

City Manager's Report
October 9, 2012 City Council Meeting
Prepared by: Dave Warren, Director of Finance
Item #: 9.8



Subject: Adopt a resolution that:

1. Approves an engagement letter with Pun & McGeady, LLP to perform year-end and single audit services for the Fiscal Year ended June 30, 2012; and
2. Authorizes the City Manager to execute the same.

Background:

For the past several years, the firm Caporicci & Larson, Certified Public Accountants (C&L), has successfully performed both the City's year-end and single audits in a professional manner. Due to C&L discontinuing its governmental practice in California, the City must engage with another firm to perform its annual audits. Tonight staff recommends the Council approve an engagement letter with the firm Pun & McGeady, LLP to perform year-end and single audit services for the fiscal year ended June 30, 2012.

Discussion:

After successfully operating as a partnership specializing in governmental accounting, auditing, and advisory services for over two decades, C&L merged with and became a subsidiary of the regional Firm Stonefield Josephson, Inc. (SJ) in March 2010. Later in October 2010, SJ merged with the nationally sized firm Marcum, LLP, which is based in New York, and created a new company called Marcum Stonefield. C&L then became a subsidiary of MS. Unfortunately, Marcum's culture and cost structure did not coincide with C&L's operations, and MS decided to discontinue the majority of the governmental practice within California, including the City of Placerville.

Analysis:

Since the departure of MS from the City's engagement, Ken Pun, CPA, GGMA, and previous Auditing Partner for C&L recently partnered up with Mark McGeady, who also worked with C&L in the past, in founding the new firm Pun & McGeady LLP (P&M) which specializes in governmental and not-for-profit accounting, auditing, and advisory services. Mr. McGeady has over twenty years of public and private sector accounting experience, including eight years working for C&L under the direction of Gary Caporicci, who is also a partner of P&M. Mr. Pun has over twelve years of public accounting experience, ten of which were with C&L under the direction of Gary Caporicci. While working for C&L, Mr. Pun successfully served as Auditing Partner for Placerville's engagement for Fiscal Years 2009/2010 and 2010/2011.

The City is in the process of closing its books for Fiscal Year 2011/2012 and will need its financial statements audited soon. Due to MS's recent departure from Placerville's engagement, staff met with Ken Pun to discuss the possibility of P&M performing the City's Fiscal Year 2011/2012 audits.

P&M is currently servicing the following clients:

City of Arcadia
City of Bradbury
City of Calexico
City of Cerritos
City of Clearlake
City of Clovis
City of Chula Vista
City of Fairfield
City of Gardena
City of Hermosa Beach
City of Monterey Park
City of Poway
City of Placentia
City of Ridgecrest
City of Shafter
City of Stockton (consulting services only)
San Diego Metropolitan Transit System
San Diego Community College District
Southwest Community College District
North County Transit District
Conejo Recreation and Park District
Mountain Recreation and Conservation Authority
Orange County Haz Mat
Metro Cities Fire Authority
Fallbrook Healthcare District
Family Health Centers of San Diego
United Health Centers of San Joaquin Valley
Redwood Coast Medical Services
Shingletown Medical Center
Marin City Health and Wellness Center
Ritter Center
Tulare Community Health Clinic
Newport Coast Elementary School Foundation
Shanghai Jiao Tong University Foundation of America

After becoming acquainted with P&M, it was apparent that the new firm has the resources, integrity, and expertise to provide the City with a quality audit at a competitive price.

Because it's been several years since the City has conducted an RFP for auditing services, staff is committed to conducting an RFP for the next three to five fiscal years and return to the Council with a recommendation in the spring of 2013.

Cost:

P&M has offered to provide a comprehensive audit of the City's financial statement for the Fiscal Year ended June 30, 2012, at a cost of \$30,000. P&M will also provide single audit (for expenditures of Federal funds of \$500,000 or more) services for an additional \$5,000 (if needed).

Budget:

The City Council adopted the Fiscal Year 2012/2013 Operating Budget which appropriated \$35,000 for year-end and single audit services. The proposed \$35,000 audit engagement with P&M is within the adopted budget appropriation.

Recommendation:

Adopt a resolution that:

1. Approves an engagement letter with Pun & McGeady, LLP to perform year-end and single audit services for the Fiscal Year ended June 30, 2012; and
2. Authorizes the City Manager to execute the same.



