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**EXHIBITS**

- A. Scope of Services
- B. Fee Schedule
- C. Equal Employment Opportunity
- D. Drug Policy Compliance Agreement
- E. Auditor's Certification of No Safety Impact Positions
- F. Drug Policy Compliance Declaration
- G. Form of Engagement Letter for Basic Services
- H. Project Team Staffing

C. Parts Incorporated

The above-described sections and exhibits are incorporated into this Agreement.

D. Controlling Parts

If a conflict among the Sections and Exhibits arises, the Sections control over the Exhibits.

E. Signatures

The Parties have executed this Agreement in multiple copies, each of which is an original.

WITNESS:

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Auditor:  
**MCCONNELL & JONES LLP (M&J)  
& BANKS, FINLEY, WHITE & CO. (BFW)  
Under Assumed Name of M&J/BFW Team**

By: *Joseph Wayne McConnell*  
Name: *Joseph Wayne McConnell*  
Title: *Managing Partner*  
TAX ID NO. *46-2499329*

ATTEST/SEAL:

*Christine Russell*  
City Secretary

**CITY OF HOUSTON, TEXAS**  
Signed by:

*Arvin D. Parker*  
Mayor *Madeline B. Uppel*

APPROVED:

*Kelly Dun*  
Director, Finance Department

COUNTERSIGNED BY:

*Ronald C. Grew*  
City Controller *Jerald Pahl*

APPROVED:

*Calvin D. Wells*  
Calvin D. Wells, Deputy Director  
City Purchasing Agent

APPROVED AS TO FORM:

*Lan P. Nguyen*  
Sr. Assistant City Attorney  
L.D. File No. 0341300139001

DATE COUNTERSIGNED:

*1-15-14*

## II. DEFINITIONS

As used in this Agreement, the following terms have the meanings set out below:

“Allocated Funds” is defined in Section IV(D).

“Auditor” is defined in the preamble of this Agreement, which definition includes its successors and assigns.

“Audit Committee” means the Finance Director and the City Controller or an audit committee as established by the Houston City Council.

“Basic Services” is defined in Exhibit “A”

“City” is defined in the preamble of this Agreement and includes its successors and assigns.

“City Controller” shall mean the City Controller of the City of Houston.

“City Purchasing Agent” shall mean the City Purchasing Agent of the City of Houston.

“Countersignature Date” means the date shown as the date countersigned on the signature page of this Agreement.

“Director” means the Director of Finance, or the person he or she designates.

“Document” means reports, charts, analyses, maps, letters, tabulations, exhibits, computer databases and diskettes, software, notes and other work products obtained by Auditor from the City or prepared by the Auditor as a task under this Agreement. “Document” does not include, however, the Auditor’s working papers, proprietary methodologies, software or databases.

“Fiscal Year” means the City’s Fiscal Year which runs from July 1 through June 30.

“Generally Accepted Accounting Principles” means accounting principles generally accepted in the United States of America.

“Generally Accepted Auditing Standards” means auditing standards generally accepted in the United States of America.

“Mayor” means the Mayor of the City or his designated representative.

“Notice to Proceed” means the communication from the Director in an Engagement Letter to Auditor instructing Auditor to begin performance.

“Parties” mean all the entities set out in the Preamble who are bound by this Agreement.

“Special Services” is defined in Exhibit “A”.

### **III. DUTIES OF AUDITOR**

#### **A. Scope of Services**

Auditor’s performance under this Agreement is divided into 2 categories of services: 1) Basic Services and 2) Special Services, as described in the attached Exhibit “A”. The Scope of Services also includes the matters set out in this section. In consideration of the payment specified in this Agreement, Auditor shall provide all labor, materials, and supervision necessary to perform the Basic Services and, if requested and agreed to by Auditor, the Special Services in each case, as set forth in a separate engagement letter in the form similar to the attached Exhibit “G” (each, an “Engagement Letter”), entered into by the City and the Auditor with respect to such services, in accordance with generally accepted auditing standards, for the fiscal years ending 2014, 2015, 2016 and for each additional year thereafter that the Auditor is engaged by the City. Engagement Letters providing for Auditor to perform Basic Services shall be substantially in the form set forth in the attached Exhibit “G”.

