



City of Homer Finance

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M E M O R A N D U M 07-144

Date: August 23, 2007
To: City Council
Thru: Walt Wrede, City Manager
From: Regina Harville *Regina* Finance Director
RE: Internal Control Analysis

The new auditing standards (SAS 104-111) have placed a higher level of emphasis on an entities' documentation of their accounting processes and internal controls over financial reporting. Not only must they be documented, but they also must be designed effectively to detect or prevent material misstatements in the financial statements.

The finance department is in the process of drafting the documentation for our major transaction cycles, but would like Mikunda Cottrell to review that documentation and help in identifying any significant gaps in the documentation and/or internal controls. Mikunda Cottrell will determine the effectiveness of the system of internal controls that we currently have in place. They will provide us with a review and recommendations.

Mikunda Cottrell can do this service for us in November for \$3,051.



Where the Land Ends and the Sea Begins



August 16, 2007

Regina Harville, Finance Director
City of Homer
491 East Pioneer Avenue
Homer, Alaska 99603

Dear Ms. Harville:

Thank you for giving us the opportunity to provide this informal proposal in response to your recent request to review your internal control/process documentation. The following briefly describes our understanding of the scope of services you have requested and our proposed fees:

SCOPE OF WORK: PROCESS DOCUMENTATION AND INTERNAL CONTROL ANALYSIS

The new auditing standards (SAS 104-111) have placed a higher level of emphasis on entities' documentation of their accounting processes and internal controls over financial reporting. Additionally, not only must internal controls be documented, but they also must be designed effectively to detect or prevent material misstatements in the financial statements. As we discussed in our phone conversation on August 15, the City of Homer would like assistance in reviewing and analyzing your process and internal control documentation.

Mikunda, Cottrell & Co. currently performs the City of Homer's annual financial audit. As such, we are required by government auditing standards to maintain our independence. With respect to the below-described non-attest engagement, you must have someone with an appropriate level of knowledge designated as responsible for reviewing and approving any control improvements and/or documentation revisions that we may recommend. Also, please understand that we cannot guarantee that the audit team who conducts your audit will not find something that they consider an issue/finding. In order to maintain our independence, the audit team needs to maintain full discretion to identify issues regardless of whether our consulting department has reviewed your documentation. In essence, we can provide you simply with our review and recommendations.

It is our understanding that you intend to draft the documentation for your major transaction cycles, and that you would like Mikunda, Cottrell & Co. to review that documentation and help you to identify any significant gaps in the documentation and/or internal controls.

The anticipated transaction cycles include:

- Revenue, cash receipts, accounts receivable
- Investments
- Grants
- Purchasing and accounts payable
- Payroll/human resources
- Capital assets
- Financial close and reporting (budgeting, account reconciliations, journal entries, financial statement preparation, etc.)

Because these services are limited in nature and scope, we can not and do not guarantee that any existing or future fraud or defalcation will be identified and/or prevented as a result of this engagement. The effectiveness of the system of internal control that we will discuss with you may be limited by many factors, such as:

- The integrity of management and employees.
- The ability to segregate duties in the accounting/finance area.
- The willingness of management to see that the suggested changes are implemented, monitored, and tested on an ongoing basis.
- Cost/benefit analysis.

TIMELINE AND DELIVERABLES

Mikunda Cottrell will review the City of Homer's drafted process and internal control documentation and will provide the City of Homer with recommendations for enhancements of the documentation and/or internal controls.

The specific timing will be discussed and agreed to between the City of Homer and Mikunda Cottrell, however, it is anticipated that the engagement will begin in November 2007.

PROFESSIONAL FEES

Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Direct expenses are billed at cost. The hourly billable rates for the staff that will be assigned to this engagement are as follows:

<u>Title</u>	<u>Name</u>	<u>Billable Rate</u>
Mikunda Cottrell Shareholder	John Bost	\$195
Internal Control Consultant	Angie Pinsonneault	\$165
In-Charge Internal Control Specialist	Jacy Turner	\$ 95
Staff Internal Control Specialist	Sam Sponseller	\$ 82

We have estimated the number of hours to complete the engagement based on two difference scenarios. Scenario 1 is based on a high-level review conducted from our Anchorage office via email, fax, and telephone. Scenario 1 would most likely not require any direct expenses. Scenario 2 is based on a more detail-level review conducted from your offices in Homer. Scenario 2 would require travel expenses.

While we will bill our fees based on actual time and expense, should we begin to approach the estimated number of hours we will contact you to determine the additional hours required to complete the engagement.

<u>Project</u>	<u>Estimated Number of Hours</u>	
	<u>Scenario 1</u>	<u>Scenario 2</u>
Process documentation and internal control analysis:		
Mikunda Cottrell Shareholder	1.0	1.0
Internal Control Consultant	2.0	2.0
In-Charge Internal Control Specialist	8.0	24.0
Staff Internal Control Specialist	<u>4.0</u>	<u>3.0</u>
Total estimated hours	<u>15.0</u>	<u>30.0</u>

We realize clients occasionally need to call for information or ideas that require quick, concise responses. We consider these calls an opportunity that adds value to the services we provide. In the interest of strengthening the trust and working relationship between our organizations, we believe your personnel should be comfortable calling for necessary information without fear of punitive phone charges. Unlike other professional accounting firms, we normally do not charge for calls that can be handled quickly over the phone.