

Memorandum

To: Mayor and Members of the City Council

From: Charles Cunningham, Finance Director

Cc: Frank Salvato, City Manager

Date: September 19, 2003

Re: Recommendation to Approve Letter Agreement for Audit Services for Fiscal Year Ending September 30, 2003

You will find attached an engagement letter from Prichard, Roberson and Company offering their services to perform the City of Taylor's annual audit for fiscal year ending September 30, 2003.

For the past four years, Prichard, Roberson and Company have conducted the City's audit and have been instrumental in assisting staff in continually making improvements in the City's Financial Reporting. If you will recall, the City produced its first Comprehensive Annual Finance Report last year for the reporting period ending September 30, 2002. That document met all new requirements under GASB Statement 34 which when it was issued several years ago, proposed the most sweeping changes in governmental accounting in the last 50 years. With considerable assistance from the Auditor, we beat the national deadline by one year for cities our size.

Neither state law nor the City's Charter require that the City's outside Auditor be changed after any specific time period and in fact for the sake of continuity, there are reasons for retaining the same auditor on a multi-year basis. Nevertheless, the average tenure of Auditors is about five years and since this will be the fifth year, it is suggested that the City Council consider changing Auditors after this year.

It is further suggested that since the auditor is in a sense reviewing the work of myself and the City Manager for that matter, plus the fact that the Auditor does work directly for the Council, the Council should have a more direct hand in selecting the Auditor in the future. For next year it is recommended that a committee be appointed by the City Council to recruit and make recommendations regarding final selection of an Auditor for next year. The Committee could include up to two Council Members one of which would chair the Committee. The remainder of the committee and its total size would be up to the wishes of the Council.

Staff would be available to provide whatever logistical assistance was required but not necessarily be directly involved in the selection process. If the Council is interested in this approach, the process should be started in late spring of next year to give enough time for the review and selection process to be completed by the middle of the summer.

For this year, based on services performed for the last four year's audits, the City staff sees no reason why the services of Prichard, Roberson should not be continued for another year. Kelly Prichard would be the principal in charge of the audit as he was last year. It is expected that the audit will be completed no later than January 2003.

It is recommended that Prichard, Roberson be retained as the City's Auditor and that the City Manager be authorized to execute the letter agreement as submitted.

September 16, 2003

Mr. Frank Salvato, City Manager
City of Taylor
P. O. Box 810
Taylor, Texas 76574

We are pleased to confirm our understanding of the services we are to provide the City of Taylor (the City) for the year ended September 30, 2003. We will audit the general purpose financial statements of the City as of and for the year ended September 30, 2003.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your general purpose financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of additional information when considered in relation to the general purpose financial statements taken 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 for the information and use of the management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities.

Our audit will be conducted in accordance with U. S. generally accepted auditing standards; 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 Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the general purpose financial statements or the Single Audit compliance opinion is 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 an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. 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.

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 caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include test of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect errors, fraud, or other illegal acts that are immaterial to the general purpose financial statements or to major programs. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during 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, creditors, and financial institutions. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures--Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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 general purpose 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 general purpose financial statements. Tests of controls relative to the general purpose financial statements are required only if control risk is assessed below the maximum level. 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 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 nor to identify reportable conditions. However, we will inform the governing body of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedure--Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the general purpose 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 the applicable procedures described in the *OMB Circular A-133 Compliance Supplement*. The purpose of those procedures will be to express an opinion on the City's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

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 invoices selected by us for testing.

At the conclusion of the engagement, 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 a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, 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. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The workpapers for this engagement are the property of Prichard, Roberson & Co., LLP and constitute confidential information. However, we may be requested to make certain workpapers available to regulatory agencies pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided. Furthermore, upon request, we may provide photocopies of selected workpapers to these regulatory agencies. The agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested. If we are aware that a federal awarding agency, passthrough entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the

workpapers.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, typing, postage, travel, copies, telephone, etc.). We estimate our fees to be approximately \$23,000. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. 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.

We appreciate the opportunity to be of service to the City of Taylor 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.

Very truly yours,
Prichard, Roberson & Co., LLP

A handwritten signature in black ink, appearing to read "H. Kelly Prichard", written in a cursive style.

H. Kelly Prichard
Partner

This letter correctly sets forth the understanding of the City of Taylor.

Frank Salvato
City Manager

Date