge about the Town, we will be able to direct our attention to areas requiring greater audit emphasis as well as provide substantive evidence in support of recorded account balances.

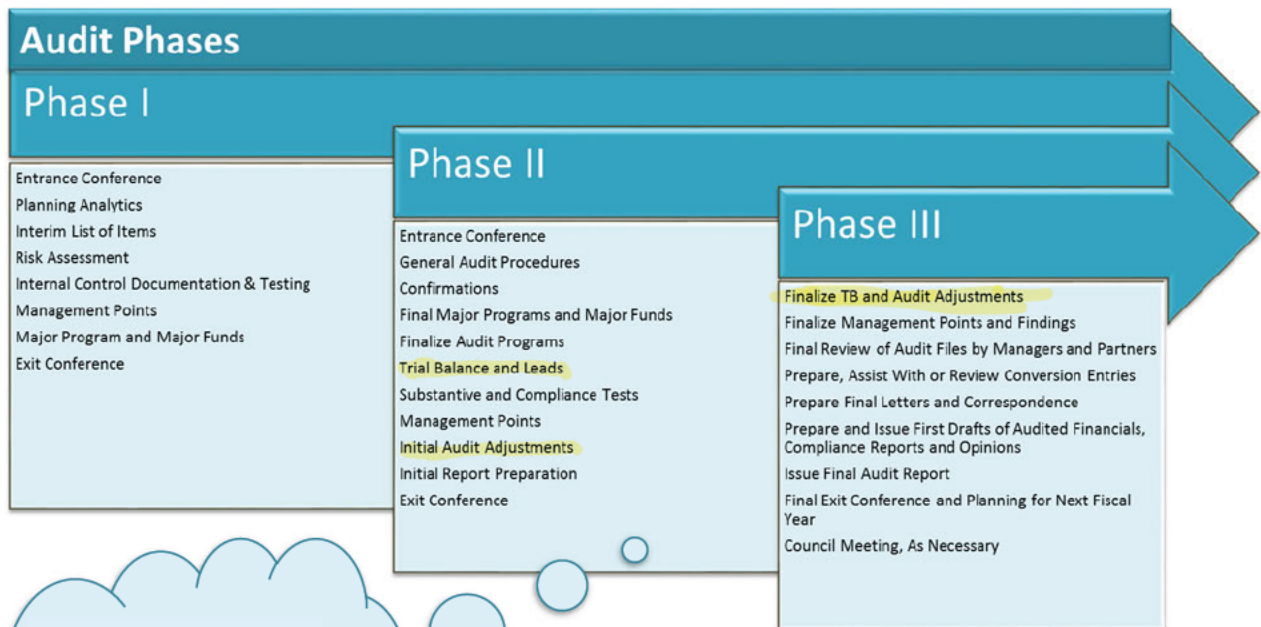
Identification of Potential Audit Problems

Each year we approach the audit objectively and use a risk-based approach to anticipate any potential audit problems. If anything were to come to our attention during the course of the audit, it would be reported to the proper management level depending on the nature of the problem and as noted in the RFP.

Resources Available for Standards Interpretations

In addition to the items published by GFOA, AICPA, FASB, and GASB, we use RIA checkpoint and Thompsons as our main online reference material. As our client, the Town will have access to all our resources.

Summary of Audit Phases (Generalized, Not All-Inclusive)



The audit plan will be customized to meet your needs! Phases I and II can be combined.

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Summary of Team Assignments (Generalized, All-Inclusive)

Team Assignments

Phase I

Engagement Partner	Associate Partner	Senior	Staff	Admin
<ul style="list-style-type: none"> •Overall Review •Audit Planning and Risk Assessment •Entrance/Exit Conferences •Team meetings •Team Assignments •Quality Control 	<ul style="list-style-type: none"> •Team Planning •Audit Binder Review •Working Paper Review •Management Point Review •Concurring Partner Review •Quality Control 	<ul style="list-style-type: none"> •Audit Planning •Audit Binder Preparation •Major Fund and Major Program Determination •Audit Programs •Internal Control Doc. and Testing •Compliance Control Doc. and Testing 	<ul style="list-style-type: none"> •Internal Control Doc. and Testing •Significant Transaction Areas •Dept. and Desk Level Controls •Compliance Control Doc. and Testing •Single Audit •TDA/MTC •Team Planning •Team Meetings 	<ul style="list-style-type: none"> •Correspondence •Staff Support •Information Technology Support

Phase II

Engagement Partner	Associate Partner	Senior	Staff	Admin
<ul style="list-style-type: none"> •Overall Review •Review Audit Plan •Review Audit Programs •Update Team Assignments •Review Major Fund/Major Program Det. •Analytics •Review Working papers, Management Points and AIE's •Guide Audit Team •Entrance and Exit Conferences 	<ul style="list-style-type: none"> •Team Planning •Audit Binder Review •Working Paper Review •Management Point Review •Concurring Partner Review •Quality Control 	<ul style="list-style-type: none"> •Planning Update •Audit Binder Update •Finalize Major Program and Major Fund Determination. •Update and Finalize Audit Programs •Substantive Testing for Significant Accounts •Compliance Testing •Guide and Monitor Staff •Confirmations 	<ul style="list-style-type: none"> •Substantive Testing •Significant Transaction Areas (Cash, Investments, Capital Assets, Long-term Debt, Pensions, Fund Balance, Net Position, Revenue, Expenditures) •Compliance Testing •Single Audit (Uniform Guidance) •TDA/MTC •Team Planning •Team Meetings 	<ul style="list-style-type: none"> •Correspondence •Staff Support •Information Technology Support •Confirmations

