



Dave Yost • Auditor of State

ENGAGEMENT LETTER

February 17, 2011

Ed FitzGerald, Cuyahoga County Executive
Cuyahoga County

This letter of arrangement between Cuyahoga County (the County) and the Auditor of State describes the nature and scope of the services we will provide, the County's required involvement and assistance in support of our services, the related fee arrangements, and other terms and conditions designed to ensure that our professional services satisfy the County's audit requirements.

Summary of Services

We will audit the County's basic financial statements as of and for the year ended December 31, 2010. We will follow U.S. generally accepted auditing standards and the Comptroller General of the United States' standards for financial audits contained in *Government Auditing Standards*, and the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of an audit is to express our opinion concerning whether the basic financial statements present fairly, in all material respects, the County's financial position, changes in financial position, required budgetary comparisons, and cash flows (where applicable), in conformity with U.S. generally accepted accounting principles.

We will audit to form an opinion on the basic financial statements. The combining and individual nonmajor fund financial statements, the Federal Awards Expenditure Schedule and other supplemental information provide additional analysis, and are not a required part of the basic financial statements. We will subject this information to the auditing procedures applied in our audit of the basic financial statements and will render an opinion on whether this information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

We commenced our fieldwork on December 28, 2010 and expect to conclude on or about December 31, 2011.

We will apply certain limited procedures, which will consist principally of inquiries of management regarding the methods of measuring and presenting Management's Discussion and Analysis, which is Supplementary Information the Governmental Accounting Standards Board requires. However, we will not opine on this information.

We also will read the other information included in the introductory and statistical sections of the Comprehensive Annual Financial Report (CAFR) and consider whether this information, including the manner of its presentation, is materially consistent with information appearing in the financial section. However, we will not opine on the introductory or statistical sections of the CAFR.

Engagement Team

The engagement will be led by:

- * Carol-Ann Schindel, CPA, Chief Auditor, who will be responsible for assuring the overall quality, value, and timeliness of our services to you;
- * Chris Brassell, Asst. Chief Auditor, who will be responsible for assuring the overall quality, value, and timeliness of our services to you;
- * Kevin Lally, Senior Audit Manager, who will be responsible for managing the delivery of our services to you; and
- * Jared Wolf, Audit Manager, who will be responsible for on-site administration of our services to you.

The Auditing Process

Our Responsibilities:

The *Summary of Services* above describes our responsibilities for the County's basic statements and other financial information.

We will plan and perform the audit to reasonably assure that the financial statements are free of material misstatement, whether caused by error or fraud. However, there are inherent limitations in auditing that prevent an auditor from providing absolute assurance on the fair presentation of the financial statements. For example, we may limit certain procedures to selective testing of data. Therefore we might not detect material error and fraud if it exists. It is not cost-efficient to design procedures to detect immaterial error or immaterial fraud. Also, because of the characteristics of fraud, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material fraud.

We will communicate all instances where we believe fraud *may* exist to you. These would include instances where we:

- Have persuasive evidence that fraud occurred.
- Determined fraud risks exist and were unable to obtain convincing evidence to determine that fraud was unlikely.

Similarly, illegal acts may have occurred. However, our audit provides no assurance that illegal acts generally will be detected and only reasonable assurance that we will detect illegal acts directly and materially affecting the determination of financial statement amounts. We will inform you regarding material error or illegal acts that come to our attention.

If we find indications of abuse, we will expand our tests to determine its financial statement effect. *Government Auditing Standards* defines *abuse* as behavior which while not necessarily a legal violation, is behavior a prudent person would deem improper or deficient. Because this determination is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.

If for any reason we are unable to complete the audit or are unable to form an opinion, we may disclaim an opinion on your financial statements. In this unlikely event, we will communicate the reason for terminating the audit to you, and to those charged with governance, in writing.

Your Responsibilities:

Management and those charged with governance are responsible for:

1. Preparing the financial statements and other financial information, including related disclosures

and selecting and applying accounting principles.

