

**FINANCIAL MANAGEMENT
FOR
SMALL MISSOURI MUNICIPALITIES**

**VOLUME III
FINANCIAL REPORTING AND AUDITING**

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to member municipalities)**

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FOREWORD

Financial Management for Small Municipalities is a three-volume set of nontechnical handbooks for officials of small Missouri cities — those under 1,000 population and/or those with budgets under \$200,000. It is intended to help part-time officials, generally unfamiliar with municipal financial management, to establish a comprehensive and simple financial management system.

The enactment of a comprehensive budget to allocate resources among various municipal services and to control municipal expenditures is a basic prerequisite for sound financial management in municipal government. However, the usefulness of such a budget is limited if actual revenues and expenditures cannot be monitored and compared to budget categories.

Volume III in this series will show how to prepare useful financial reports for the board of aldermen or board of trustees as well as the semi-annual reports required under state law.

The manual also discusses audits of municipal finances — why every city or village should be audited, how to get a good audit as inexpensively as possible, and what to do with the audit after it is complete.

Finally, a number of special areas of financial management are discussed and suggestions made for improving current practices.

FINANCIAL REPORTS

Effective financial reporting involves not only presenting a summary of financial transactions, but also showing benchmarks or goals for evaluating these transactions. It may be interesting to know, for example, that a city has spent \$25,000 on salaries halfway through its fiscal year. It is important to know the budget for the year has allocated only \$35,000 for salaries.

Financial reports for municipalities then must show not only receipts and disbursements for the period, but also how those amounts compare to the municipal budget.

The preparation of monthly financial reports for use by the board of aldermen or board of trustees is fairly simple, especially if the accounting system described in Volume II of this series is used. There are only three forms necessary for these reports. Samples can be found in the Appendix.

Receipts

The Statement of Actual and Estimated Receipts (Form F-1) shows each source of revenue for the city or village, how much was received during the month for which the report is prepared, how much has been collected for the year-to-date, and how much was expected, as shown in the approved budget. You may add a final column to the budget to show the percentage of year-to-date collection if you wish.

The information for this report can be obtained from the Receipts Ledgers. List each Receipts Ledger and the fund to which it belongs in column 1. Add all receipts for the month that are entered on the ledger and enter the amount in column 2. Add this amount to total year-to-date on the previous month's report and enter in column 3. Find the amount budgeted for the revenue source in the annual budget and enter in column 4. If you wish to show the percent of budget received to date, divide column 3 by column 4 and enter the result in column 5.

After every revenue source is listed, total columns 2, 3 and 4. If you are figuring percent of budget, divide the total of column 3 by the total of column 4 and enter in column 5.

Disbursements

The Statement of Actual and Estimated Disbursements (Form F-2) summarizes the disbursements of the city or village for each activity during the month, how much has been spent in each activity for the year-to-date, and how much was anticipated to be spent. Again, you may wish to add a final column showing percent of budget spent.

The information needed to complete this report can be found in the Disbursements Ledgers. List each activity and the fund to which it belongs in column 1. Total the disbursements for the month, found in the Disbursements Ledger, and enter the amount in column 2. Add the amount to the year-to-date disbursements from the previous month's report and enter in column 3. Enter the amount budgeted for the activity in column 4, and if you are figuring a percent of budget, divide column 3 by column 4 and enter the result in column 5.

You may wish to provide more detail on disbursements by preparing a Statement of Actual and Estimated Disbursements for each object. This is done by replacing "Activity" in column 1 by "object" and by listing each object of disbursement (salaries, supplies, etc.) in column 1 and completing the form as described above. Again, all the information you need to prepare these reports can be found in the Disbursement Ledgers.

Fund Balances

Finally, a Summary of Fund Balances (Form F-3) needs to be prepared. Before this report is prepared, however, some entries in the Cash Receipts and Disbursements Journals must be made. The total receipts for the month from each Receipts Ledger for a particular fund should be entered in the "Amount Received" column of the respective fund's Cash Receipts and Disbursements Journal, along with the date and the name of the Receipts Ledger.