Phase III

Engagement Partner	Associate Partner	Senior	Staff	Admin
<ul style="list-style-type: none"> •Final Review & Sign-off •Finalize Audit Plan •Finalize Audit Programs •Final Analytics •Prepare CAFR and Review Supporting Schedules •Review all Other Reports •Review and Finalize all Required Management Letters and Correspondence •Exit Conferences, Committee and Board Presentations 	<ul style="list-style-type: none"> •Final Audit Binder Review •Final Working Paper Review •Final Management Point Review •Concurring Partner Review •Quality Control 	<ul style="list-style-type: none"> •Finalize Audit Binder •Review Staff Working papers •Review Staff Management Points •Review Reports •Prepare Assigned Reports •Review CAFR Prepared by Engagement Partner 	<ul style="list-style-type: none"> •Finalize Working Papers •Finalize Management Points •Prepare Assigned Reports •Assist with Report Review 	<ul style="list-style-type: none"> •Correspondence •Staff Support •Information Technology Support •Report Binding and Delivery

The above chart provides a general overview of typical team assignments.

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Town of Los Gatos Proposal for Auditing Services

Summary of Roles and Responsibilities (Not All-Inclusive)

General Roles and Responsibilities

Phase I	Phase II	Phase III
<p>C&A LLP</p> <p>The Engagement Partner will be responsible the overall planning, scheduling, review and coordination of Phase I.</p> <p>The Associate Partner will provide fieldwork support when necessary and help maintain quality control.</p> <p>The Senior/Manager will review workpapers, letters and reports and help maintain quality control.</p> <p>The Senior Professional Staff will focus on the more complex areas of controls and support the Engagement Partner.</p> <p>The Professional Staff will focus on detail of tests of controls over financial, federal compliance and other areas as needed.</p>	<p>C&A LLP</p> <p>The Engagement Partner's focus will include finalizing the audit programs, substantive analytics, and overseeing the audit.</p> <p>The Associate Partner will provide fieldwork support when necessary and help maintain quality control.</p> <p>The Senior/Manager will review workpapers, letters and reports and help maintain quality control.</p> <p>The Senior Professional Staff will focus on substantive tests for significant accounts.</p> <p>The Professional Staff will focus on substantive tests for significant accounts, federal compliance, and other required audits.</p>	<p>C&ALLP</p> <p>The Engagement Partner's focus will be on overall reporting, guidance and working with District staff to complete the reporting phase.</p> <p>The Associate Partner will assist in report preparation and client communication.</p> <p>The Senior/Manager will review workpapers, letters and reports, and help maintain quality control.</p> <p>The Senior Professional Staff will focus on report preparation and assisting the engagement partner and guiding our staff.</p> <p>The Professional Staff will act in a support role during this phase.</p>
<p>Town' Staff</p> <p>During this phase, your staff will be expected to provide a preliminary balance sheet and revenues and expenditures by fund, policies and procedures for key controls, a preliminary summary of federal grants, the original budget, contact information for departments and confirmations, and generally provide the information included in the lists of items for interim. We also plan to interview various staff to document and test controls. Testing controls will include sampling for significant areas. Our documentation of internal controls will be done in person and via interviews, unless otherwise requested.</p>	<p>Town' Staff</p> <p>During this Phase, your staff will be expected to provide the final balance sheet and revenue expenditures by fund and accounts from the GL. We will prepare leadsheets in our audit software, but the organization should have adequate support for significant accounts. We will perform a review of journal entries at this time and again before the final reports are issued, thus we will need access to journal entries. We will request reports for major grant programs, certain other programs, and business type activities. We will also perform a number of analytical procedures which will require staff responses, and this will be done in person in most cases.</p>	<p>Authoritie's Staff</p> <p>We expect the Town' staff to review and respond to all reports required to complete the audit. We anticipate the Town will provide or assist us in gathering information needed for the ACFR and note disclosures. Management will be required to sign a representation letter which will be provided by us. Management will be required to provide responses to any and all recommendations and findings included in the management letter. Report preparation will be completed as outlined in the RFP, unless otherwise agreed prior to Phase III of the audit.</p>

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Summary of Staff Hours by Phase

Level of Staff	Phases			Total Hours
	I	II	III	
Engagement Partner	32	32	24	88
Associate Partner	4	4	4	12
Supervisor	32	32	8	72
Senior Staff	36	36	8	80
Professional Staff	42	42	8	92
Administrative Staff	2	2	4	8
Totals	148	148	56	352