2. Coordinating the completion of component unit audits to meet the County's reporting deadlines.
3. Reporting fraud and illegal acts of which you are aware to us.
4. Reviewing drafts of the audited financial statements, footnotes, any supplemental information, auditor's reports and any findings; and informing us of any edits you believe may be necessary.
5. Designing and implementing programs and controls to prevent and detect fraud.

You should not rely on our audit as your primary means of detecting fraud.

Compliance with Laws and Regulations

Our Responsibilities

As part of reasonably assuring whether the financial statements are free of material misstatement, we will test the County's compliance with certain provisions of laws, regulations, contracts, and grants if noncompliance might reasonably directly and materially affect the financial statements. However, except for major federal financial assistance programs, our objective is not to opine on overall compliance with these provisions.

Your Responsibilities:

Management and those charged with governance are responsible for:

1. Being knowledgeable of, and complying with, laws, regulations, contracts, and grants applicable to the County.
2. Identifying for us other financial audits, attestation engagements, performance audits, internal audits, reports from regulators or other studies related to the Organization (if any), and the corrective actions taken to address these audits' significant findings and recommendations.
3. Tracking the status of prior audit findings.
4. Taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of laws, regulations, contracts or grant agreements, or abuse we may report.
5. Providing your views and planned corrective action on audit findings we may report.

Internal Control

Our Responsibilities:

As a part of our audit, we will consider the County's internal control (as part of our understanding of the County's operating environment), as required by generally accepted auditing standards and *Government Auditing Standards*. These standards require us to obtain an understanding of internal control and the County's environment, and assess risk to determine the nature, timing, and extent of auditing procedures necessary for expressing our opinion on the financial statements. Our objective does not include opining on internal control over financial reporting.

While our audit is not designed to identify significant deficiencies, as required by *Government Auditing Standards*, we will prepare a written report to those charged with governance describing any significant deficiencies or material weaknesses we may detect.

Your Responsibilities:

Maintaining internal control over financial reporting and over compliance is management's responsibility. Appropriate supervisory reviews are necessary to reasonably assure that adopted policies and prescribed procedures are followed.

Your Responsibility for Service Organizations:

Service organizations are entities to which you have outsourced accounting functions. Service organizations process transactions reflected in your County's financial statements, and therefore fall within the scope of our audit. While service organizations are responsible for establishing and maintaining their internal control, you are responsible for being aware of the service organizations your County uses, and for establishing controls to monitor the service organization's performance. Because the complexity of service organization transaction processing can vary considerably, your monitoring activities can vary accordingly.

When transaction processing is complex and the volume of transactions is relatively high, obtaining and reviewing a service organization auditor's *Report on Controls Placed in Operation and Tests of Operating Effectiveness* may be the most effective method of meeting your responsibility to monitor a service organization, and may also be the only efficient means by which we can obtain sufficient evidence regarding their internal controls. Statement on Auditing Standards No. 70 (SAS 70) discusses the aforementioned report. (In some circumstances, we can accept a suitably-designed agreed-upon procedures report (AUP) in lieu of a SAS 70 report.) Our staff can discuss SAS 70 and possible monitoring controls you might use with you.

You are responsible for informing our staff of the service organizations your County uses, and for monitoring these service organizations' performance.

We will discuss with management regarding service organizations the County uses. Any significant changes to or additional SAS 70s not initially provided by the County may impact the timing, audit procedures and costs.

Additional Responsibilities and Reporting Under Circular A-133

Our Responsibilities:

As OMB Circular A-133 requires, we will consider and test the County's internal control policies and procedures used in administering the federal award programs we determine to be major programs, using criteria from A-133. Based on this consideration and these tests, we will assess risk and determine the nature, timing, and extent of tests of compliance with requirements that, if not complied with, could materially affect a major federal financial assistance program's compliance.

In accordance with A-133, we will prepare the following report:

Independent Accountants' Report on Compliance With Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Our report on compliance will include our opinion on compliance with major federal financial assistance programs and also describe instances of noncompliance with Federal requirements we detect that require reporting per Circular A-133. This report will also describe any significant deficiencies we identify relating to controls used to administer Federal award programs, and identify any significant deficiencies we determine to be material weaknesses. However, this report will not opine on internal control used to administer Federal award programs.