The total disbursements for the month from each Disbursements Ledger for a particular fund should be entered in the "Amount of Disbursements" column of the respective fund's Cash Receipts and Disbursements Journal, along with the date and the name of the Disbursements Ledger.

Each time an entry is made on the Cash Receipts and Disbursements Journal, a new balance is computed by adding entries in the "Amount Received" column to the balance and subtracting entries in the "Amount of Disbursements" column from the balance.

The Summary of Fund Balances (Form F-3) now may be completed by listing each fund under column 1, entering the opening balance under column 2. The opening balance can be taken from the closing balance of the previous month's report or from the Cash Receipts and Disbursements Journal balance before the month's adjustments. The "Amount Received" column entries for the month are totaled and entered under column 3, and the "Amount of Disbursements" column entries for the month are totaled and entered under column 4. The closing balance then is computed by adding column 2 and column 3, and subtracting column 4. The total then should be entered under column 5.

Semi-Annual Financial Reports

In addition to these monthly financial reports, Missouri State Statutes require third class cities (§ 77.110 RSMo), fourth class cities (§ 79.160 RSMo) and villages (§ 80.210 RSMo) to publish semi-annual financial reports. For third class cities, the reports must be published after the first six months of the fiscal year and at the end of the fiscal year. For villages and fourth class cities, the statutes simply require the reports to be published semi-annually.

Form F-4 can be used for the required semi-annual report. The figures needed to complete the report can be obtained by taking the financial reports from the preceding six months and adding the monthly figures of receipts and disbursements and entering in the appropriate columns.

When completed, this report must be published in a newspaper in the city, or in the case of a village, published in a newspaper or posted in six public places.

Annual Financial Report for State Auditor

§ 105.145 RSMo requires all municipalities to file an annual financial report with the State Auditor's office. The State Auditor's office provides a sample form for the report as well as instructions on their web site at:
http://www.auditor.mo.gov/local/local_government.htm

AUDITS

An audit is an examination of systems, procedures, programs and financial data. The product, or results, of an audit is a report of how appropriately an organization's financial statements depict its financial condition and results of its operations.

An independent audit is one performed by persons not affiliated with the organization being audited. Financial audits may be performed by certified public accountants, licensed public accountants and the state auditor.

Audits normally cover a single fiscal year, though for the first audit performed in a city or village, it may be useful to audit the past two or three years.

Because the audit is so important, it is especially critical that an auditor be selected who is highly competent and who has the necessary training and experience to conduct a professional audit.

More important than this requirement is the need for the auditor to have considerable experience in governmental auditing and to understand the distinctions between governmental and commercial entities.

Many communities feel that someone from the community should perform the audit. This desire, however, should not obscure the foremost consideration that the auditor be selected on the basis of professional competence and experience.

The auditor's objective is to render an independent professional opinion as to the reliability of a municipality's statements. To do this, he must:

1. Review accounting procedures and perform auditing tests on the accounting records to determine if accounting procedures and internal controls used to assemble financial data are satisfactory.
2. Determine that generally accepted accounting principles were used to produce meaningful results.
3. Examine financial statement contents to insure against material misstatements or omissions.

The primary objectives of municipal officials in having an audit are to be assured that:

1. Generally accepted accounting procedures have been followed in the preparation of financial statements.
2. There is additional credence to financial statements prepared for the taxpaying citizen.
3. The statements have been prepared in a manner acceptable to bondholders and other creditors.
4. The financial statements provide sufficient reliable information for use in making financial and operational decisions.
5. An outside professional, familiar with the municipality's operations, is available to assist in structuring or refining a useful accounting and reporting system.
6. Proper internal controls exist for safeguarding of municipal assets and for the proper accountability of revenues produced and funds expended.
7. Proper accounting records are maintained. For example, the majority of cities being audited for the first time have no idea of the total assets owned by the city. This is because most assets were charged to expenditures at the time of purchase and proper accounting records never were set up to maintain control over the assets owned.
8. The CPA's expertise in providing advisory services is readily available.

