

SAN MATEO



# LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

**May 12, 2021**

**To:** LAFCo Commissioners

**From:** Martha Poyatos, Executive Officer  
Rob Bartoli, Management Analyst

**Subject:** Consideration of Authorizing the Executive Officer to Execute an Engagement Letter with R. J. Ricciardi, Inc. for auditing services for the Fiscal Year ending June 30, 2020

## Summary

As part of the Commission's contract with the County of San Mateo, the LAFCo budget is maintained in the County's budget system. Beginning in Fiscal Year 2018, the Commission's budget was moved out of the County's General Fund to a separate trust fund, and shown in the County's budget document as information only, consistent with its status as an independent commission. When the Commission's budget was part of the General Fund, the County's annual audit included the LAFCo budget. When the budget was moved from the General Fund, it became necessary to conduct independent audits. The audit for the fiscal year ending June 20, 2019 has been completed by R. J. Ricciardi, Inc. San Mateo LAFCo is requesting to contract with an independent auditor, R. J. Ricciardi, Inc. for an auditing services for the Fiscal Year ending June 30, 2020.

Attached is an engagement letter from R. J. Ricciardi, Inc. for auditing services and a list of LAFCo references. The letter proposes a fee of \$7,700 which would be payable in the 2021-22 Fiscal Year.

## Recommended Commission Action

By motion, authorize the Executive Officer to execute the attached engagement letter with R. J. Ricciardi, Inc. for auditing services for the Fiscal Year ending June 30, 2020

## Attachments

A. Engagement letter with R. J. Ricciardi, Inc. dated March 15, 2021

**COMMISSIONERS:** WARREN SLOCUM, CHAIR, COUNTY ▪ MIKE O'NEILL, VICE CHAIR, CITY ▪ HARVEY RARBACK, CITY ▪ DON HORSLEY, COUNTY  
▪ JOSHUA COSGROVE, SPECIAL DISTRICT ▪ RIC LOHMAN, SPECIAL DISTRICT ▪ ANN DRAPER, PUBLIC

**ALTERNATES:** KATI MARTIN, SPECIAL DISTRICT ▪ DIANA REDDY, CITY ▪ JAMES O'NEILL, PUBLIC ▪ DAVE PINE, COUNTY

**STAFF:** MARTHA POYATOS, EXECUTIVE OFFICER ▪ TIM FOX, LEGAL COUNSEL ▪ ROB BARTOLI, MANAGEMENT ANALYST ▪ ANGELA MONTES, CLERK

R. J. RICCIARDI, INC.  
CERTIFIED PUBLIC ACCOUNTANTS

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March 15, 2021

Martha Poyatos, Executive Officer  
San Mateo LAFCO  
455 County Center, 2nd Floor  
Redwood City, CA 94063

Dear Martha:

We are pleased to confirm our understanding of the services we are to provide San Mateo Local Agency Formation Commission for the year ended June 30, 2020. We will audit the financial statements of the governmental activities, each major fund, including the related notes to the financial statements, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of San Mateo Local Agency Formation Commission as of the year ended June 30, 2020. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), and the statement of revenues, expenditures and changes in fund balance – budget and actual – for the General Fund, to accompany San Mateo Local Agency Formation Commission'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 San Mateo Local Agency Formation Commission's RSI in accordance with auditing standards generally accepted in the United States of America. 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 evidence to express an opinion or provide any reassurance. 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. Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.
3. Proportionate Share of Net Pension Liability (Asset).
4. Schedule of Contributions.
5. Schedule of Changes in Net Other-Post Employment Benefits Liability and Related Ratios.

### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of San Mateo Local Agency Formation Commission's financial statements. Our report will be addressed to the Commissioners of San Mateo Local Agency Formation Commission. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. 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 may withdraw from this engagement.

### **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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 entity or to acts by management or employees acting on behalf of the entity.

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 a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted 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. However, we will inform the appropriate level of management of any material errors, 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. 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.

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

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. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. 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.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of San Mateo Local Agency Formation Commission's compliance with provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance, and we will not express such an opinion.

### **Other Services**

We will assist in preparing the financial statements of San Mateo Local Agency Formation Commission in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement 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.

## **Management Responsibilities**

Management is responsible for designing, implementing, 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 monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements 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 the accuracy and completeness of that information. 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, including identification of all related parties and all related-party relationships and transactions, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

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, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. 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 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.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

## **Engagement Administration, Fees, and Other**

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.

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Further, we understand that your employees will prepare all information we request in our Client Participation List in the format requested and send it to us 30 days prior to scheduling the audit field work. If you have insufficient personnel or time to prepare these items we can assist you in this area and we will discuss with you the additional time required and estimated fee for these services.

The audit documentation for this engagement is the property of R. J. Ricciardi, Inc. 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 the regulating entity or its designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of R. J. Ricciardi, Inc. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the regulating entity or its designee. The designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

Michael O'Connor is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our estimated fees 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, etc.) except that we agree that our estimated fee, including expenses will be \$7,700 for the audit. 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 thirty 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. 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 above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

If additional time is needed for us to assist to San Mateo Local Agency Formation Commission in the resolution or investigation of accounting errors, discrepancies, or reconciliation issues, assistance in the preparation of schedules, or to reflect in our workpapers corrections to the to San Mateo Local Agency Formation Commission's accounting records made after the start of the engagement, we will perform such additional work at our standard hourly rates indicated below:

Director \$180  
Manager \$130  
Senior accountant \$100-115  
Staff accountant \$70-75

In addition to the estimated fees noted above, we reserve the right to invoice to San Mateo Local Agency Formation Commission at our standard hourly rates for time incurred providing information to successor auditors in compliance with SAS. No. 84. Our invoices and related fees for this service will be payable upon presentation.

We reserve the right to suspend or terminate our work if you have failed to fulfill your responsibilities set forth in this engagement letter, and such failure materially interferes with our work. If our work is suspended or terminated because of your failure to fulfill your responsibilities set forth in this engagement letter, you agree that we will not be responsible for your failure to meet government and other deadlines, for any penalties or interest that may be assessed against you resulting from your failure to meet such deadlines, and for any damages (including consequential damages) incurred as a result of the suspension or termination of our work.

We appreciate the opportunity to be of service to San Mateo Local Agency Formation Commission, 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 enclosed copy and return it to us.

Very truly yours,

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

RESPONSE:

This letter correctly sets forth the understanding of San Mateo Local Agency Formation Commission:

Officer signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_