We are also responsible for completing certain parts of OMB Form SF-SAC (the Data Collection Form).

Your Responsibilities:

You are responsible for identifying laws and regulations relating to Federal award programs, and for complying with them. You are responsible for compiling the Federal Awards Expenditure Schedule and accompanying notes. You are also responsible for establishing and maintaining internal control sufficient to reasonably assure compliance with laws and regulations relating to Federal award programs and controls related to preparing the Federal Awards Expenditure Schedule.

You are responsible for submitting the completed *reporting package* to the Federal Clearinghouse, to pass-through entities and, if required, to other Federal agencies. (The attached table lists the required elements of the reporting package.) You are responsible for following up and taking corrective action on audit findings. You are also responsible for informing us of significant subrecipient relationships and vendor relationships, when a vendor is responsible for complying with Federal program requirements.

You are responsible for completing the remainder of the Data Collection Form, and for submitting it to the Federal Clearinghouse.

Representations from Management

Your Responsibilities

At the conclusion of the engagement, the County's management will provide to us a representation letter that, among other things, will confirm, to the best of their knowledge and belief:

- Management's responsibility for preparing the financial statements in conformity with generally accepted accounting principles, and the federal awards expenditure schedule in conformity with the applicable accounting basis;
- The availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings;
- Management's responsibility for the entity's compliance with laws and regulations;
- The identification and disclosure to the auditor of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and;
- The absence of fraud involving management or employees with significant roles in internal control.

Additionally, we will request representations, as applicable, regarding:

- The inclusion of all component units, and the disclosure of all joint ventures and other related organizations;
- The proper classification of funds, net assets and fund balances;
- The proper approval of reserves of fund equity;
- Compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws or ordinances; compliance with any tax or debt limits, and any debt covenants;
- Representations relative to GASB-required supplementary information;
- The identification of all federal assistance programs, and compliance with grant requirements.
- Events occurring subsequent to the fiscal year end requiring adjustment to or disclosure in the financial statements or federal awards expenditure schedule.

Management is responsible for adjusting the financial statements to correct misstatements we may detect during our audit and for affirming to us in the representation letter that the effects of any uncorrected misstatements we aggregate during our engagement and pertaining to the latest period the statements present are immaterial, both individually and in the aggregate, to the opinion units. (*Financial statements* include the related footnotes and required and other supplemental information).

Communication

Our Responsibilities

As part of this engagement the Auditor of State will communicate certain additional matters (if applicable) to the appropriate members of management and to those charged with governance. These matters include

- The initial selection of and changes in significant accounting policies and their application. At this time, there does not appear to be any significant change in accounting policies.
- The significant changes in auditing standards is the implementation of Statement on Auditing Standards (SAS) No. 117, *Compliance Audits*, which supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. This SAS establishes standards and provides guidance on performing and reporting (in accordance with GAAS, *Government Auditing Standards*, and a governmental audit requirement that requires an auditor to express an opinion on compliance) on an audit of an entity's compliance with applicable compliance requirements of a governmental audit requirement.
- Auditor of State Bulletins:
 - 2009-005, 2009-007, 2009-008 - American Recovery and Reinvestment Act (ARRA) – Federal Stimulus Funds.
 - 2010-003 - Tax Increment Financing (TIF) & TIF Service Payments.
- The process management uses to formulate particularly sensitive accounting estimates and the basis for their conclusions regarding the reasonableness of those estimates;
- Audit adjustments, whether posted or waived; For this engagement, adjustments exceeding 5.25% of total assets, liabilities, equity, revenues or expenditures per opinion unit will require adjustment. Adjustments of amounts less than the tolerable thresholds, but greater than our trivial amount, to the Summary of Unadjusted Differences (SUD) form. The trivial amount will be .2% of our materiality benchmark for each opinion unit. We will present those charged with governance our SUD (if any) at the conclusion of our audit
- Any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our opinion;
- Our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters;
- Major issues that were discussed with management related to retaining our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; and
- Serious difficulties we encountered in dealing with management during the audit.
- This agreement is based on the fact the County has one material "component unit" which is the MetroHealth System, which is being audited by other auditors.