Bondholders, outside creditors and the taxpaying citizen are interested in having an audit as additional assurance of the reliability of the financial statements. These people can rely on the auditor's opinion that the statements are fairly presented in accordance with generally accepted accounting principles on a consistent basis. Because of recent events, some taxpayers have serious doubts about the honesty of public officials. Audited financial statements lend more credence to honesty in government.

Audit Request for Proposals (RFP)

There really is no difference between purchasing auditing services and purchasing other services. A municipality should be assured that it is receiving the maximum amount of expertise and service for the money being spent.

This is one of the primary purposes in soliciting requests for proposals from various accounting firms for auditing services. The municipality is asking each accounting firm to: 1) describe its experience and expertise in this area; 2) explain how the audit will be performed; 3) determine how much the audit will cost; and 4) provide information on other services the firm may provide to the municipality. A committee should be established by the board to analyze proposals and make recommendations for selection of a firm to perform the audit.

The audit of a small city or village can range in cost from \$4,000 to \$15,000 depending on the completeness and accuracy of financial records. A sample Request for

Proposal (RFP) and an evaluation format for auditing services are included in the Appendix to this manual.

When an auditor is chosen, the city or village should prepare an agreement or contract that specifies the schedule for the audit, the scope and procedures, and the compensation. It must be emphasized that the contract conveys certain responsibilities and obligations on both parties. A sample contract for audit services is included in the Appendix to this manual.

The results of the audit — the audit report — should be reviewed by the board and the auditor. Problems should be discussed with the auditor and steps taken to solve any problems and assure their removal by the next audit.

INVESTMENT AND BANKING

Small municipalities need only one checking account, except under special circumstances such as a debt service fund. The city or village also should have one savings account. All money received by the city or village should be deposited only in the savings account. As checks are written, money should be transferred from the savings account to the checking account — an amount equal to the total of all checks written. This keeps all the municipality's funds invested from the day they are received until the day they are disbursed. The checking account always will have a balance of zero.

Municipal checking and savings accounts always should have preprinted and prenumbered checks and deposit slips. Access to these items should be carefully restricted, preferably by keeping them in a secure, locked location.

If substantial funds accumulate in the savings account, and they will not be needed for a while, they should be invested. Financial institutions offer alternatives for the small investor such as 90-day certificates of deposit in amounts as small as \$500. You should check with your local banker or savings and loan representative to see what investments they have available for your city or village funds. As banks and savings and loan associations achieve deregulation, they will be offering many more types of high-interest, small-deposit, flexible investments you may want to consider. More information on investment of municipal funds and banking relations can be found in *Cash Management for Missouri Municipalities* available from the League.

MUNICIPAL DEBT

All forms of local government are limited by the Missouri Constitution from becoming indebted in an amount exceeding in any year the income and revenue provided for such year, plus any unencumbered balances from previous years. (Article 6, Section 26(a), Missouri Constitution)

The Constitution does provide a means by which a municipality may incur such indebtedness. In all cases, however, the form of indebtedness, whether it be a proposition to issue bonds, to borrow money or by contract to buy land or equipment,

or otherwise, must be submitted to the electorate and approved. The required vote is four-sevenths (4/7) on general municipal election day, primary elections or general elections, and two-thirds (2/3) on all other elections.

The Constitution and statutes of this state provide the means for incurring and also limiting the amount of indebtedness. The limitations on indebtedness for general municipal purposes and for specific purposes are as follows:

1. 5% of the assessed value of all taxable tangible property within a city, town or village that may be incurred for any purpose authorized by law (Section 95.115, RSMo);
2. 5% of the assessed valuation in addition to the 5% in (1) above, may be incurred for general municipal purposes. The additional 5% is authorized for cities only — not for towns and villages (Section 95.120 RSMo);
3. 10% of the assessed value of taxable tangible property may be incurred for the specific purposes of acquiring rights-of-way, constructing, extending and improving streets and avenues, and also providing the same for sanitary or storm water sewers. This specific purpose is authorized only for cities — not towns and villages. A city may issue special tax bills against property benefited by such improvements so made and the special tax bills may be collected and be used to reimburse the city for amount paid on the indebtedness (Section 95.125 RSMo);
4. 10% of the assessed value of taxable tangible property for the specific purpose of paying for all or any part of costs of purchasing or constructing waterworks, electric or other light plants to be owned exclusively by the city. Again, this specific purpose is authorized only for cities (Section 95.130 RSMo); and
5. However, in no event can a city incur any indebtedness for any general city purpose or special purpose or combination thereof that exceed 20% of the assessed value of the taxable tangible property. Villages and towns are limited to 5% of their respective assessed value for indebtedness purposes. However, the limit of 20% applies only to the indebtedness authorized under provisions of Article 6, Section 26(a), 26(b), 26(c), 26(d) and 26(e). In addition thereto, cities, towns and villages in counties with fewer than 400,000 inhabitants as of the last decennial census may incur an additional indebtedness of 10% of assessed value under provisions of Article 6, Section 23(a), of the Constitution that authorizes such indebtedness for purpose of acquiring and furnishing industrial plants if approved by two-thirds (2/3) of qualified electors voting thereon. The purposes mentioned above for which bonds may be issued vary somewhat.

Third class cities may provide for the purchase of ground and the erection of city halls, fire stations, assembly halls, memorial halls, public libraries, hospital buildings and improvements thereof; acquire property for cemeteries, purchase fire fighting equipment; and provide for certain public improvements such as water, sewers and streets as allowed in Chapter 88 of Revised Statutes and also parking facilities and garbage disposal and incinerators.

Fourth class cities may issue bonds for the erection or purchase of public buildings, bridges, waterworks, electric light plants and ice plants, public parks and other improvements and for the establishment and maintenance of a fire department; acquire property for cemeteries, parking facilities, garbage disposal and incinerators; and provide certain public improvements such as water, sewers, streets, lighting, etc., as allowed in Chapter 88 RSMo.

Without affecting their debt limit, any city, town or village may issue revenue bonds if approved by a simple majority of the qualified electors voting thereon authorizing the issuance and sale of its negotiable-interest bearing revenue bonds for the purpose of purchasing, extending or improving any of the following:

1. revenue producing water, gas or electric light works, heating or power plants;
2. plants to be leased or otherwise disposed of to private persons or corporations for manufacturing and industrial development purposes including real estate, building, fixtures and machinery; and
3. airports.

The utility or plants must be owned exclusively by the municipality and the cost of operation and maintenance and the principal and interest on the bonds are to be payable solely from the revenue to be derived by the municipality from the operation of the utility or lease of the plant.

The Constitution and Statutes require the legislative body of the municipality to provide for the levy and collection of an annual tax on all taxable tangible property within its limits, sufficient to pay the interest and principal on the general obligation bonds issued as they fall due. General obligation bonds must be retired in 20 years or less from the contract date at a rate of interest not to exceed 10% per annum payable semiannually if sold at private sale, 14% per annum if sold at public sale, or 14% per annum if sold at private sale to the federal government (Section 108.170 RSMo). The Hancock Amendment requires voter approval prior to any increase in the property tax levy. Funds collected for bond repayment should be placed into a sinking fund in an amount sufficient to meet interest and principal payments.

A municipality also is required to create a sinking fund for the payment of revenue bonds and the interest thereon. Revenue bonds are affected in the same manner as other bonds in terms of rate of interest to be paid (Section 108.170 RSMo). The municipality is required to set aside a sinking fund sufficient revenue pledged from the project for the payment of interest, principal and services charges.

FIXED ASSETS

It is very important that municipalities prepare and maintain a record of all capital assets. Besides improving internal control for safeguarding the assets, such a record is invaluable in determining insurable values and providing proof of loss. It also can be useful in planning and budgeting to determine when it becomes more economical to buy a new piece of equipment instead of repairing the old.

While a fixed asset inventory is easy to do, especially in small cities and villages, it takes a lot of time to put together initially. The board of aldermen or board of trustees must be willing to allow appropriate employees to spend sufficient time preparing the original inventory, and then be sure it is kept updated as changes (purchases or disposal) in asset holdings occur.