The Director will be responsible for requesting the specific services to be provided by the Auditor and that Auditor shall assume responsibility for performing such services and preparing the resulting report(s).

**B. Coordinate Performance**

Auditor shall coordinate the performance of its services with the Director. Auditor understands and agrees that the Director will be monitoring the day-to-day activities of Auditor through daily contact, meetings and formal progress reports. Auditor shall promptly report to the Director any conditions, transactions, situations or circumstances it encounters in the performance of its services, that would impede or impair the proper conduct of the services hereunder or which would seem to warrant a special investigation or report in more detail than which is necessary to perform the services under this Agreement.

**C. Notice to Proceed**

Auditor shall begin performance of its services under this Agreement on the date specified in a Notice to Proceed from the Director as stated in an Engagement Letter.

**D. Reports**

Auditor shall prepare and submit reports and provide progress updates as requested by the Director.

**E. Schedule of Performance – General**

**1. Time of Performance**

Auditor shall commence services under this Agreement on the date specified by the Director. Such services shall be diligently performed thereafter, and shall be completed within the following specified times, as specified below under section D.2, unless an extension of time is agreed to by the Director, as specified below.

**2. Due Dates**

Except as specifically set forth in an Engagement Letter, due dates for subtasks and Deliverables are given in the table below. Dates are the same for each Fiscal Year that the Auditor provides Basic Services and assumes that the City's personnel provide the underlying reporting documents based on an

agreed upon timetable that allows ample time for the auditors to complete their work.

- a. Task 1 - Audit of Comprehensive Annual Financial Report (CAFR) for preceding Fiscal Year:
  - i. CAFR (Including Schedules of Federal and State Financial Assistance)
    - Draft Report: October 27
    - Issue Final Report: On or before November 15 of each year
  - ii. Houston Airport System CAFR
    - Draft Report: October 27
    - Issue Final Report: On or before November 15 of each year
  - iii. Auditor Proposed Adjusting Journal Entries
    - Submit to City Controller and Finance Director for review and approval prior to Draft CAFR
  - iv. Management Recommendation Letters
    - Draft Final Letter: On or before November 30
    - Issue Final Letter: On or before November 30 of each year
- b. Task 2 and Task 3 (Single Audit):
  - i. Evaluate the Overall Presentation of the Schedules of Federal/State Financial Assistance.
    - Completion: Same as CAFR dates
  - ii. Accountant's Reports - OMB Circular A-133
    - Draft Reports: Prepare and hold exit conference with Departments by November 15 of each year
    - Draft Reports: Prepare and hold exit conference with Director of Finance and City Controller by November 15 of each year.
  - iii. If requested by the City, **Follow-up** 90 days after issuance of the Single Audit
    - Issue Letter: **February 28 of each year**
- c. Task 4 – Agreed-upon Procedures for the Texas Commission of Environmental Quality (TCEQ)

- Draft Report: Within 60 days of the City providing the requisite information

### **3. Time Extensions**

Upon request of the Auditor, the Director shall grant time extensions, as provided under Section V.C of this Agreement:

- a. to the extent of any delays caused by the City or other agencies with whom the work must be coordinated and over whom the Auditor has no control (but only to the extent that the exercise of due diligence and care on the part of the Auditor within the scope of its work under this Agreement could not have avoided such delays), and
- b. to the extent of any delays caused by Force Majeure as that term is defined herein.

The extension must be in writing but does not require amendment to this Agreement. Auditor is not entitled to damages for delay(s) regardless of the cause of the delay(s).

### **F. Subcontractors**

Auditor shall be responsible for negotiating subcontracts with its subcontractors. Such agreements shall require the subcontracting parties to substantially comply with all the terms expressed herein. Also, Auditor shall notify the Director any time it utilizes a subcontractor, provide the Director with the subcontractor's professional qualifications and responsibilities, and must obtain the Director's approval prior to entering into an agreement with the subcontractor.

