RESOLUTION NO. 2002-24982

A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, TO RENEW THE AGREEMENT FOR AUDITING SERVICES WITH KPMG FOR FISCAL YEAR ENDING SEPTEMBER 30, 2002 AND ESTABLISH AUDIT FEES FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 2002 THROUGH 2005

WHEREAS, the City Commission on July 18, 2001 accepted the recommendation of the City Manager pertaining to the ranking of proposals received in responses to Request for Proposals (RFP) No. 34-00/01 for auditing services; and

WHEREAS, the administration negotiated an agreement with KPMG to perform both the audits of the City's General Purpose Financial Statements of the City's Comprehensive Annual Financial Report ("CAFR") and the four separate component units of the City for the period of up to five years at the option of the City; and

WHEREAS, the original engagement was for the fiscal year ended September 30, 2001; and

WHEREAS, additional years of the engagement would be subject to the recommendation of the Audit Committee and confirmation by the City Commission; and

WHEREAS, increases in audit fees were due to the Governmental Accounting Standards Board ("GASB") Statement No. 34 which establishes new financial reporting requirements resulting in an expanding audit scope requiring additional hours of work; and

WHEREAS, KMPG has proposed audit fees for the fiscal years ending September 30, 2002 through 2005; and

WHEREAS, at the September 19, 2002 Finance and Citywide Projects Committee meeting, the Committee recommended the renewal of this agreement for the second year; and establish audit fees for the fiscal years ending September 30, 2002 through 2005; and

NOW, THEREFORE BE IT DULY RESOLVED BY THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, that the City renew the agreement with KPMG for auditing services for the fiscal year ending September 30, 2002 and establish audit fees for the fiscal years ending September 30, 2002 through 2005.

PASSED and ADOPTED this 25th day of September, 2002.

ATTEST:

CITY CLERK

MAYOR

JMG/PDW/GE

Resolution No. 2002-24982

APPROVED AS TO
FORM & LANGUAGE
& FOR EXECUTION

City Attorney

9/19/02
Date

CITY OF MIAMI BEACH
COMMISSION ITEM SUMMARY

Condensed Title:

A resolution renewing the agreement for auditing services with KPMG for fiscal year ending September 30, 2002.

Issue:

Shall the City Commission renew the contract with KPMG for the second year?

Item Summary/Recommendation:

The Administration recommends renewing the agreement with KPMG while locking in fees for fiscal years ending September 30, 2002 through 2005.

Advisory Board Recommendation:

The Finance and Citywide Committee approved this renewal at their meeting held on September 19, 2002.

Financial Information:

Source of Funds:

Finance Dept.

	Amount	Account	Approved
1	$110,000	General Fund	
2	18,000	Parking Enterprise Fund	
3	16,000	Convention Center Enterprise Fund	
4	16,000	Redevelopment Agency	
5	5,000	Visitor and Convention Authority	
Total	$165,000		

City Clerk's Office Legislative Tracking:

Georgie Echert

Sign-Offs:

Department Director	Assistant City Manager	City Manager

AGENDA ITEM C7D

DATE 9-25-02

CITY OF MIAMI BEACH

CITY HALL 1700 CONVENTION CENTER DRIVE MIAMI BEACH, FLORIDA 33139
www.ci.miami-beach.fl.us

COMMISSION MEMORANDUM

To: Mayor David Dermer and Members of the City Commission

Date: September 25, 2002

From: Jorge M. Gonzalez
City Manager

Subject: **A RESOLUTION OF THE MAYOR AND THE CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, TO RENEW THE AGREEMENT FOR AUDITING SERVICES WITH KPMG FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2002 AND ESTABLISH AUDIT FEES FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 2002 THROUGH 2005**

ADMINISTRATION RECOMMENDATION

Adopt the resolution.

