


TRANSMITTAL MEMORANDUM

5f

TO: The Honorable Mayor & City Council Initials: 
FROM: Delilah A. Walsh, City Manager File #: MGR24-599
DATE: September 12, 2024 Mtg. #: 09/19/24 CAF
RE: **Approve Engagement for Financial & Compliance Audit for the Years Ending December 31, 2024, 2025 & 2026 – Teuscher Walpole, LLC**

At its meeting of August 1, 2024, the City Council adopted a motion directing staff to negotiate a three-year contract with Teuscher Walpole, LLC, to conduct the City's financial and compliance audit for the years ending December 31, 2024, 2025 and 2026. As indicated in the attached memorandum from Finance Director Michelle Johansen, a contract with Teuscher Walpole, LLC has been negotiated to perform the audit for a base fee at \$91,000 for 2024, \$94,000 for 2025 and \$97,000 for 2026. By negotiating a multi-year contract, the City will realize savings for a more favorable agreement.

Ms. Johansen's memorandum details the possibility of additional expenses and recommends a contingency of \$9,000 each year to comply with any new GASB (Governmental Accounting Standards Board) rules and to cover any possible work related to state and federal program compliance.

Ms. Johansen details her rationale in her memorandum and requires no further elaboration. As Teuscher Walpole is a local firm, is very familiar with the City's finances, and has negotiated a reasonable price for the work required, I concur with Ms. Johansen's recommendation.

A motion has been prepared for City Council consideration.

Recommended Motion: I move the City Council approve a three-year contract with Teuscher & Walpole, LLC in the amount of \$91,000 for a financial and compliance audit for the year ending December 31, 2024, \$94,000 for the audit year ending December 31, 2025 and \$97,000 for the audit year ending December 31, 2026; establish a \$9,000 annual contingency for extra audit work for 2024, 2025 and 2026; and authorize the City Manager to execute the contract documents on behalf of the City Council.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle L. Johansen, Finance Director
Meghan Traudt, Financial Analyst
Phone: (907) 228-5621
Facsimile: (907) 228-5617

TO: Delilah A. Walsh, City Manager

FROM: Michelle L. Johansen, Finance Director

DATE: September 10, 2024

SUBJECT: Financial and Compliance Audit for the Year Ending December 31, 2024, 2025 and 2026

At its meeting of August 1, 2024, the City Council directed staff to negotiate a three-year contract with Teuscher & Walpole, LCC (T&W) to conduct the City's financial and compliance audit for the years ending December 31, 2024, 2025 and 2026.

I discussed with T&W's Audit Manager, Bret Raby, the terms and conditions for a three-year audit contract. Subject to City Council approval, the City has reached an agreement with T&W to perform the 2024, 2025 and 2026 annual audit as follows:

<u>Audit fee summary schedule multi-year contract</u>			
	<u>2024</u>	<u>2025</u>	<u>2026</u>
Fee for basic financial statement audit	72,000	74,000	76,000
New pronouncement and out of pocket expenses	4,500	4,500	4,500
Single audit fee *	14,500	15,500	16,500
	<u>91,000</u>	<u>94,000</u>	<u>97,000</u>

*single audit fee includes audit for up to 2 major federal programs and 5 State major programs. Any Federal major program above 2 will be charged at 1,500 and any State major program over 5 will be charged at 1050.

The base fee covers the annual audit of the City's financial statements and the single audit work required for two major federal grant programs and five major state grant programs. Additional work may be required because of the grant awards and additional federal grants earmarked or received during the audit period. If the City has more than two major federal programs, the City will be required to pay an additional \$1,500 for each major federal grant program. If the City has more than five major state grant programs, the City will be required to pay an additional \$1,050 for each major state grant program. The number of federal and state grants received will determine the single audits that are needed and may trigger additional federal and state single audit fees. Since the primary criteria for determining if a grant program is a major program is expenditures, it will be necessary to request a contingency to cover the cost of exceeding the number of grant audits provided under the base audit fee.

The City is also responsible for implementing new pronouncements established by the Governmental Accounting Standards Board (GASB). GASB Statement 101 may change how

October 10, 2023

Page 2

the City accounts for compensated absences. The audit team will need to review our processes to ensure we have accounted for the City's compensated absences properly and as a result an additional implementation fee of \$4,500 has been added to our contract to account for this pronouncement and possible future pronouncements that become effective January 1, 2024 through December 31, 2026. This is an expected amount based on the size of our entity. It is possible the initial year of implementation may require more audit work so I am recommending an additional contingency amount of \$9,000 and should be sufficient to cover any additional major federal programs, additional major state programs or additional audit work required for any new GASB pronouncements.

T&W initially proposed an increase of \$13,479 or 16% for a single-year contract. The Council's approval of a multi-year contract is saving the City \$5,000 in year one and at least \$2,000 in year two. I believe that the proposed base fee of \$91,000, \$94,000 and \$97,000 for the audit years ending December 31, 2024, 2025 and 2026 respectively, is reasonable and recommend that the City Council approve a three-year contract with T&W for the City's financial and compliance audit.

Recommended Motion:

I move that the City Council approve a three-year contract with Teuscher & Walpole, LLC in the amount of \$91,000 for a financial and compliance audit for the year ending December 31, 2024, \$94,000 for the audit year ending December 31, 2025 and \$97,000 for the audit year ending December 31, 2026; establish a \$9,000 contingency for extra audit work for 2024, 2025 and 2026; and authorize the City Manager to execute the contract documents on behalf of the City Council.