Summary Timeline

Segment	Estimated	Phase
Entrance Conference	March 1, 2022	I
Audit Planning C&A's Office	March 1, 2022	I
List of Items Required by Client	March 15, 2022	I
Interim Testing	May 2, 2022	I
Interim Exit Conference and Completion	May 9, 2022	I
Preparation and Mailing of Confirmation Letters to 3rd Parties	July 1, 2022	II
Year-end Field Work Planning Meeting	August 1, 2022	II
Update List of Items Required by Client - Final (Initial Done at Interim)	August 1, 2022	II
Year-end Field Work and Compliance Testing	September 26, 2022	II
Exit Conference	September 30, 2022	II
Progress List of Management Point and Recommendations	October 7, 2022	II
Final List of Management Point and Recommendations	October 21, 2022	II/III
Audit Adjustments	October 21, 2022	II/III
Draft Reports, Financials, Management Letters	November 4, 2022	III
Final Reports, Financials, Management Letters	November 25, 2022	III
Council, Commission & Public Presentations	As Needed	III

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Audit Scope

We understand the scope of our services to be as follows:

- A. Audit and issue a report on the fair presentation of the Basic Financial Statements of the Town of Los Gatos in accordance with generally accepted auditing standards; the standards set forth for financial audits in the U.S. General Accountability Office's most recent Government Auditing Standards; the provisions of the federal Single Audit Act of 1984 and the Single Audit Act Amendments of 1996; OMB guidance for federal awards and agreements as provided in the Code of Federal Regulation (CFR) 2 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; and relevant GASB Statements. The audit shall be conducted for the purpose of forming an opinion on the Town's Basic Financial Statements taken as a whole, and to determine whether the operations were conducted in accordance with legal and regulatory requirements.

- B. Prepare, with limited involvement of the Town, the Comprehensive Annual Financial Report (Annual Financial Report) for the Town of Los Gatos and the activities of the private-purpose trust funds of the Successor Agency to the Los Gatos Redevelopment Agency. The Town shall retain ultimate responsibility for the approval and dissemination of the Annual Financial Report; however, C&A shall prepare the draft and complete related tasks, including but not limited to the following:
 - a. Evaluate the document against the Annual Financial Report reporting checklists of the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) to ensure eligibility for their respective Annual Financial Report award programs. It is the Town's intention to continue to receive these awards annually and expect that the Annual Financial Report will meet their requirements.
 - b. Verification of implementation of recommended improvements from prior year submissions to GFOA under the Annual Financial Report award program.
 - c. Proofreading and overall review, including layout, design, and making suggested improvements to the document.
 - d. Printing and binding of the final document.
 - e. Assisting with the written responses to the recommendations and questions posed by the Finance Commission prior to the Annual Financial Report's consideration by Town Council..

- C. In the required reports on internal controls, C&A shall communicate any reportable conditions found during the audits. A reportable condition is defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions that are also material weaknesses shall be identified as such in the report. Non-reportable conditions discovered shall be reported in a separate letter to management, which shall be referred to in the reports on internal controls. The reports on compliance shall include all instances of noncompliance.

- D. C&A will prepare a management letter, if applicable, reporting material weaknesses and significant control deficiencies. Prior to completion of the management letter, C&A shall meet with the Town Manager, Director of Finance, the Finance and Budget Manager, the Town Finance Commission, and

Section D - Specific Audit Approach

Town of Los Gatos Proposal for Auditing Services

other Town staff as assigned to review findings and recommendations in detail before the final letter and Town responses are published.

- E. Optional Services
- a. Development of Agreed Upon Procedures for the review and reporting of Measure G district sales tax revenues and expenditures.
 - b. Preparation of the Cities Financial Transactions and Compensation Report (State Controller's Report).
- F. Deliverables
- a. One electronic file, in PDF format, and 25 bound copies, of the Annual Financial Report, including the necessary audit opinion letters.
 - b. One electronic file, in PDF format, and 25 bound copies, of the federal single audit report, if applicable, including the necessary audit opinion letters.
 - c. One electronic file, in PDF format, and 25 bound copies, of the management letter, if applicable.
 - d. One electronic file, in PDF format, and 25 bound copies, of the required Appropriations Limit Review reporting upon agreed-upon procedures on compliance with Proposition 111 for the year audited.
- G. Irregularities and Illegal Acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the following parties:
- a. Los Gatos Town Council
 - b. Town Manager
 - c. Town Attorney
- H. We will provide consultation regarding accounting and compliance issues found throughout the contract period.
- I. We will attend Town Council meetings as requested throughout the contract period.
- J. A partner will be available to present the audit report to the Finance Commission and/or Council.
- K. All working papers and reports will be retained, at the auditor's expense, for a minimum of seven (7) years, unless the firm is notified in writing by the Town of the need to extend the retention period. C&A will make such working papers available, on request, to the following parties or their designees:
- a. Town of Los Gatos
 - b. Parties designated by the Town, or federal or state governments, as part of an audit quality review process
 - c. Auditors of entities of which the Town is a subrecipient of grant funds
- L. C&A shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.