



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Extend Contract With Peat Marwick & Main for Audit Services
 MEETING DATE: April 7, 1993
 PREPARED BY: Assistant City Manager

RECOMMENDED ACTION: That the City Council authorize the firm of Peat Marwick & Main to conduct an audit of Sanitary City Disposal Company's financial records for the period April 1, 1992 to March 31, 1993. The cost of the audit will be presented to the City Council on April 7.

BACKGROUND: The City Council directed staff to have an audit performed of Sanitary City Disposal Company's financial records. In that the City contracts with Peat Marwick & Main for annual audits of the City's financial records, staff contacted that firm to perform the required audit.

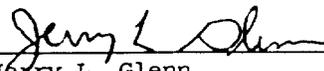
Staff has met with representatives of that firm and Sanitary City to clarify what was to be included. Peat Marwick & Main has been in contact with Sanitary City to write a scope of the assignment and approximate hours involved.

We have agreed this audit will not commence until Sanitary City has closed their books and has had their auditors complete their work. It is estimated the audit will commence sometime in the middle of June.

We will not receive the proposal from Peat Marwick until April 6, and it is therefore not included in the Council agenda material.

FUNDING: 10-015.01 Contingency Fund.

Respectfully submitted,


 Jerry L. Glenn
 Assistant City Manager

JLG/vc

APPROVED



THOMAS A. PETERSON
 City Manager



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Peat Marwick

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Certified Public Accountants

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April 5, 1993

Mr. Dixon Flynn, Finance Director
City of Lodi
221 West Pine Street
Lodi, California 95241

Dear Dixon:

We have been requested that we provide you with a proposal to audit Lodi Sanitary City Disposal, Co., Inc. ("Company") as of and for the year ended March 31, 1993. This letter will set forth our understanding of the scope and objectives of our audit and the estimate of the hours and related fees to complete the engagement.

The Company currently has a review completed by the certified public accounting firm of Alder, Green & Hasson ("CPA") of Los Angeles, California. The Company's CPAs will complete their review of the Company's financial statements as of March 31, 1993 during May of 1993. KPMG Peat Marwick ("Peat Marwick") will need to review the CPA's review working papers as of and for the years ended March 31, 1992 and 1993. Since you have requested us to complete an audit of the Company we will have to perform additional audit procedures as of April 1, 1992 to assure ourselves the opening balance sheet is fairly stated.

Peat Marwick will conduct the audit in accordance with generally accepted auditing standards with the objective of expressing an opinion as to whether the presentation of the Company's financial statements, taken as a whole, conforms with generally accepted accounting principles. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We will also assess the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Company has agreed that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Company's management.

It should be understood that management of the Company has responsibility for the financial statements and all representations contained therein. Management of the Company is also responsible for the adoption of sound accounting policies and the implementation of recordkeeping and an internal control structure to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of errors and irregularities that are material to the financial statements.



Member Firm of
KPMG Peat Marwick Goetz

Mr. Dixon Flynn, Finance Director
City of Lodi
April 5, 1993
Page 2

An audit is designed to obtain reasonable assurance about whether the financial statements are free of material misstatement. Even a material misstatement may remain undetected, however, by an audit performed in accordance with generally accepted auditing standards.

Upon completion of our audit procedures, we will issue our opinion on the Company's financial statements by August 1, 1993, subject to the conditions stated below. We are prepared to commence our audit procedures on May 31, 1993. We also will furnish to you a report on the Company's internal control structure with any recommendations about the internal control structure that we note during the audit which appear to be of significance under the circumstances.

We estimate that it will take approximately 325 to 425 hours to complete the audit, draft the financial statements and management letter and report our findings to the City's management. Our fees will range from \$16,250 to \$21,250. In addition, expenses such as travel, telephone, postage and typing are billed separately as incurred. We will also separately bill the City the costs charged by the Company's CPAs for time and expenses incurred on their part due to Peat Marwick reviewing their review working papers. Our estimate of expenses is \$1,500 to \$2,500, exclusive of the pass through billings by the Company's CPAs. These estimates reflect our anticipation of the necessary partner, manager and staff hours and expenses to successfully complete the audit.

Due to the nature of the project we have made certain assumptions. Our fee estimate assumes reasonable cooperation by the City's and Company's personnel and timely access to the current CPA's workpapers. The Company will not be required to prepare any audit schedules, however, personnel will pull all requested supporting documentation, answer all questions and inquiries we may have, research items, and provide account analysis. We expect the Company's accounts will be in good order, posted up to date and that explanations of account balances and fluctuations will be provided. In addition, trial balances and other requested information will be available upon our arrival on May 31, 1993. The estimated fee is based upon the above assumptions and does not include time that may result from your requests to increase our scope beyond what is planned.

If circumstances are encountered or requests are made during the conduct of the audit that warrant additional time or expense we will endeavor to notify you as they are assessed. If the Company does not provide reasonable assistance as anticipated the hours to complete the audit and the fees charged could increase significantly. We will also advise the City of all budget overages being incurred and the reasons for those overages. The City will reimburse Peat Marwick at the rate of \$50 per hour for all reasonable and explainable budget overages.

In the event Peat Marwick is requested pursuant to subpoena or other legal process to produce its documents relating to the audit of the Company in judicial or administrative proceedings to which Peat Marwick is not a party, the City shall reimburse Peat Marwick at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

KPMG Peat Marwick

Mr. Dixon Flynn, Finance Director
City of Lodi
April 5, 1993
Page 3

If the foregoing is in accordance with you requirements, please indicate your acceptance by signing the copy of this letter in the space provided below. We appreciate the opportunity to be of service to the City of Lodi.

Very truly yours,

KPMG PEAT MARWICK

Larry J. Robertson pg
Larry J. Robertson, Partner

LJR/pg
enclosure

RESPONSE:

This letter correctly sets forth the understanding of the City of Lodi

By: _____

Date: _____