



Local Agency Formation Commission
LAFCO of Napa County

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June 1, 2009
Agenda Item No. 5a (Consent)

May 26, 2009

TO: Local Agency Formation Commission

FROM: Keene Simonds, Executive Officer

SUBJECT: Authorization to Approve Audit Expenditure

The Commission will consider authorizing the Chair to enter into an agreement with Gallina LLP for the preparation of an independent audit for the 2008-2009 fiscal year at a cost of \$4,725.

Local Agency Formation Commissions (LAFCOs) are authorized under California Government Code Section 56380 to enter into agreements or contracts with public and private parties for services necessary to fulfill its regulatory and planning responsibilities.

A. Background

It is the practice of LAFCO of Napa County (“Commission”) to authorize the Executive Officer to enter into an agreement with a public accounting firm to conduct an independent audit of the agency’s financial statements for the prior fiscal year. The purpose of the audit is for a third-party to assess the reliability of the Commission’s financial statements by reviewing records and testing transactions to determine their compliance with generally accepted governmental accounting standards. The audit also provides an opportunity for the third-party to identify reporting errors and omissions as well as to make suggestions for improvements.

B. Discussion

The Commission has received an engagement letter from Gallina, LLP to prepare an independent audit concerning the agency’s financial statements for the 2008-2009 fiscal year. Gallina is headquartered in Sacramento, California and was awarded a three-year contract in 2006 to provide auditing services for the County of Napa. Gallina’s proposed cost to prepare the audit for the Commission is \$4,725. This amount represents an approximate five percent increase over the charge billed to the Commission for preparing an audit for the 2007-2008 fiscal year. Gallina states the increase is attributed to new auditing standards associated with the recent passage of Statement of Auditing Standards (SAS) 103, 104, and 105, which collectively require additional verification processes relating to the review of public agencies.

Juliana Inman, Vice Chair
Councilmember, City of Napa

Lewis Chilton, Commissioner
Councilmember, Town of Yountville

Joan Bennett, Alternate Commissioner
Councilmember, City of American Canyon

Bill Dodd, Commissioner
County of Napa Supervisor, 4th District

Brad Wagenknecht, Commissioner
County of Napa Supervisor, 1st District

Mark Luce, Alternate Commissioner
County of Napa Supervisor, 2nd District

Brian J. Kelly, Chair
Representative of the General Public

Gregory Rodeno, Alternate Commissioner
Representative of the General Public

Keene Simonds
Executive Officer

C. Analysis

It is generally accepted that governmental agencies should prepare annual audits to enhance transparency in the management of public funds. Additionally, as mentioned, the Commission relies on the annual audit process as a performance measure for staff as well as to identify opportunities to improve accounting practices. Accordingly, while not a requirement, it is appropriate for the Commission to enter into an agreement with Gallina based on its contractual relationship with the County to prepare an audit on the agency's financial statements for the 2008-2009 fiscal year.

D. Alternatives for Commission Action

The following alternative actions are available to the Commission:

Alternative One: Authorize the Chair to sign the attached engagement letter with Gallina for the preparation of an independent audit for the 2008-2009 fiscal year in the amount of \$4,725.

Alternative Two: Continue consideration of the item to another meeting while providing appropriate direction to staff with respect to any additional information requests.

Alternative Three: Take no action.

E. Recommendation

It is recommended the Commission approve Alternative One. This involves authorizing the Chair to sign the attached engagement letter with Gallina for the preparation of an independent audit for the 2008-2009 fiscal year in the amount of \$4,725.

Respectfully submitted,

Keene Simonds
Executive Officer

Attachment:

1) Engagement Letter



GALLINA^{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

May 14, 2009

Keene Simonds, Executive Officer
Local Agency Formation Commission of Napa County
1700 Second Street
Napa, CA 94559

Dear Mr. Simonds:

We are pleased to confirm our understanding of the services we are to provide the Local Agency Formation Commission of Napa County (Commission) for the year ending June 30, 2009. We ask that you either confirm or amend that understanding.

We will audit the basic financial statements of the Commission as of and for the year ending June 30, 2009. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A) to accompany the Commission's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Commission's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's discussion and analysis (MD&A)
- Budgetary comparison schedules.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the Commission and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully 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 an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not

intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the Commission is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the Commission and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Commission complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Management is responsible for the preparation of the Management's Discussion and Analysis section of the financial report. This section is not a required part of the basic financial statements, but is additional information required by accounting principles generally accepted in the United States of America.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Commission or to acts by management or employees acting on behalf of the Commission. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors are limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the Commission and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Commission's compliance with provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Responsibility for Non-audit Services

We will prepare a general ledger trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information in the Commission's general ledger into a working trial balance. Also as part of the audit, we will prepare a draft of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted full responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

As a result of our audit, we will provide you with adjusting journal entries, both those considered material and immaterial. The preparation of adjusting journal entries is considered a non-attest service. Consequently, *Government Auditing Standards*, require you to designate an individual with suitable skill, knowledge, or experience to review these entries and to be responsible and accountable for any adjusting journal entries we may submit to you. Further, we will confirm with you your agreement with the adjusting journal entries that we have proposed and whether or not they will be posted to the Commission's accounts. We will also confirm with you your agreement that unrecorded adjusting journal entries, both individually and in the aggregate, are immaterial to the financial statements taken as a whole.

Audit Administration, Fees, and Other

We understand that your employees will be available to answer inquiries during our audit and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will provide bound copies, unbound copies and an electronic copy in portable document format (PDF) of all reports in the quantities you have designated. We will also provide additional bound copies of the Commission financial report and the management report for the purpose of completing the Commission's required submission to the California State Controller's Office. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

We will also communicate to the Commission's governing board the following at the conclusion of the audit:

- Our view about the qualitative aspects of the Commission'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.

The audit documentation for this engagement is the property of GALLINA LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the State Controller's Office or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of GALLINA LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the State Controller's Office. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

The parties agree that any controversy or claim arising out of or relating to the services provided pursuant to this engagement letter agreement shall be determined by arbitration in accordance with the applicable Arbitration Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association; and judgment on the award rendered by the arbitrator(s) may be rendered in any court of competent jurisdiction.

We expect to begin our audit on August 10, 2009, and to issue our reports no later than December 31, 2009. Brad Constantine is the engagement partner and is responsible for supervising the audit and signing the report.

The firm may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Our fee for these services will not exceed the following amount unless the scope of the engagement is changed, the assistance which the Commission has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding.

June 30, 2009

\$4,725

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2006 peer review report accompanies this letter. No letter of comment was issued.

We appreciate the opportunity to be of service to the Local Agency Formation Commission of Napa County and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,
GALLINA LLP



Brad W. Constantine, CPA, CFE, CVA
Partner

RESPONSE:

This letter correctly sets forth the understanding of the Local Agency Formation Commission of Napa County.

By: _____

Title: _____

Date: _____

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Member California Society of Certified Public Accountants

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To the Partners
Gallina LLP

December 15, 2006

I have reviewed the system of quality control for the accounting and auditing practice of Gallina LLP (the firm) in effect for the year ended June 30, 2006. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on my review.

My review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During my review, I read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on my assessments, I selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under Government Auditing Standards. Prior to concluding the review, I reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of my review. I believe that the procedures I performed provide a reasonable basis for my opinion.

In performing my review, I obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, I tested compliance with the firm's quality control policies and procedures to the extent I considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. My review was based on selective tests and therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In my opinion, the system of quality control for the accounting and auditing practice of Gallina LLP in effect for the year ended June 30, 2006, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Carl M. Arntzen, CPA

Carl M. Arntzen, CPA