



**Meeting Date:** January 9, 2017

**Report No.** CC-17-10

**Agenda Item No.** 9-e

**Status:** General Orders

**Purpose:** To inform Council of audit guidelines related to service level agreements.

**Background Summary:** The City of Stillwater has entered into seven service level agreements which afford cost savings to the City. The City Council has asked that the finance department develop strategies for ensuring that direct funding to these organizations has been used for the purposes intended by the contract.

An audit is the most expensive of all the types of examination of financial statements. The least expensive is a compilation, followed by a review. A financial audit is an independent, objective evaluation of an organization's financial reports and financial reporting processes. The primary purpose for financial audits is to give regulators, investors, directors, and managers reasonable assurance that financial statements are accurate and complete.

A financial statement review is a service under which the accountant obtains limited assurance that there are no material modifications that need to be made to an entity's financial statements for them to be in conformity with generally accepted accounting principles (GAAP).

Compilation is the presentation of financial data that is mathematically accurate, but is without the assurance of its compiler (an accountant or auditor) as to its verifiability or conformity with generally accepted accounting principles (GAAP).

Two of the service providers engage outside auditors for the completion of an annual audit. You will find those reports attached. Due to the broad nature of the scope of service outlined in each service agreement, the audit report, in addition to the performance measures report(s), should provide the level of assurance the Council is seeking.

The remaining five organizations contract with local accounting firms for compilation and tax services. As non-profit organizations these entities file an annual form 990 with the federal government.

Attached is a summary of the seven service level agreements, which includes funding amounts, contract term, scope of service, and recommended compliance procedures.

**Alternatives:** The Council may require any level of assurance from its service providers as they deem necessary.

**Recommendation:** It is recommended that all service agreements designate the nature of expenditures that City funding is intended to defray. This will allow City staff to confirm expenditures at little cost to the City. This information, in addition to performance measure reports tied to the service provider's mission statement, will afford the Council the level of assurance required. These measures should be implemented as soon as reasonably possible depending on the funding level to the service provider.

**Prepared by:** Melissa Reames, CFO

**Reviewed by:** Dan Blankenship, Deputy City Manager

**Submitted by:** Norman McNickle, City Manager

**Attachments:** Service Agreements Summary and Attachment  
Payne County Youth Services Audit Report  
Stillwater Chamber of Commerce – Economic Development Fund Audit Report  
Service Level Agreements