

RESOLUTION NO. 571-09

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ORANGE CITY, FLORIDA, AUTHORIZING THE MAYOR TO EXECUTE AN AGREEMENT BETWEEN THE CITY OF ORANGE CITY AND HOLLAND & REILLY FOR AUDITING SERVICES FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 2009, SEPTEMBER 30, 2010, AND SEPTEMBER 30, 2011; REPEALING ALL RESOLUTIONS IN CONFLICT HEREWITH AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the City of Orange City has retained the services of Greene Dycus and Co., C.P.A. to perform the City's annual financial audit since 1991; and

WHEREAS, the City Council, acting as the Auditor Selection Committee, directed the issuance of a Request for Proposals (RFP) for audit services for the Fiscal Years ending September 30, 2009, September 30, 2010, and September 30, 2011 in accordance with Section 218.31, Florida Statutes, the City Charter and the City's Purchasing Procedures; and

WHEREAS, eleven responses to the RFP were received and reviewed by the Auditor Selection Committee in accordance with Chapter 12.3-27 of the City Code and the terms of the RFP. Five of the respondents were invited to appear before the Selection Committee for interviews; and

WHEREAS, after concluding the interview process, the Auditor Selection Committee has elected to award a contract for auditing services for the City of Orange City to Holland & Reilly, CPA.

WHEREAS, the City Attorney, as directed by the City Council, has negotiated an agreement with Holland and Reilly, attached hereto as Exhibit A.

WHEREAS, The City Council hereby authorizes the Mayor to execute said agreement on behalf of the City.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ORANGE CITY, FLORIDA:

SECTION 1. That the Mayor is hereby authorized and directed to execute the agreement with Holland & Reilly, attached hereto as Exhibit A, for the provision of auditing services in accordance with the terms of the RFP and City code.

SECTION 2. That all Resolutions or parts of Resolutions in conflict herewith be and the same are hereby repealed.

SECTION 3. That this Resolution shall take effect immediately upon its adoption by the City Council of the City of Orange City, Florida.

ROLL CALL VOTE AS FOLLOWS:

O. William Crippen	<u>yes</u>	Anthony Pupello	<u>yes</u>
Gary A. Blair	<u>yes</u>	Tom Abraham	<u>Absent</u>
Tom Laputka	<u>yes</u>	Jeff H. Allebach, Vice Mayor	<u>yes</u>
Harley Strickland, Mayor	<u>yes</u>		

ADOPTED THIS 2nd **DAY OF** November, 2009.

ATTEST:

Deborah J. Renner
Deborah J. Renner, City Clerk

AUTHENTICATED:

Harley Strickland
Harley Strickland, Mayor

This Resolution approved
as to form and legal sufficiency:

William Reischmann
William Reischmann, City Attorney

HOLLAND & REILLY

CERTIFIED PUBLIC ACCOUNTANTS
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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
ASSOCIATION OF
CERTIFIED FRAUD EXAMINERS

DAVID S. HOLLAND, CPA
THOMAS F. REILLY, CPA

October 27, 2009

City Council
City of Orange City
205 East Graves Avenue
Orange City, Florida 32763

Dear City Council:

We are pleased to confirm our understanding of the services we are to provide for the City of Orange City (City) for years ending 2009, 2010 and 2011. We will provide these professional services, to the extent not inconsistent with the terms of this letter, pursuant to the RFP attached hereto as Exhibit A. In the event of any conflict the terms of this letter agreement shall control. We will conduct a financial and compliance audit of the annual basic financial statements of the City for the purpose of expressing an opinion on the fairness of presentation of the City's financial statements. 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 City's basic financial statements. As part of our engagement, we will apply certain limited procedures to the City'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.

1. Management's Discussion and Analysis
2. Budget to Actual Comparison – General Fund and Major Special Revenue Funds

Supplementary information other than RSI also accompanies the City's basic financial statements. We will subject the following information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

1. Combining Statements and Individual Fund Schedules

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our accountant's report will disclaim an opinion:

1. Statistical Information

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 basic financial statements taken as a whole. Our audit will be conducted in accordance with U.S. generally

accepted auditing standards 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 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 the City Council, management, 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 City 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. You will prepare a draft of your financial statements, related notes, and all other components comprising the Comprehensive Annual Financial Report (CAFR), subject to our review. You are responsible for the reproduction and binding of the CAFRs. 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 that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we may provide and or evaluating the adequacy and results of those services and accepting responsibility for them.