Form F-5 shows a sample Asset Record that will fit on a 4" x 6" index card. One record should be prepared for each asset. Records should be kept in alphabetical order to facilitate easy reference. Whenever an asset is sold or otherwise disposed, it should be noted on the record. The asset record should be kept even after the asset is gone. When a new asset is obtained, a new record should be completed and added to the file.

MUNICIPAL PURCHASING

The purchasing of materials, supplies and services by municipal governments often is handled in a fairly informal way, with little control or uniformity in procedures for recording and accounting. For a small municipality with few or no full-time employees, complicated systems of requisition forms, purchase orders and procedures may not be appropriate. However, as a minimum, all municipalities should have controls over their purchases that assure at least the following:

1. Materials and services are ordered only by authorized employees and officials;
2. Purchases over an amount specified by the Board are advertised and bids obtained in accordance with the respective municipal codes; and
3. Ordered goods actually are received prior to authorizing payment.

In this section, a relatively simple purchasing procedure is presented, along with the sample forms that may be used to implement the procedure.

The steps for setting up this simple system are as follows.

1. The board of aldermen or board of trustees designates those municipal officials or employees who are authorized to initiate purchase orders.
2. The municipal employee or official authorized to make purchases prepares a listing of his needs on a purchase order form. A sample Purchase Order Form is in the Appendix. The actual form used should be a two-part form or a copy of the original purchase order should be made by the clerk and maintained on file. The person authorizing the purchase fills in only the description and number of units required and signs in the lower left above "authorized signature." The form then is forwarded to the clerk.
3. If necessary, bids should be obtained for purchases or contracts over a specified amount. When firm prices are received, or formal bids tabulated, the balance of the Purchase Order Form is filled out to include the name of the vendor and the expenditure account to be charged. In addition, the clerk signs the form to

certify that sufficient municipal funds are available to pay for the purchase.

4. The copy of the purchase order is sent to the vendor chosen to supply the material. The original should be retained by the clerk.
5. On the basis of the Purchase Order Form, the vendor ships the desired materials. Most often, vendors will not return a purchase order as they will want documentation that the order was placed.
6. The shipping list, the received goods and the original purchase order are compared by the employee receiving the shipment. If all materials are received as ordered, the recipient should note this information on the original purchase order, sign his name and return the form to the clerk.
7. The purchase order and billing should be compared to assure accuracy and then payment for the goods received should be made.

More information on purchasing procedures and requirements is found in *Procurement Procedures for Missouri Municipalities* available from the League.

UTILITIES

There are a number of special considerations that must be kept in mind when accounting for utilities. Special enterprise funds, completely separate from other city funds, need to be established. Since accounts receivable usually are an integral part of enterprise fund operations, it is important to maintain adequate accounts receivable records. Accounting for enterprise funds must include depreciation and should be done on an accrual basis. In some cases, it may be useful to maintain separate checking and savings accounts.

Cities that operate utilities (water, electric, sewer, gas) should consider contracting with an accountant to set up the special funds, accounts and entries required to maintain appropriate records and prepare accurate reports. The benefits of such a step will far outweigh the minimal costs.

APPENDIX

FORM F-1

City (Village) of _____

Fiscal Year Beginning _____

STATEMENT OF ACTUAL AND ESTIMATED RECEIPTS

FOR MONTH OF _____

(1) Source of Receipts	(2) Amount Received for Month	(3) Total Received Year-to-Date	(4) Approved Budget	(5) % of Budget
------------------------------	-------------------------------------	---------------------------------------	---------------------------	-----------------------

Totals

_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

FORM F-2

City (Village) of _____

Fiscal Year Beginning _____

STATEMENT OF ACTUAL AND ESTIMATED DISBURSEMENTS

FOR MONTH OF _____

(1) Activity	(2) Actual Disbursement for Month	(3) Total Spent Year-to-Date	(4) Approved Budget	(5) % of Budget
-----------------	---	------------------------------------	---------------------------	-----------------------