### **G. Payment of Subcontractors**

#### Auditor's Duty to Pay

Auditor shall make timely payments to all of its subcontractors supplying labor, materials or equipment for the performance of this Agreement, in accordance with the provisions of Chapter 2251 of the Texas Government Code. AUDITOR SHALL DEFEND, INDEMNIFY AND HOLD

HARMLESS THE CITY FROM ANY CLAIMS OR LIABILITY ARISING OUT OF AUDITOR'S FAILURE TO MAKE THESE PAYMENTS.

**H. RELEASE**

AUDITOR AGREES TO AND SHALL RELEASE THE CITY, ITS AGENTS, EMPLOYEES, OFFICERS, AND LEGAL REPRESENTATIVES (COLLECTIVELY THE "CITY") FROM ALL LIABILITY FOR INJURY, DEATH, DAMAGE, OR LOSS TO PERSONS OR PROPERTY SUSTAINED IN CONNECTION WITH OR INCIDENTAL TO PERFORMANCE BY THE AUDITOR UNDER THIS AGREEMENT, EVEN IF THE INJURY, DEATH, DAMAGE, OR LOSS IS CAUSED BY THE CITY'S CONCURRENT NEGLIGENCE AND/OR THE CITY'S STRICT PRODUCTS LIABILITY OR STRICT STATUTORY LIABILITY.

**I. INDEMNIFICATION**

AUDITOR AGREES TO AND SHALL DEFEND, INDEMNIFY, AND HOLD THE CITY, ITS AGENTS, EMPLOYEES, OFFICERS, AND LEGAL REPRESENTATIVES (COLLECTIVELY THE "CITY") HARMLESS FOR ALL CLAIMS, CAUSES OF ACTION, LIABILITIES, FINES, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES, COURT COSTS, AND ALL OTHER DEFENSE COSTS AND INTEREST) FOR INJURY, DEATH, DAMAGE, OR LOSS TO PERSONS OR PROPERTY SUSTAINED IN CONNECTION WITH OR INCIDENTAL TO PERFORMANCE UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THOSE CAUSED BY:

- (1) AUDITOR'S AND/OR ITS AGENTS', EMPLOYEES', OFFICERS', DIRECTORS', CONTRACTORS', OR SUBCONTRACTORS' (COLLECTIVELY IN NUMBERED PARAGRAPHS 1-3, "AUDITOR")

**ACTUAL OR ALLEGED NEGLIGENCE OR INTENTIONAL ACTS OR OMISSIONS;**

**(2) THE CITY'S AND AUDITOR'S ACTUAL OR ALLEGED CONCURRENT NEGLIGENCE, WHETHER AUDITOR IS IMMUNE FROM LIABILITY OR NOT; AND**

**(3) THE CITY'S AND AUDITOR'S ACTUAL OR ALLEGED STRICT PRODUCTS LIABILITY OR STRICT STATUTORY LIABILITY, WHETHER AUDITOR IS IMMUNE FROM LIABILITY OR NOT.**

**AUDITOR SHALL DEFEND, INDEMNIFY, AND HOLD THE CITY HARMLESS DURING THE TERM OF THIS AGREEMENT AND FOR FOUR YEARS AFTER THE AGREEMENT TERMINATES. AUDITOR'S INDEMNIFICATION IS LIMITED TO \$1,000,000 PER OCCURRENCE. AUDITOR SHALL NOT INDEMNIFY THE CITY FOR THE CITY'S SOLE NEGLIGENCE.**

**J. Insurance**

Auditor shall maintain in effect certain insurance coverage and shall furnish certificates of insurance, in duplicate form, before beginning its performance under this Agreement. All policies except Professional Liability and Workers' Compensation must include the City as an additional insured. The issuer of any policy (1) shall have a Certificate of Authority to transact insurance business in Texas or (2) shall be an eligible non-admitted insurer in the State of Texas and have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition Best's Key Rating Guide. Auditor shall maintain the following insurance coverages in the following amounts:

<u>(Coverage)</u>	<u>(Limit of Liability)</u>
Workers' Compensation	Statutory for Workers' Compensation
Employer's Liability	Bodily Injury by accident \$500,000 (each accident) Bodily Injury by Disease \$500,000 (policy limit) Bodily Injury by Disease \$500,000 (each employee)
Commercial General Liability: Including Broad Form Coverage, Contractual Liability, Bodily and Personal Injury, and Completed Operations	Bodily Injury and Property Damage, Combined Limits of \$500,000 each Occurrence and \$1,000,000 aggregate
Automobile Liability Insurance (for vehicles Auditor uses in performing under this Agreement, including Owned, Non-Owned and Hired Auto Coverage)	\$1,000,000 combined single limit per occurrence
Professional Liability Coverage	\$1,000,000 combined single limit

Defense costs are excluded from the face amount of the policy.  
Aggregate Limits are per 12-month policy period,  
unless otherwise indicated.

All insurance policies (except for Professional Liability) must require by endorsement that the insurance carrier waives any rights of subrogation against the City, and that Auditor shall give 30 days advance written notice to the City before any of its policies are canceled. In addition, Auditor shall give the City 30 days advance written notice of any cancellation, material changes or nonrenewal of any of its policies that would result in Auditor not maintaining insurance coverages in the amounts set forth in sub-sections (1)-(5) of this Section III.(I) during the term of this Agreement.

Within the 30 day period, Auditor shall secure other suitable policies in lieu of those about to be canceled, materially changed, or nonrenewed so as to maintain in effect the required coverage. For the avoidance of doubt, notwithstanding the cancellation, material changes or nonrenewal of any insurance policy that Auditor may have in effect as of the date hereof, Auditor shall maintain

insurance coverages in the amounts set forth in sub-sections (1)-(5) of this Section III.(I) during the term of this Agreement. If Auditor does not comply with this requirement, the Director, at his or her sole discretion, after the expiration of the 30 day period set forth in the preceding sentence, may

- (1) immediately suspend Auditor from any further performance under this Agreement and begin procedures to terminate for default, or
- (2) purchase the required insurance with City funds and deduct the cost of the premiums from amounts due to Auditor under this Agreement.

**K. Warranties**

Auditor's performance shall conform to the generally accepted auditing standards, applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Auditor’s performance shall also conform to the professional standards prevailing in Harris County, Texas with respect to the scope, quality, due diligence, and care of the services and products Auditor provides under this Agreement. Auditor shall perform all work using trained and skilled persons having experience performing the work required under this Agreement.

**L. Confidentiality - Protection Of City's Interest**

(1) Auditor, its employees, contractors, and subcontractors shall hold all City information, data, and documents (collectively, “the Information”) that they receive, or to which they have access, in strictest confidence in perpetuity. Except in the performance of services hereunder or in accordance with the terms of this Agreement, Auditor, its employees, contractors, and subcontractors shall not disclose, disseminate, or use the Information unless the Director authorizes it in writing. This obligation of confidentiality shall not apply to information that (i) is or becomes

publicly available by other than a breach hereof (including, without limitation, any information filed with any governmental agency and available to the public); (ii) is required to be disclosed by order of a court of competent jurisdiction, administrative agency or governmental body, or by subpoena, summons or other legal process, or by law, rule or regulation, or by applicable regulatory or professional standards, provided that prior to such disclosure by the Auditor (to the extent permitted by applicable law, rule or regulation), that City is given reasonable advance notice of such order and an opportunity to object to such disclosure; or (iii) is disclosed by the Auditor in connection with any judicial or other proceeding involving the City and Auditor (or any partners, principals, directors, or employees of Auditor) (whether or not such proceeding involved any third party) relating to Auditor's services for the City of this Agreement.

Auditor shall obtain written agreements from its agents, employees, contractors, and subcontractors which bind them to the terms in this Section.