We will prepare the general ledger trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information in the City's general ledger into a working trial balance.

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; and for the fair presentation in the financial statements of the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, of the City 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. Your 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, or illegal acts affecting the City involving a) management,

b) employees who have significant roles in internal control, and c) 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 City complies with applicable laws, regulations, contracts, agreements, and grants, and 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 establishment and maintenance of 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 financial 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.

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 a) errors, b) fraudulent financial reporting, c) misappropriation of assets, or d) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. 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 is limited to the period covered by our audit and does not extend to 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 direct confirmation of receivables and revenues, and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from the City's attorneys as part of the engagement, and they may bill the City for responding to this inquiry. At the conclusion of our audit, we will 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 entity 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 City's compliance with the 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*.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, debt, revenue, and other confirmations we request and will locate any documents selected by us for testing.

We expect to begin our audit no later than the month of December and to issue our reports no later than the month of March, provided we receive the necessary cooperation from the City to meet the deadline.

The audit documentation for this engagement is the property of Holland & Reilly and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to federal or state agencies providing direct or indirect funding, or the U.S. Government Accountability 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 Holland & Reilly personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. Those 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 five years after the report release date or for any additional period requested by federal or state agencies. If we are aware that a federal or state awarding agency or auditee is contesting an audit finding, we will contact the parties contesting the audit findings for guidance prior to destroying the audit documentation.

The term of this agreement is for three (3) consecutive fiscal years ending September 30, 2009, 2010 and 2011. This agreement also provides for options to renew on a year-by-year basis for two additional years (September 30, 2012, and 2013).

Our fees for service will be as follows (plus travel costs):

Fiscal year ended	Audit Fee	Single Audit, if applicable
9/30/09	\$21,500	\$5,000
9/30/10	\$22,000	\$5,000
9/30/11	\$22,500	\$5,000

If additional services are required or requested outside the terms of this engagement, we would charge a standard hourly rate which ranges from \$90-\$175 depending on the staff or partner performing the work.

If the agreement is renewed for any of the two renewal years our fees for service will be at our hourly rate or as follows (plus travel costs):

Fiscal year ended	Audit Fee	Single Audit, if applicable
9/30/12	\$23,500	\$5,500
9/30/13	\$24,000	\$5,500

If additional services are required or requested outside the terms of this engagement, we would charge a standard hourly rate which ranges from \$95-\$185 depending on the staff or partner performing the work.

These fees assume the following:

- Your accounting records are in good order and that we can complete our normal testing procedures. However, if we find numerous errors, incomplete records, poor bookkeeping, or the use of improper accounting methods, we may be required to perform additional work, which may cause our fees to be higher than our original fee estimate.
- The engagement has been scheduled based in part on the availability of your key personnel, deadlines, and working conditions. We will plan the engagement assuming your personnel will cooperate and provide assistance by performing tasks such as preparing schedules, retrieving supporting documents, and typing 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 must do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate.
- Although we plan the engagement, unforeseen circumstances can occur that require additional time to be spent to complete our work. Examples of such circumstances could be accounting problems, litigation, and a change in your business, or contractual problems with vendors or customers. These types of situations may require us to perform additional work, which may cause our fees to be higher than our original fee estimate.

Should circumstances such as the above occur, or if the City requests additional work outside the scope of this engagement, the Auditor shall submit a Scope of Services to include an estimated fee for such work for City approval.

Our invoices for these fees will be rendered as work progresses and are payable within 30 days of receipt by the City. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. Furthermore, if audit services are suspended for non-payment written notification will be provided via the City Clerk to the Mayor and Council. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. The suspension or termination of our work may result in adverse consequences to you including your failure to meet deadlines imposed by governments, lenders, or other third parties. You agree that we will not be responsible for your failure to meet such deadlines, or for penalties or interest that may be assessed against you resulting from such failure.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate new engagement. A new, specific engagement letter for that service will govern the terms and conditions of that new engagement.

