



## STAFF REPORT

DATE: November 5, 2019  
**CONSENT**

**AGENDA ITEM:** Audit Engagement Letter Amendment #1  
**SUBMITTED BY:** Kristina Handt, City Administrator

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### **BACKGROUND:**

Last year the city issued a Request for Proposals for auditing services. The city then selected the proposal from Redpath. This year was the first year of that agreement. As the auditor mentioned during his presentation, they spent over three times the expected hours on the 2018 financial statements and audit. This was largely due to the fact that the city has both a new auditor and a new finance director, a new chart of accounts was implemented with the software change and clean up from previous years. However, in order to protect themselves from future loss should the audit hours exceed expectations, the auditors have proposed an engagement letter amendment.

### **ISSUE BEFORE COUNCIL:**

Should the Council approve the audit engagement letter?

### **PROPOSAL:**

A copy of the letter is attached in your packet. It would allow Redpath to charge additional fees if work papers are changed three or more times after staff has told them we are ready for them to begin their review. In addition, if there are more than five journal entries made, other than those requested by Redpath for nonmaterial misstatements, there would be a \$100 charge for each.

The key this process and minimizing the risk to the city will be for staff to complete and review their work prior to giving Redpath the go ahead to start their review. If that is done, staff does not expect significant, if any, additional costs to be incurred.

### **FISCAL IMPACT:**

\$500 per work paper change after 3<sup>rd</sup> occurrence and \$100 per journal entry after 5. As stated above, the impact is expected to be minimal with proper staff preparation.

### **OPTIONS:**

- 1) Approve the audit engagement letter
- 2) Amend and then approve the audit engagement letter
- 3) Do not approve the audit engagement letter

### **RECOMMENDATION:**

If removed from the consent agenda:

***“Motion to approve the October 23, 2019 Audit Engagement Letter Addendum #1 with Redpath.”***

### **ATTACHMENTS:**

- Audit Engagement Letter



October 23, 2019

City of Lake Elmo  
3880 Laverne Avenue North, Suite 100  
Lake Elmo, MN 55042

#### ENGAGEMENT LETTER ADDENDUM #1

This letter serves as an addendum to the engagement letter dated November 27, 2018. The addendum identifies circumstances that will result in increased audit effort and the associated fees.

We will schedule the engagement based in part on deadlines, 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 providing a trial balance updated for all closing entries and accurately preparing requested schedules, retrieving supporting documents, and preparing confirmations. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially 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.

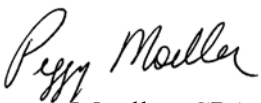
The audit will commence as scheduled if and when the City notifies Redpath that the trial balance includes all closing entries and agrees to the related workpapers, and that all workpapers are completed, reviewed and require no further updating.

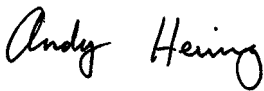
Additional fees will be charged starting with the third (3<sup>rd</sup>) occurrence that a workpaper is changed by the City for corrections or updating. Thereafter the charge will be \$500 for each time a workpaper is changed by the City for corrections and/or updating. In addition, additional fees of \$100 per journal entry will be charged for any journal entries after the fifth entry has been posted. Journal entries including corrections to more than one workpaper section (i.e. payables, receivables, interfund transfers, etc.) are considered individual journal entries by each workpaper section (i.e. payables, is 1<sup>st</sup> JE, receivables is 2<sup>nd</sup> JE, interfund is 3<sup>rd</sup> JE). Charges will not be incurred if Redpath and Company Ltd. requests a journal entry other than one that corrects a material misstatement.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the circumstances that will generate additional charges to the City. If you have any questions, please let us know. If you agree with the terms described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

REDPATH AND COMPANY, LTD.

  
Peggy Moeller, CPA

  
Andy Hering, CPA

**Response**

This letter correctly sets forth the understanding of the City of Lake Elmo, Minnesota:

Management signature:

Governance signature:

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_