Totals

_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

FORM F-3

City (Village) of _____

Fiscal Year Beginning _____

SUMMARY OF FUND BALANCES

FOR MONTH OF _____

(1) Fund	(2) Opening Balance	(3) Receipts for Month	(4) Disbursements for Month	(5) Closing Balance
-------------	---------------------------	------------------------------	-----------------------------------	---------------------------

Totals	_____	_____	_____	_____
	_____	_____	_____	_____

FORM F-4

City (Village) of _____

SEMI-ANNUAL FINANCIAL REPORT

SIX-MONTHS ENDING _____

Total Outstanding _____	Bonded	Debt
-------------------------	--------	------

Over

(Under)	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Receipts by Source			
XX			
XX			
Total Receipts	_____	_____	_____
	_____	_____	_____
 Disbursements (by program, activity, function, etc.)			
	_____	_____	_____
Total Disbursements	_____	_____	_____
 Excess of Receipts over Disbursements	_____	_____	_____
 Beginning Fund Balance	_____	_____	_____
 Ending Fund Balance	_____	_____	_____

FORM F-5

(Front)

City (Village) of _____
Fixed Asset Record

Name _____ Description _____

I.D. No. _____ Location _____

Asset Used For _____

	<u>Acquisition</u>	<u>Fund</u>	<u>Paid From</u>	<u>Amount</u>
Date Acquired	_____			
Cost	_____			
Transportation Cost	_____			
Installation Cost	_____			
Other Cost	_____			
Total Cost	_____			

(Back)

Disposition

Date Disposed _____ Method _____

Reason _____

Asset Value _____ Trade-in Credit or Sale Price _____

Depreciation

Cost _____ Salvage Value _____

Expected Life _____ Depreciation Method _____

<u>Year</u>	<u>Depreciation</u> <u>Amount</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Residual</u> <u>Value</u>	<u>Maintenance</u> <u>Date</u>	<u>Cost</u>
-------------	--------------------------------------	---	---------------------------------	-----------------------------------	-------------

PURCHASE ORDER

Vendor _____ Purchase Order Number _____

Address _____ Date _____

Charge purchase to:

Ship to: _____ Fund _____

Activity _____

Object _____

<u>Unit</u>	<u>No. of Units</u>	<u>Description</u>	<u>Price Per Unit</u>	<u>Total Price</u>
-------------	-------------------------	--------------------	---------------------------	------------------------

Purchase is authorized by:

Name _____

Title _____

Signature _____

Funds are available for this purchase.

Signature _____

Date _____

(City's Letterhead)

Sample Request for Proposal (RFP)⁽¹⁾

Date

To: Auditing Firm

Dear Sirs:

The City (Village) of _____ is in the process of soliciting proposals for the City's (Village's) annual audit beginning with the fiscal year ending _____ (date) _____. It is the policy of the City (Village) to purchase professional accounting services through a process of negotiation preceded by 1) an evaluation and comparison of past performance, appropriate references, prior experience in other municipalities and counties and expertise related to the City's specifications, and 2) the identification of available professional services that may or may not have been used by the City (Village) previously. In light of this policy, specifications pertaining to the scope of the City's (Village's) audit are listed below as the criteria that will be used in evaluating the qualifications of firms submitting proposals.

Description of City and Records to be Audited

1. (City, Village), Missouri is a city of the fourth class and operates under the _____ form of government. The City's (Village's) population currently is estimated at _____ and the (Date of End of Fiscal Year) general budget was \$_____.
2. The funds and account groups in existence at (Date of End of Fiscal Year) were as follows:

(A list of funds and account groups maintained by the City (Village) as of the end of the fiscal year to be audited should be listed.)

3. The City (Village) has maintained all funds on the _____ method of accounting.
4. Comprehensive financial reports for all funds are prepared semiannually and annually for the fiscal year.

Assistance Available to Proposer

1. (You should give the name of the firm that made the most recent audit, the period covered and the report date.)
2. (State whether the City's (Village's) staff will be available to assist in preparing schedules, reproducing documents, pulling documents, etc.)

