

# Memorandum

## City of Lawrence

### Finance Department

TO: Tom Markus, City Manager  
FROM: Jeremy Willmoth, Finance Director  
CC: Casey Toomay, Assistant City Manager  
DATE: February 5, 2019  
RE: RSM Audit Planning Letter

We received a letter from our new auditors that is to be shared with the City Commission. This letter includes required communications to those charged with governance regarding the scope and timing of the audit.

It is attached for your reference.



February 4, 2019

Mayor and City Commissioners  
City of Lawrence, Kansas  
Lawrence, Kansas

Attention: Mayor Lisa Larsen

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This letter is intended to communicate certain matters related to the planned scope and timing of our audit of the City of Lawrence, Kansas' (the City) financial statements and compliance as of and for the year ended December 31, 2018.

### **Communication**

Effective two-way communication between our Firm and the Mayor and City Commissioners is important to understanding matters related to the audit and developing a constructive working relationship.

Your insights may assist us in understanding the City and its environment, identifying appropriate sources of audit evidence and providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate to us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing and extent of audit procedures, your suspicion or detection of fraud or abuse, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements or abuse that are likely to have a material effect on the financial statements. We will also communicate illegal acts, instances of noncompliance, fraud or abuse that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

### **Independence**

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of RSM US LLP is permitted to have any direct financial interest or a material indirect financial interest in a client or any affiliate of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with firm policy. In addition, our policies restrict certain non-audit services that may be provided by RSM US LLP and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

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### **The Audit Planning Process**

Our audit approach places a strong emphasis on obtaining an understanding of how your City functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of business objectives, strategies, risks and performance.

Other auditors will audit the financial statements of certain components of the City of Lawrence, Kansas. The components to be audited by other auditors include the Lawrence-Douglas County Housing Authority (discretely presented component unit), the Lawrence Memorial Hospital (discretely presented component unit) and the Lawrence Public Library (discretely presented component unit). We will adhere to the requirements of AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. We will make reference to the audit of the component auditors of the group financial statements in our auditor's report, which will clearly indicate that the component was not audited by us, but was audited by a component auditors, and will include the magnitude of the portion of the financial statements audited by the component auditors. The decision for referring to the work of the component auditors was based on the following: the component's financial statements are prepared using the same financial reporting framework as the group financial statements; and the component auditors will issue an auditor's report that is not restricted as to use.

As part of obtaining an understanding of your organization and its environment, we will obtain an understanding of internal control. We will use this understanding to identify risks of material misstatement and noncompliance, which will provide us with a basis for designing and implementing responses to the assessed risks of material misstatement and noncompliance. We will also obtain an understanding of the users of the financial statements in order to establish an overall materiality level for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error or to instances of noncompliance, including abuse.

### **The Concept of Materiality in Planning and Executing the Audit**

We apply the concept of materiality in both planning and performing the audit, evaluating the effect of identified misstatements or noncompliance on the audit and the effect of uncorrected misstatements, if any, on the financial statements, forming the opinion in our report on the financial statements, and determining or reporting in accordance with *Government Auditing Standards* and other compliance reporting requirements. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial and compliance informational needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform you of all individual uncorrected misstatements aggregated by us in connection with our evaluation of our audit test results.

### **Our Approach to Internal Control and Compliance Relevant to the Audit**

Our audit of the financial statements, including compliance, will include obtaining an understanding of internal control sufficient to plan the audit and determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. Our review and understanding of the City's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

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We will issue reports on internal control related to the financial statements and major programs. These reports describe the scope of testing of internal control and the results of our tests of internal control. Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States, the Single Audit Act, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance).

We will issue reports on compliance with laws, statutes, regulations, and the terms and conditions of federal awards. We will report on any noncompliance that could have a material effect on the financial statements and any noncompliance that could have a direct and material effect on each major program. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with the requirements of the standards identified above.

#### **Timing of the Audit**

We have scheduled preliminary audit fieldwork for the week of February 25, 2019, with final fieldwork commencing the week of March 18, 2019. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

#### **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the City of Lawrence, Kansas.

This communication is intended solely for the information and use of the Mayor and City Commissioners and is not intended to be, and should not be, used by anyone other than these specified parties.

*RSM US LLP*