Terms and Conditions Supporting Fee

As a result of our planning process, the County and the Auditor of State have agreed to an approach designed to meet the County's objectives for an agreed-upon fee, subject to the following conditions.

Our Responsibilities:

In providing our services, we will consult with the County regarding matters of accounting, financial reporting or other significant business issues. Accordingly, our fee includes estimated time necessary for this consultation. However, should a matter require research, consultation or audit work beyond this estimate, the Auditor of State and the County will agree, in advance of rendering those services, to an appropriate revision in services and fee. These revisions will also be set forth in the form of the attached *Amendment to Letter of Arrangement*.

Your Responsibilities:

The County will provide in a timely manner all financial records and related information to us, an initial list of which will be furnished to you, including timely communication of all significant accounting and financial reporting matters, as well as working space and clerical assistance as mutually agreed upon and as is normal and reasonable in the circumstances. When and if for any reason the County is unable to provide these schedules, information and assistance, the Auditor of State and the County will mutually revise the fee to reflect additional services, if any, we require to achieve these objectives. These revisions will be set forth in the form of the attached *Amendment to Letter of Arrangement*.

Confidential Information:

You should make every attempt to minimize or eliminate the transmission of personal information to the Auditor of State (AOS). All documents you provide to the AOS in connection with our services including financial records and reports, payroll records, employee rosters, health and medical records, tax records, etc. should be redacted of any personal information. Personal information includes social security numbers, date of birth, drivers' license numbers or financial institution account numbers associated with an individual.

The public office should redact all personal information from electronic records before they are transmitted to the AOS. This information should be fully blacked out in all paper documents prior to sending to the AOS. If personal information cannot be redacted from any records or documents; the public office must identify these records to the AOS.

If redacting this personal information compromises the audit or the ability to prepare financial statements, the public office and the AOS will consider these exceptions on a case-by-case basis. Additionally, if redacting this information creates a hardship on the public office in terms of resources, recordkeeping or other issues, the public office and the AOS may collaborate on alternative methods of providing the public office's data to the AOS without compromising the personal information of individuals served by the public office. The AOS is willing to work with the public office and it is our intent to greatly reduce the amount of personal information submitted to the AOS for audit or financial statement preparation purposes. It is important that the public office review internal policies to find ways to eliminate as much personal information from financial records as possible by substituting non-personal information (i.e., change social security numbers to employee identification numbers).

Client Assistance to Reduce Costs

We are requesting your assistance with some of the clerical type functions. This would include pulling records and re-filing records. (Vouchers, canceled checks, payroll and personnel records, contracts, etc.) All requests will be in writing to appropriate County personnel in order to facilitate tracking of documents by the County and the AOS.

Fee

Except for any changes in fees and expenses which may result from the circumstances described above, we expect our fees and expenses for our audit services will not exceed \$500,000 at a rate of approximately \$50 an hour.

Pursuant to Ohio Rev. Code Section 117.13, you may charge all of this audit's cost to the general fund or you may allocate the cost among the general fund and other eligible funds in accordance with Auditor of State Bulletin 2009-011.

Report Submission

Unless the Auditor of State's Local Government Services Division prepares your financial statements,* you or your financial statement preparers are responsible for submitting the audited financial statements to your Auditor of State regional office. You must submit the financial statements in a portable document format (pdf file), using the most recent Adobe Acrobat version.

*In this context, *financial statements* include the related footnotes, required supplemental information (such as MD&A), other supplemental information and the transmittal letter, introductory and statistical section (if applicable).