The Selection Process

The qualifications of the firms submitting proposals will be reviewed by _____⁽²⁾, and it is anticipated that three firms will be invited to make presentations to _____⁽²⁾.

Information to be Submitted with Proposals

Table of Contents

Include a clear identification of the material by section and by page number.

Scope Section

Clearly describe the scope of the required services to be provided. Assuming that the requested services include both an audit of financial statements and a compliance audit for certain federal or state funds, define the scope of services to be provided in those terms.

Identify the supervisors and staff who will work on the audit, including those from other than the local office. Resumes for each person to be assigned to the audit should be included, and specific governmental experience should be indicated. (The resumes may be included as an appendix.)

Audit Approach

Clearly describe your firm's approach to conducting the audit.

Additional Professional Services

Describe in detail additional professional services your firm has to offer the City (Village) other than audit services.

Profile of the Firm

1. State whether your firm is local, regional, national or international.
2. Give the location of the office from which the work is to be done and the number of partners, managers, supervisors, seniors and other professional staff employed at that office.
3. Describe the range of activities performed by the local office in the governmental area such as audit, accounting or management services. Include activities that demonstrate your commitment to the governmental practice.
4. Briefly describe your firm's quality control policies and procedures. State whether or not those policies and procedures are subjected to the profession's "peer review" program to provide for an independent review of their effectiveness.

Governmental Experience

Describe recent local office auditing experience similar to the type of audit requested and give the names and telephone numbers of client officials responsible for those audits listed.

Additional Data

Give any additional information considered essential to this proposal, including involvement in state and local government organizations, seminars, etc. Publications of your firm, such as directories, articles and lists of clients, may be included but should not be voluminous.

Fees

Proposals submitted in response to this letter should include a "bid" or estimate of what the firm would charge to perform the City's (Village's) audit in a separate sealed envelope attached to the first copy of the qualifications section and identified as "Cost Data." Those firms invited to make oral presentations will be ranked according to qualifications. The Cost Data envelope then will be opened for the firm ranked first and negotiations will be commenced in an attempt to reach agreement. If agreement cannot be reached, negotiations will commence with the firm ranked second, etc. Although the City (Village) cannot bind future governing bodies, it is anticipated that the firm selected to serve as the City's (Village's) auditor will be retained for an indefinite period with annual evaluations made of its services. At the time of the oral presentations, the firm should be prepared to discuss possible fee increases for the future audits.

If your firm desires to present its qualifications, please submit _____ copies to the undersigned by 5:00 p.m. on (date) . If you desire any additional information or clarification, or would like to visit the City (Village) of _____ to review our financial records before preparing your proposal, please feel free to contact me personally at (telephone number) .

It should be understood that the City (Village) reserves the right to reject any and all proposals submitted and to request additional information. Furthermore, the professional accounting services purchased will be from the firm that, in the opinion of the City, is the best qualified.

Yours truly,

(Title)

⁽¹⁾This is only a sample RFP. Certain sections may not apply to your City (Village). There is enough flexibility in this sample so that specifications can be added to meet the needs of your municipality.

⁽²⁾If a committee has been formed to evaluate proposals, the committee name should be inserted, i.e., the Audit RFP Review Committee.