M. Cleve Morris, City Manager



Dave Warren, Director of Finance

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PLACERVILLE
APPROVING AN ENGAGEMENT LETTER WITH PUN & MCGEADY, LLP TO
PERFORM YEAR-END AND SINGLE AUDIT SERVICES FOR THE FISCAL YEAR
ENDED JUNE 30, 2012 AND AUTHORIZING THE CITY MANAGER TO EXECUTE
THE SAME**

WHEREAS, the firm Caporicci & Larson, Certified Public Accountants (C&L), has successfully performed both the City's year-end and single audits in a professional manner over the past several years; and

WHEREAS, C&L has discontinued its governmental practice in California, and the City must engage with another firm to perform its annual audits; and

WHEREAS, the City is in the process of closing its books for Fiscal Year 2011/2012 and will need its financial statements audited soon; and

WHEREAS, the firm Pun & McGeady, LLP has the resources, integrity, and expertise to provide the City with quality year-end and single audit services at a competitive price.

NOW, THEREFORE, BE IT HEREBY RESOLVED that the City Council of the City of Placerville:

1. Approves an engagement letter with Pun & McGeady, LLP to perform year-end and single audit services for the Fiscal Year ended June 30, 2012; and
2. Authorizes the City Manager to execute the same.

The foregoing Resolution was introduced at a regular meeting of the City Council of the City of Placerville held on October 9, 2012, by Councilmember _____ who moved its adoption. The motion was seconded by Councilmember _____. The motion was passed by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Mayor, Mark A. Acuna

ATTEST:

City Clerk, Susan Zito



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October 3, 2012

City of Placerville
3101 Center Street
Placerville, CA 95667

RE: Engagement of Pun & McGeady LLP

We are pleased to confirm our understanding of the services we are to provide the City of Placerville, California (the "City") for the year ended June 30, 2012.

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of the City as of and for the year ended June 30, 2012.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City'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 assurance. 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) Budgetary Information
- 3) Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund and Major Special Revenue Funds
- 4) Status of Funding Progress - Pension and Other Postemployment Benefits

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

- 1) Schedule of Expenditures of Federal Awards.
- 2) Combining Financial Statements
- 3) Individual Fund Financial Statements and Schedules

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 and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, 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 to issue a report as a result of 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. We will plan and perform the audit to obtain reasonable rather than absolute 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 the determination of abuse is subjective, Government Auditing Standards do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

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 Controls

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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, Government Auditing Standards, and OMB Circular A-133.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other

applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the 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 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 or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our

review on June 30, 2012. 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.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Communication with Those Charged with Governance

As part of our engagement, we are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process as well as other matters we believe should be communicated to those charged with governance. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. Such matters include, but are not limited to, (1) the initial selection of and changes in significant accounting policies and their application; (2) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (3) all passed audit adjustments; (4) 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 report; (5) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (6) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; (7) serious difficulties that we encountered in dealing with management related to the performance of the audit; and (8) matters relating to our independence as your auditors.

Third-Party Service Providers

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.

Assistance By Your Personnel

We will ask that your personnel, to the extent possible, prepare required schedules and analyses, and make selected invoices and other required documents available to our staff. This assistance by your personnel will serve to facilitate the progress of our work and minimize our time requirements.

Data Collection Form

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

Independence

Professional standards require that a firm and its members maintain independence throughout the duration of the professional relationship with a client. In order to preserve the integrity of our relationship, no offer of employment shall be discussed with any Pun & McGeady LLP professionals assigned to the audit, during the one year period prior to the commencement of the year end audit. Should such an offer of employment be made, or employment commences during the indicated time period, we will consider this an indication that our independence has been compromised. As such, we may be required to recall our auditors' report due to our lack of independence. In the event additional work is required to satisfy independence requirements, such work will be billed at our standard hourly rates. Furthermore, we strive to staff your engagement with quality, superbly trained professionals. In recognition of the extensive investment we have made to recruit and develop our personnel, we ask that you agree to the following. In the event that any of our employees accepts a position of employment with your Organization, or any of its related parties at any time while we are performing services for you or within one year thereafter, you agree to pay us a placement fee equal to the employee's annual compensation in effect on the date such employment was contracted. Such fee is payable when the employee accepts such a position.