FUNDING:

$ 110,000	General Fund
18,000	Parking Enterprise Fund
16,000	Convention Center Enterprise Fund
16,000	Redevelopment Agency
5,000	Visitor and Convention Authority
$ 165,000	Total

ANALYSIS

On July 18, 2001, the City Commission adopted a resolution to (1) accept the recommendation of the City Manager pertaining to the ranking of proposals received in responses to Request for Proposals (RFP) No. 34-00/01 for auditing services; and (2) authorizing the administration to enter into negotiations with the top rank firms to audit the City's General purpose financial statements and the various component units of the City. A contract was awarded to the firm of KPMG to perform both the audits of the City's General Purpose Financial Statements of the City's Comprehensive Annual Financial Report ("CAFR") and the four separate component units of the City for the period of up to five years at the option of the City.

The original engagement was for the fiscal year ended September 30, 2001. Additional years of the engagement would be subject to the approval of the Audit Committee and confirmation by the City Commission annually.

The City negotiated with KPMG the audit fees for the next four years to lock in the fees for the remaining period. Audit fees for the fiscal year ending September 30, 2002 CAFR

statements increased 10.6 percent from $99,500 to $110,000 and the other component units increased 3.7% from $53,000 to $55,000. This is necessary due to the recent Governmental Accounting Standards Board ("GASB") Statement No.34, which establishes new financial reporting requirements for state and local governments. The City is required to implement these new reporting standards for fiscal year ended September 30, 2002. As a result, KPMG's audit scope greatly increases requiring additional hours of work. It should be noted that KPMG has not increased their fees since 1995 while the CPI has increased 18% for the same period. Audits fees for fiscal years ending September 30, 2003 to September 30, 2005 will include increases at an average of 3% per year.

Below is the schedule of proposed fees for the next four years.

Audit Segment	2002	2003	2004	2005
General Segment Audit	$ 110,000	$114,000	$118,000	$121,000
Parking System	18,000	18,500	19,000	19,000
Convention Center	16,000	16,500	17,000	17,500
Redevelopment Agency	16,000	16,500	17,000	17,500
Visitor and Convention Authority	5,000	5,000	5,500	6,000
Total	$ 165,000	$170,500	$176,500	$181,000
Percent increase	10.4%	3.3%	3.5%	2.5%

This renewal of auditing services was presented to and approved by the City's Finance and Citywide Committee held on September 19, 2002 in lieu of the Audit Committee, which currently has no quorum.

CONCLUSION

City Commission should adopt the resolution renewing the contract for KPMG for Auditing Services for Fiscal Year ending September 30, 2002 and the proposed fees for four years from 2002 through 2005.

JMG:PDW

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Suite 2800
2 South Biscayne Boulevard
Miami, FL 33131

Telephone 305 358 2300
Fax 305 913 2692

Mr. Jorge M. Gonzalez
City Manager
C/O Patricia D. Walker
Finance Director
City of Miami Beach, Florida
City Hall
1700 Convention Center Drive
Miami Beach, Florida 33139

November 4, 2002

Dear Mr. Gonzalez:

This letter will confirm KPMG LLP's ("KPMG") understanding of our engagement to report upon our audit of the financial statements of the City of Miami Beach, Florida (the "City") (excluding the Fire and Police, General Employees' Pension System and Unclassified Employees' and Elected Officials Retirement System), the Miami Beach Redevelopment Agency ("the Agency"), the Parking System Fund (stand-alone financial statements), the Convention Center Enterprise Fund and the Miami Beach Visitors and Convention Authority, as of and for the year ended September 30, 2002, and the nature and scope of the services we will provide to enable the City to comply with the Single Audit requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("OMB Circular A-133") and the Florida Single Audit Act, Chapter 27D-1, *Rules of the Executive Office of the Governor, Florida Administrative Code* (the "Florida Single Audit Act").

Financial Statement Audit

We will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the

accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Honorable Mayor and City Commission of the City. We can not provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Honorable Mayor and City Commission.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would agree to the inclusion of our report at that time.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for preventing and detecting fraud, for the adopting sound accounting policies and establishing and maintaining effective internal control to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements.

Our audit is planned and performed to obtain reasonable assurance, but not absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit performed in accordance with auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Honorable Mayor and City Commission about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Honorable Mayor and City Commission.

In planning and performing our audit, we will consider the City's internal control in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing an opinion on the financial statements, not to provide assurance on the City's internal control. This consideration contributes to the evidence supporting our opinion on the financial statements; however, it does not provide a basis for an opinion on internal control. The limited purpose of this consideration may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control, which we would be happy to discuss with you at your convenience.

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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 certain provisions of laws, regulations, contracts and grants. However, our objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. This report will include any reportable conditions that come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control, which could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements under audit.

OMB Circular A-133 and the Florida Single Audit Act

We will also perform audit procedures with respect to the City's major federal programs and the City's major state projects, in accordance with the provisions of OMB Circular A-133 and the Florida Single Audit Act. OMB Circular A-133 and the Florida Single Audit Act include specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133 and the Florida Single Audit Act, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 and the Florida Single Audit Act are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to federal programs and the state projects are the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement* ("Compliance Supplement"). The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal or state agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133 and the Florida Single Audit Act, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of federal or major state project; and state awards in relation to the City's basic financial statements taken as a whole; (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major federal program or major state project; and (3) communicates our consideration of internal control over major federal programs and major state projects.

In addition to the OMB Circular A-133 and the Florida Single Audit Act requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal programs or state projects as discussed above, OMB Circular A-133 and the Florida Single Audit Act also require the City to prepare a:

- Schedule of expenditures of federal awards;
- Schedule of expenditures of state financial assistance;
- Summary schedule of prior audit findings;
- Schedule of findings and questioned costs relating to state financial assistance;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Honorable Mayor, City Commission and management of the City, federal awarding agencies, pass-through entities and state agencies and are not intended to be and should not be used by anyone other than these specified parties.

The City agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any unrecorded 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. Because of the importance of management's representations to the effective performance of our services, the City agrees to release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend or decide to distribute the photocopies or information contained therein to others, including other government agencies.

KPMG shall indemnify, keep, and save harmless the City, its officers, directors, employees, and agents against claims of injuries, death, damage to property, patent or copyright claims, suits, liabilities, judgments, costs, and reasonable expenses (hereinafter referred to as "loss") which may accrue against the City in consequence of the granting of this contract or which may otherwise result therefrom, if it shall be determined by a court of competent jurisdiction that the loss was caused as a result of KPMG's failure to satisfy its obligations under auditing standards generally accepted in the United States of America through negligence or error, or omission of KPMG or its employees, or that of its subcontractors or their employees, if any; and KPMG shall, at its own expense, appear, defend, and pay all reasonable charges of attorneys and all costs and other expenses arising therefrom or incurred in connection therewith; and if any judgment shall be rendered against the City in any such action KPMG shall, at its own expense, satisfy and discharge the same.

Our fees for the audits will be as follows:

- General purpose financial statements (excluding the Fire and Police, General Employees' Pension System and Unclassified Employees' and Elected Officials Retirement System) - $110,000
- The Miami Beach Redevelopment Agency - $16,000
- The Parking System Fund (stand-alone) - $18,000
- Convention Center Enterprise Fund - $16,000
- The Miami Beach Visitors and Convention Authority - $5,000

Circumstances encountered during the performance of the audit that warrant additional time or expense could cause us to be unable to complete the audit within the above estimate. We will endeavor to notify

you of any such circumstances as they are assessed. In the event KPMG is requested pursuant to subpoena or other legal process to produce our work papers relating to this engagement in judicial or administrative proceedings to which we are not a party, the City agrees to reimburse us at standard billing rates for our professional time and expenses, including reasonable attorney's fees, incurred in responding to such request.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Kenneth F. Deon
Managing Partner

ACCEPTED:

City of Miami Beach, Florida

Authorized Signature

Chief Financial Officer
Title

December 2, 2002
Date