(Sample)
Evaluation of Audit Proposals

<u>Criteria</u>	<u>Possible Points⁽¹⁾</u>
1. Prior auditing experience (0-20)	
a. Does the proposal have appropriate, specific references of current governmental clients? Check references!	0 - 10
b. Does the proposal indicate the extent of the firm's experience in municipal auditing?	0 - 5
c. Does the proposal have a listing of representative clients in the Missouri/Kansas area?	0 - 5
2. Other services available (0-15)	
a. Can the firm offer consulting services in areas such as data processing, financial management systems and fixed assets updates?	0 - 5
b. Is the firm available for year-round questions and consultations?	0 - 5
c. What emphasis did the proposal give to the "letter of comments" or "management letter" regarding a City's operations and procedures?	0 - 5
3. Qualifications of staff to be assigned to the audit (0-15)	
a. What are the municipal auditing qualifications of the staff to be assigned to the audit? Has specific experience been indicated?	0 - 5
b. Does the firm provide its staff with continuing education in the governmental sector?	0 - 5
c. Does the proposal comment on continuity of staff to be assigned to the City on future engagements?	0 - 3
d. Size of the firm or office -- indicates flexibility	0 - 2
4. Commitment to governmental accounting and auditing (0-20)	
a. Is the firm involved in governmental organizations and agencies such as the GFOA and state municipal leagues and associations?	0 - 5
b. Did the firm demonstrate a knowledge of and commitment to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB)?	0 - 5
c. Does the firm take part in seminars and training programs as instructors/participants?	0 - 5

d.	Did the proposal indicate an appreciation for and knowledge of the City's needs?	0 - 5
5.	Audit approach (0-10)	
a.	Is the audit approach specific and tailored to the City?	0 - 5
b.	What is the firm's attitude toward assistance from City employees during the audit?	<u>0 - 5</u>
	Total points for qualifications	0 - 80
6.	Points for professional fees ⁽²⁾	0 - 20
	Total points possible	<u>100</u>

⁽¹⁾The possible points assigned in this sample are, of course, suggested points and should be carefully reviewed by the City.

⁽²⁾Because most professional fees are arrived at through a process of negotiation and are a function of many variables such as condition of accounting records and improvements planned, the entity's year-end and report delivery date, assistance available to the auditors, etc., the first year's fee amount should not be overemphasized and has, therefore, been assigned 20 points.

AGREEMENT

AUDIT SERVICES

THIS AGREEMENT made and entered into by and between the City (Village) of _____, hereinafter referred to as "City" ("Village"), and _____, hereinafter referred to as "Auditor," both of whom understand as follows:

1. Duties of Auditor: Auditor shall:
 - A. Audit all the books, records, funds and all other financial documents and information of City (Village) for the fiscal year _____, from _____ through _____, including a verification of fund balances at the beginning of the audit period. The audit shall be made in accordance with generally accepted auditing standards, provided, however, the scope of the audit shall not be limited by the aforementioned in the event that the particular circumstances warrant extension thereof.
 - B. Deliver audit report not later than _____ days following the closing of the books of City (Village) for the period covered by said report.
 - C. Submit audit reports contemplated herein to _____ of City (Village) together with not less than _____ copies thereof.. All reports shall become the property of City (Village).
2. Payment by City (Village): City (Village) shall pay Auditor the sum of _____ dollars for the services performed by Auditor; such payment to be made upon the delivery to and the acceptance by City (Village) board of the final audit report for the entire fiscal year.
3. Default: If Auditor shall fail to make the audit delivery, as herein required, City (Village) may, at its option, cancel this contract and upon giving

notice to Auditor of such cancellation discontinue Auditor's services, without further liability to Auditor for services rendered or contractual rights hereunder, or City (Village) may elect to enforce this Agreement by requiring Auditor's compliance with the terms hereof.

4. Amendment: This Agreement may be amended or modified only by written agreement signed by both parties and failure on the part of either party to enforce any provision of this Agreement shall not be construed as a waiver of the right to compel enforcement of such provision or provisions.
5. Assignment: This Agreement shall not be assigned by Auditor without the written consent of City (Village).
6. Notices: All notices herein required shall be in writing and delivered in person or sent by registered mail, postage prepaid. Notices required to be given to City (Village) shall be addressed as follows: _____.
Notices required to be given to Auditor shall be addressed as follows: _____.
Provided that any party may change such address by notice in writing to the other party and thereafter notices shall be addressed and transmitted to the new address.
7. Relationship of Parties: It is understood that the contractual relationship of Auditor to City (Village) is that of independent contractor.

IN WITNESS WHEREOF, the parties have hereunto set their hands on this
_____ day of _____, 19_____.

CITY

(VILLAGE)

OF _____

By _____

Mayor

ATTEST:

Clerk

AUDITOR

By _____