Access to Working Papers

The audit documentation for this engagement is the property of Pun & McGeady LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Oversight of the Audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Pun & McGeady LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the Oversight Agency for Audit or Pass-through Entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

The Firm is required to undergo a "peer review" every three years. During the course of a Peer Review engagement, selected working papers and financial reports, on a sample basis, will be inspected by an outside party on a confidential basis. Consequently, the accounting and/or auditing work we performed for you may be

selected. Your signing this letter represents your acknowledgement and permission to allow such access should your engagement be selected for review.

As a result of our prior or future services to you, we may be required or requested to provide information or documents to you or a third-party in connection with a legal or administrative proceeding (including a grand jury investigation) in which we are not a party. If this occurs, our efforts in complying with such request or demands will be deemed a part of this engagement and we shall be entitled to compensation for our time and reimbursement for our reasonable out-of-pocket expenditures (including legal fees) in complying with such request or demand. This is not intended, however, to relieve us of our duty to observe the confidentiality requirements of our profession.

Other Services

We are always available to meet with you and/or other management personnel at various times throughout the year to discuss current business, operational, accounting and auditing matters affecting your Organization. Whenever you feel such meeting are desirable please let us know; we are prepared to provide services to assist you in any of these areas.

Timeline

We expect to begin our audit on approximately October 3, 2012 and to issue our reports no later than December 31, 2012. Our engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Kenneth H. Pun, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Fees

For the year ending June 30, 2012, our fee for these services will be:

Financial Statement:	\$ 30,000
Single Audit (if necessary):	5,000

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 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination.

If the City is required to undergo a single audit in accordance with the Federal Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*, during any year of this contract, there will be additional fee of \$3,000 for each major program in excess of one. The number of programs determined to be a major program will be based on the determination required by OMB Circular A-133 and will be discussed with you prior to commencement of any audit work.

If the City is required to undergo a compliance audit in accordance with and State of California requirements beyond those of the Federal Single Audit Act, during any year of this contract, we will discuss with you the additional fees which will be dependent on the number of programs determined to be audited based on the determination required by the State of California. Also, a new engagement letter will have to be provided that meets the requirements of the State of California request.

The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Report Distribution and Other

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

Most Recent External Quality Control Review

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract.

Since the Firm is newly established, we have yet to have our first peer review conducted. However, the assigned engagement partner, Kenneth H. Pun, was the Partner of Caporicci & Larson, Inc. (C&L) who supervise its Southern California practice and heavily participated in the quality control process of C&L. In 2011, a quality review of the policies, practices, and procedures was conducted for Caporicci & Larson, Inc. (a subsidiary of Marcum LLP). The reviewers made an independent assessment of C&L's quality control policies and procedures and inspected the working papers and reports on a representative sample of accounting and auditing governmental clients. C&L's administrative files and records were also reviewed and our professional personnel interviewed.

After thorough study of C&L's procedures and work practices, the report had a peer review rating of pass which mean that the accounting and auditing practice of C&L has been suitably designed and complied with to provide the firm with reasonable assurance of performing and has an effective quality control system and that our accounting and auditing work conforms to professional standards.

We have scheduled our first peer review after our first anniversary and will review of the Firm's policies, practices, and procedures. The reviewers will make an independent assessment of the Firm's quality control policies and procedures and will inspect the working papers and reports on representative sample of accounting and auditing engagements. The Firm's administrative files and records will be reviewed and our professional personnel will be interviewed.

Upon completion of our first peer review, we will furnish you the independent peer reviewers' report and the recommendations, if any.

City of Placerville
Engagement Letter
June 30, 2012
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Agreement

It is hereby understood and agreed that this engagement is being undertaken solely for the benefit of the City and that no other person or entity shall be authorized to enforce the terms of this engagement.

If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. Once this engagement has been reviewed and accepted by our firm's client acceptance committee, we will return a fully executed copy to you. If our client acceptance committee decides not to accept this engagement for any reason, then we will inform you immediately in writing.

We appreciate the opportunity to be of service to the City of Placerville and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,
Pun & McGeady LLP

Kenneth H. Pun, CPA
Partner

RESPONSE:

This letter correctly sets forth the understanding of the City of Placerville, California

By: _____

Title: _____

Date: _____