**M. Use Of Work Products**

(1) The City may use all notes, plans, computations, databases, tabulations, exhibits, photographs, reports, underlying data and other work products (collectively, the "Documents") that Auditor prepares or obtains under this Agreement. However, the City understands that the audit documentation under this Agreement is the property of the Auditor and constitutes confidential information, subject to the Texas Public Information Act. However, pursuant to authority given by law or regulation, the Auditor may be requested to make certain audit documentation available to regulators 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. Auditor will notify the Director of any such request. If requested, access to such audit documentation will be provided under the supervision of

the Auditor's personnel. Furthermore, upon request, Auditor 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.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by a regulator. If Auditor is aware that a federal awarding agency or auditee is contesting an audit finding, Auditor will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

In addition, upon the City's request, the Auditor shall provide the City Controller with detailed supporting schedules, flow charts or other analysis reasonably necessary to understand the reported findings and recommendations. Generally, this information is attached as exhibits to the final report, however the use of work products or Documents does not apply to the Auditor's working papers, which are considered the proprietary information of the Auditor.

(2) Auditor warrants that it owns the copyright to the Documents.

(3) Auditor shall deliver the original Documents to the Director on request. Within five working days after this Agreement terminates, Auditor shall deliver to the Director the original Documents, and all other files and materials Auditor gathers during its performance under this Agreement.

**N. Licenses And Permits**

Auditor shall obtain, maintain, and pay for all licenses, permits, and certificates including all professional licenses required by any statute, ordinance, rule, or regulation for the performance under this Agreement. Auditor shall immediately notify the Director of any suspension, revocation, or other detrimental action against his or her license.

**O. Compliance With Laws**

Auditor shall comply with all applicable state and federal laws and governmental regulations and the City Charter and Code of Ordinances in its performance under this Agreement.

**P. Compliance With Equal Opportunity Ordinance**

In the performance under this Agreement, Auditor shall comply with City's Equal Employment Opportunity Ordinance as set out in Exhibit "C".

**Q. MWBE Compliance**

In the performance under this Agreement, Auditor shall comply with the City's Minority and Women Business Enterprise ("MWBE") programs as set out in Chapter 15, Article V of the City of Houston Code of Ordinances. Auditor shall make good faith efforts to award subcontracts or supply agreements in at least 54% of the value of this Agreement to MWBEs. Auditor acknowledges that it has reviewed the requirements for good faith efforts on file with the City's Office of Business Opportunity ("OBO") and will comply with them.

**R. Drug Abuse Detection And Deterrence**

(1) It is the policy of the City to achieve a drug-free workforce and workplace. The manufacture, distribution, dispensation, possession, sale, or use of illegal drugs or alcohol by contractors while on City Premises is prohibited. Auditor shall comply with all the requirements and procedures set forth in the Mayor's Drug Abuse Detection and Deterrence Procedures for Contractors, Executive Order No. 1-31 ("Executive Order"), which is incorporated into this Agreement and is on file in the City Secretary's Office.

(2) Before the City signs this Agreement, Auditor shall file with the Contract Compliance Officer for Drug Testing ("CCODT"):

(a) a copy of its drug-free workplace policy,

- (b) the Drug Policy Compliance Agreement substantially in the form set forth in Exhibit “D,” together with a written designation of all safety impact positions and,
- (c) if applicable (e.g. no safety impact positions), the Certification of No Safety Impact Positions, substantially in the form set forth in Exhibit “E.”

If Auditor files a written designation of safety impact positions with its Drug Policy Compliance Agreement, it also shall file every 6 months during the performance of this Agreement or on completion of this Agreement if performance is less than 6 months, a Drug Policy Compliance Declaration in a form substantially similar to Exhibit “F.” If applicable, Auditor shall submit the Drug Policy Compliance Declaration to the CCODT within 30 days of the expiration of each 6-month period of performance and within 30 days of completion of this Agreement. The first 6-month period begins to run on the date the City issues its Notice to Proceed or if no Notice to Proceed is issued, on the first day Auditor begins work under this Agreement.

(3) Auditor also shall file updated designations of safety impact positions with the CCODT if additional safety impact positions are added to Auditor's employee work force.