September 3, 2024

To The Honorable Mayor and Members of the City Council
City of Ketchikan
Ketchikan, Alaska

We are pleased to confirm our understanding of the services we are to provide for The City of Ketchikan for the years ended December 31, 2024, 2025, and 2026.

Audit Scope and Objectives

We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the disclosures, which collectively comprise the basic financial statements, of The City of Ketchikan as of and for the years ended December 31, 2024, 2025, and 2026. Accounting standards generally accepted in the United States of America (GAAP) provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement The City of Ketchikan's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to The City of Ketchikan's RSI in accordance with auditing standards generally accepted in the United States of America (GAAS). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient appropriate evidence to express an opinion or provide any assurance. The following RSI is required by GAAP and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis (if provided)
- 2) Budgetary Comparison Schedules of required governmental funds
- 3) Required supplementary pension, OPEB schedules

We have also been engaged to report on supplementary information other than RSI that accompanies The City of Ketchikan's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS, and we will provide an opinion on it in relation to the financial statements as a whole in a report combined with our auditor's report on the financial statements

- 1) Schedule of expenditures of federal awards (if required)
- 2) Alaska Schedule of State Financial Assistance (if required)
- 3) Combined and individual fund statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinions about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP, and report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS

and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements. The objectives also include reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Auditor's Responsibilities for the Audit of the Financial Statements and Single Audit

We will conduct our audit in accordance with GAAS; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that some material misstatements or noncompliance may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. 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 or on major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement.

We have identified the following significant risk(s) of material misstatement as part of our audit planning:

According to GAAS, significant risks include management override of controls, and GAAS presumes that revenue recognition is a significant risk. Accordingly, we have considered these as significant risks. Describe significant risk(s) identified, including specific revenue streams identified as significant risks.

We 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 the 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 audit of financial statements does not relieve you of your responsibilities.

Audit Procedures—Internal Control

We will obtain an understanding of the government and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. 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*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. 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, *Government Auditing Standards*, and the Uniform Guidance.

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 of Ketchikan's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures 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*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of The City of Ketchikan's major programs. For federal programs that are included in the Compliance Supplement, our compliance and internal control procedures will relate to the compliance requirements that the Compliance Supplement identifies as being subject to audit. The purpose of these procedures will be to express an opinion on The City of Ketchikan's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Responsibilities of Management for the Financial Statements and Single Audit

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for (1) designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error,

including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal statutes), rules, and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

You are also responsible for making drafts of financial statements, schedule of expenditures of federal awards, all financial records, and related information available to us; for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers); and for the evaluation of whether there are any conditions or events, considered in the aggregate, that raise substantial doubt about the government's ability to continue as a going concern for the 12 months after the financial statements date or shortly thereafter (for example, within an additional three months if currently known). You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance; (3) additional information that we may request for the purpose of the audit; and (4) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence. At the conclusion of our audit, we will require certain written representations from you about the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and related matters.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management 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 of each opinion unit 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 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 government complies with applicable laws, regulations, contracts, agreements, and grants. You are also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we report.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received, and COVID-19-related concepts, such as lost revenues, if applicable) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains, and indicates that we have reported on, the schedule of expenditures of federal awards. You also agree to [include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon OR make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon]. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the

reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles (GAAP). You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to [include the audited financial statements with any presentation of the supplementary information that includes our report thereon OR make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon]. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Scope and 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 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.

Other Services

We will also assist in preparing the financial statements, schedule of expenditures of federal awards, and related notes of The City of Ketchikan in conformity with accounting principles generally accepted in the United States of America and the Uniform Guidance based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statements, schedule of expenditures of federal awards, and related notes services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

You agree to assume all management responsibilities for the financial statements, schedule of expenditures of federal awards, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, the schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, the schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Engagement Administration, Fees, and Other

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

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to The City of Ketchikan; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Teuscher Walpole LLC and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to United States department of treasury or its designee, a federal agency 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 Teuscher Walpole LLC 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 five years after the report release date or for any additional period requested by the United States department of treasury. 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.

Monica Gardner is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We expect to begin interim work on the audit the first week of November, 2024.

Our fee schedule summary for the multi-year engagement is provided below. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, confirmation service provider fees, etc.) Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. 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(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The below fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will keep you informed of any problems we encounter and our fees will be adjusted accordingly.

Audit fee summary schedule multi-year contract			
	<u>2024</u>	<u>2025</u>	<u>2026</u>
Fee for basic financial statement audit	72,000	74,000	76,000
New pronouncement and out of pocket expenses	4,500	4,500	4,500
Single audit fee *	14,500	15,500	16,500
	91,000	94,000	97,000

*single audit fee includes audit for up to 2 major federal programs and 5 State major programs. Any Federal major program above 2 will be charged at 1,500 and any State major program over 5 will be charged at 1050.

Reporting

We will issue written reports upon completion of our Single Audit. Our reports will be addressed to The Honorable Mayor and Members of the City Council of The City of Ketchikan. Circumstances may arise in which our report may

differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our opinions are other than unmodified, we will 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 opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will state that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

We appreciate the opportunity to be of service to The City of Ketchikan 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 attached copy and return it to us.

Very truly yours,

Teuscher Walpole, LLC

RESPONSE:

This letter correctly sets forth the understanding of The City of Ketchikan

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____