Access to Our Reports and Working Papers

Statement on Auditing Standards No. 87 (SAS 87, *Restricting the Use of an Auditor's Report*), requires our reports to disclose the following:

Our Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards, and our Independent Accountants' Report on Compliance With Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 are intended solely for the information and use of the management, those charged with governance and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

SAS 87 requires us to include this restrictive language in our reports due to concerns that other readers may not fully understand the purpose of the report, the nature of the procedures applied in its preparation, the basis or assumptions used in its preparation, the extent to which the procedures performed are generally known or understood, and the potential for the report to be misunderstood, when taken out of the context for which it was intended.

However, under Revised Code Section 117.26, an audit report becomes a public record under Section 149.43, Revised Code, when we file copies of the report with the public officers enumerated in the Revised Code. When we file the reports, our working papers become available to the public upon request, subject to information protected for criminal investigations, by attorney-client privilege or by local, state or federal law. SAS 87 does not affect public access to our reports or working papers.

Under generally accepted auditing standards, we must retain working papers for five years after the release date of our opinion.

Peer Review Report

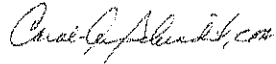
As required by *Government Auditing Standards*, we have attached a copy of our most recent external quality control review report (Peer Review). The report was unqualified.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us. If you have any questions, please call Kevin Lally at 216-787-3665.

Ed FitzGerald, Cuyahoga County Executive
Cuyahoga County
February 17, 2011
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Very truly yours,

Dave Yost
Auditor of State



Carol Ann Schindel, CPA, Chief Auditor,

Attachment

cc: Council Members
Wade Steen, CPA, Fiscal Officer
Steve Letsky, CPA, Financial Services Administrator
Cheryl Arslanian, CPA, Financial Services Manager

X 
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Edward FitzGerald
County Executive

Date _____

A-133 REPORTING PACKAGE

A-133 Ref.	Item	Responsibility	
		Auditee	Auditor
.300(d); .310(a)	Financial Statements	✓	
.505(a)	Report (opinion) on financial statements		✓
.300 (d); .310 (b)	Schedule of Federal Awards Expenditures	✓	
.505 (a)	Report ("in-relation-to" opinion) on Schedule of Federal Awards Expenditures		✓
.505 (b) .505(c)	Report on Compliance and Internal Controls - Financial Statements		✓
505 (b) .505(c)	Report on Compliance and Internal Controls - (Major) Federal Awards		✓
.505 (d)	Schedule of Findings and Questioned Costs ¹		✓
.300 (f); .315 (a), (b)	Schedule of Prior Audit Findings	✓	
.320 (b)	Data Collection Form ²	✓	✓
.300(f); .315 (c)	Corrective Action Plan	✓	

¹ Required in all cases

² You should only submit the Data Collection Form with copies of the reporting package you file with the Federal Clearinghouse., per .320 (d). You are also responsible for mailing the Data Collection Form to the Clearinghouse. You must also mail copies of the reporting package to any agencies we may identify in a transmittal letter accompanying we will send to you with the reporting package. You must submit the reporting package to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of our reports or nine months after the end of the audit period, unless the cognizant or oversight agency for audit agrees to a longer period in advance.

**SAMPLE
AMENDMENT #___ TO LETTER OF ARRANGEMENT**

[Date]

Ed FitzGerald, Cuyahoga County Executive
Cuyahoga County

Dear _____:

The letter of arrangement dated _____ between the Auditor of State and the County is hereby amended to reflect the following:

	Description of/Causes for Amendment	Estimated Fee Effect
1		
2		
3		
4		
	Total this amendment	\$0.00
	Previous fee estimate	
	Revised fee estimate	\$0.00

Please sign the copy of this letter in the space provided and return it to us. If you should have any questions, please call _____ at _____.

Very truly yours,

Dave Yost
Auditor of State

Carol-Ann Schindel, CPA, Chief Auditor

Attachment

cc: Council Members
Wade Steen, CPA, Fiscal Officer
Steve Letsky, CPA, Financial Services Administrator
Cheryl Arslanian, CPA, Financial Services Manager

ACCEPTED BY

DATE

TITLE