You have been made aware of the limitations of our audit regarding the detection of fraud and the possible effect on the financial statements (including misappropriation of cash and other assets). We are available to perform, as a separate engagement, extended procedures specifically designed to detect fraud and you have declined to engage us to do so at this time.

In the event that we receive a subpoena or summons requesting that we produce documents from this engagement or testify about the engagement, we will notify you prior to responding to it if we are legally permitted to do so. You may, within the time permitted for our firm to respond to any request, initiate such legal action, as you deem appropriate to protect information from discovery. If you take no action within the time permitted for us to respond or if your action does not result in a judicial order protecting us from supplying requested information, we may construe your inaction or failure as consent to comply with the request.

In the event that any portion of this engagement letter is deemed invalid or unenforceable, said finding shall not operate to invalidate the remainder of this engagement letter.

During the course of our engagement, we will request information and explanations from management regarding the organization's operations, internal controls, future plans, specific transactions, and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach, as a basis for our report will be heavily influenced by the written and oral representations that we received from management. In view of the foregoing, the City agrees to release our firm and its personnel from any liability and costs relating to our services under this letter resulting from false or misleading representations made to us by any member of the City's management. Accordingly, false representations could cause us to expend unnecessary efforts or could cause a material error or a fraud to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the City's financial statements that we may fail to detect as a result of false or misleading representations that are made to us by management.

Insurance Terms and Conditions

The Auditor shall provide insurance consistent with the requirements of the RFP attached hereto as Exhibit A.

Hold Harmless Agreement

As a part of the agreement with the CITY OF ORANGE CITY, and for the same consideration as provided for in the contract, the contractor agrees to indemnify, hold harmless and defend the City Council, its officials and employees from liabilities, damages, losses and costs, including but not limited to reasonable attorney's fees, to the extent caused by the negligence, recklessness, intentionally wrongful conduct of the contractor and other person employed by the contractor in the performance of the contract.

Disputes arising under this agreement (including scope, nature and quality of services to be performed by us, our fees and other terms of the engagement) shall be submitted to mediation. A competent and impartial third party, acceptable to both parties, shall be appointed to mediate and each disputing party shall pay an equal percentage of the mediator's fees and expenses. No suit or arbitration proceeding shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. In the event that the dispute is required to be litigated, the court shall be authorized to assess litigation costs against any party found not to have participated in the mediation process in good faith.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report. Our 2008 peer review report accompanies this letter.

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 before it is distributed.

With regard to using the auditors' report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering statements or other documents, such consent shall not be unreasonably withheld. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically to websites, you understand that electronic sites are a means to distribute information, and therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

This letter will remain in effect until cancelled by either party.

We believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with our above understanding of the engagement, please sign the enclosed copy and return it to us.

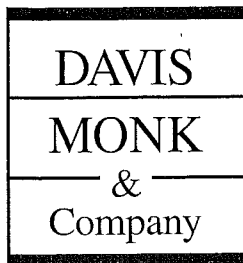
We appreciate the opportunity to serve you and look forward to a mutually beneficial long-lasting relationship.

Holland & Reilly
Holland & Reilly

This letter correctly sets forth the understanding of City of Orange City:

By: *Halley Shet*
Title: *Mayor*
Date: *11/2/09*

Attest: *Neboosh J. Benner*



December 9, 2008

To the Partners
Holland & Reilly

Certified Public Accountants
& Business Consultants

*A Partnership Consisting of
Professional Associations*

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Phone: (352) 372-6300
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Fax: (352) 375-1583

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906 South State Road 19
Palatka, Florida 32177
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St. Augustine
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St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:
www.davismonk.com

We have reviewed the system of quality control for the accounting and auditing practice of Holland & Reilly (the "firm") in effect for the year ended August 31, 2008. 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. Our 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 our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we 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 our assessments, we 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, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests, 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 of quality control 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 our opinion, the system of quality control for the accounting and auditing practice of Holland & Reilly in effect for the year ended August 31, 2008, 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 conforming with professional standards.

Members:

CPA America International

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants

Horwath International

DAVIS, MONK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS