

December 19, 2012

Mr. Sal Lombardi
City Controller
City of Glen Cove
9 Glen Street
Glen Cove, New York 11543

Dear Mr. Lombardi:

We would like to offer the following engagement letter for professional auditing services to the City of Glen Cove, New York (the "City") for the years ending December 31, 2012, 2013 and 2014. Alan Kassay is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We will audit the financial statements of the governmental 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 years ending December 31, 2012, 2013 and 2014. The document we submit to you will include the following supplementary information required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis

Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements upon which we will provide an opinion in relation to the basic financial statements:

- Combining and 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 additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. 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; and will include tests of accounting records, 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 are other than unqualified, we will fully 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.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will prepare your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements 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 that you have reviewed and approved the financial statements 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 control, including internal control over compliance and for monitoring ongoing activities, to help ensure that appropriate goals and objectives are met. 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, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position 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, including 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.

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.

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. 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*.

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 and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of 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*.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing. To assist you in the audit preparation, we will be sending to you, under separate cover, a planning letter which discusses requirements under the new auditing standards and outlines the various audit schedules and information we will need for the audit.

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.

The audit documentation for this engagement is the property of O'Connor Davies, LLP ("O'Connor Davies") and constitutes confidential information which protects the City from any non-authorized disclosure of City information by our staff. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or grantor agency 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 O'Connor Davies 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. We shall also provide copies of all audit documentation, which shall not include any proprietary information or processes of O'Connor Davies, to the City upon written request for as long as we are not precluded by laws and regulations to do so.

The audit documentation for this engagement will be retained for seven years after the report release date. 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. All rights and obligations set forth herein shall become the rights and obligations of any successor firm to O'Connor Davies by way of merger, acquisition or otherwise.

We will schedule our staff in accordance with parameters established by the Finance Office. The components of our fees for each of the next three years are detailed below:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Basic fee, including Single Audit and Risk Assessment	<u>\$ 76,700</u>	<u>\$ 76,700</u>	<u>\$ 76,700</u>

In recognition of the current state of the economy, we have held our fee for 2012, 2013 and 2014 at the same level as 2011.

Our fees for these services are due and payable under the payment schedule which follows. Invoices for additional amounts that may be incurred for these and other services will be rendered as such work progresses and are payable upon presentation.

<u>Payments will be due</u>	<u>Percentage</u>
Upon completion of our audit field work	75%
Upon submission of the draft report and management letter	<u>25%</u>
	<u><u>100%</u></u>

The 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.

Our hourly rates for any additional services for the initial year of the engagement are detailed below.

	<u>Standard</u>	<u>Quoted</u>
Senior Partner	\$ 290	\$ 250
Partner	245	200
Senior Manager	200-225	175
Managers	210	125
Supervisor	170	105
Senior Accountants	165	95
Staff Assistants	125	90

As you may know, it is typical for us to assign staff and schedule their time for a client engagement well in advance of the actual performance of the services. This advanced scheduling allows us to ensure that staff is available to accommodate the technical requirements of the engagement any preferences you may have as to the professionals assigned and that all your deadlines can be met. From time to time we may be required to cancel and/or reschedule the on-site services due to your inability to provide the documentation and schedules required prior to our beginning our work or a change in the availability of your staff or simply at your request. Without proper notification of such required rescheduling, it is typical for us to incur additional fees not originally planned with the scope of our engagement and within the related fees quoted in this letter.

We will schedule our staff in accordance with reasonable parameters established by the City's Finance Office. We acknowledge that the City reserves the right to require us to change/replace our audit staff for any reasons/conflicts that are detrimental to the audit process.

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

The City may consider preparing and submitting a Comprehensive Annual Financial Report ("CAFR") to the Government Finance Officers Association. We are thoroughly familiar with the requirements of a CAFR and would be pleased to assist you in that endeavor. At that time, we would discuss our role and the related costs.

We appreciate the opportunity to continue to be of service to the City and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. The term of this agreement shall be for audit work pertaining to the three (3) fiscal years commencing January 1, 2012 and ending on December 31, 2014. Either party may cancel this agreement upon thirty (30) days notice in writing to the other. The forgoing notice period shall not affect or limit our rights included in the last sentence of the first paragraph with the caption "Audit Objectives". In the event of exercise of this right by the City, it shall pay for any billed and unbilled fees for completed work as of the date of the cancellation.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and all successor auditors to review working papers relating to matters of continuing accounting significance.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comments and any subsequent peer review reports and letters of comments received during the period of the contract. Our 2010 peer review accompanies this letter.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

We believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement, as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

O'Connor Davies, LLP

O'Connor Davies, LLP

RESPONSE:

This letter correctly sets forth the understanding of the City of Glen Cove, New York.

By: *Ryan V. Luzzi*

Title: MAYOR, CITY OF GLEN COVE

Date: 05/17/13
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