(4) Auditor shall require that its subcontractors comply with the Executive Order, and Auditor shall secure and maintain the required documents for City inspection.

**S. Conflicts Of Interest**

The Auditor’s personnel performing services hereunder shall not represent any other client in any matter that would constitute a conflict of interest under the conflict of interest rules of the American Institute of Certified Public Accountants.

**T. Pay or Play**

The requirements and terms of the City of Houston Pay or Play program as set out in Executive Order 1-7, as revised from time to time, are incorporated into this Agreement for all purposes. Auditor has reviewed Executive Order No. 1-7-Revised and shall comply with its terms and conditions.

**U. Staffing and Personnel of Auditor**

Auditor shall commit the named individuals shown in Exhibit "H" – Project Team to oversee or perform the services under this Agreement, namely the Client Service Partner, the Engagement Partner and the Technical Partners, as detailed in the Organization Chart of Audit Team illustrated therein. In the event any of the above named individuals are no longer in the employ of Auditor, Auditor must replace them with someone at the same job classification with similar experience, job qualifications and skills, with the approval of the Director. Auditor shall replace any of its personnel or subcontractors whose work product is deemed unsatisfactory by the Director.

**IV. DUTIES OF CITY**

**A. Payment Terms**

The City shall pay Auditor for its services at the hourly rate for each category of services performed by each applicable classification personnel as set forth in the Fee Schedule attached hereto as Exhibit "B". The hourly rates for various job classifications for the Basic Services and for Special Services listed in Exhibit "B" shall remain in effect through the Initial Term of this Agreement. For each renewal year thereafter, if any, Auditor shall be entitled to increase its hourly rates by a percentage not to exceed the increase to the United States Department of Labor Consumer Price Index – All Urban Consumers for the Houston-Galveston-Brazoria, Texas database for the first

month of the renewal year as compared to the same month of the preceding contract year, with a maximum percentage not to exceed 4% thereof.

Auditor further acknowledges that the fees set forth in Exhibit "B" represent the maximum compensation to be received by Auditor for performing the Services for each Fiscal Year, unless the Director agrees, in writing, to expand the scope of the Services and simultaneously provide additional funding for the expanded scope. All fees and expenses may only be paid from Allocated Funds, as provided in Section D. below.

**B. Method Of Payment**

1) Basic Services Fee.

City shall pay Auditor monthly for Basic Services rendered by Auditor pursuant to this Agreement, on the basis of valid invoices submitted by the Auditor and approved by the Director, showing the tasks performed, the hours worked in the preceding month and the corresponding hourly rate. To be effective, each invoice must include: (1) a summary progress report of hours worked by level of professional for the period covered by the invoice ("the Billing Period") expressed as a percentage of the total estimated Basic Services, with the applicable hourly rate and (2) the amount Auditor requests for payment. Payment to Auditor shall be made by the City within 30 days from receipt and approval of such an invoice by the Director.

2) Special Services Fee

(a) If the City requests any Special Services, the Auditor shall provide the Director with a written estimate of the fees it will charge to provide such services. Upon written approval of the Director and allocation of City funds therefor, Auditor shall proceed with the Special Services. Auditor shall bill

the City at the job classification rates for Special Services in accordance with the Fee Schedule in Exhibit B.

(b) Auditor shall request payment for Special Services by submitting an invoice to the City in the month following the performance of corresponding services. Invoices shall include an itemization justifying the fees charged for each task. The Special Services Fees shall be paid by the City on or about 30 days after receipt of a valid invoice submitted by the Auditor and approved by the Director and City Controller. The City agrees that it shall not unreasonably delay or withhold payment or approval for any invoice.

3) Disputed payments

If the City disputes any items in an invoice Auditor submits for any reason, including lack of supporting documentation, the Director shall temporarily delete the disputed item and pay the remaining amount of the invoice. The Director shall promptly notify the Auditor of the dispute and request clarification and/or remedial action. After the dispute is settled, the Auditor shall include the disputed amount on a subsequent regularly scheduled invoice or on a special invoice for the disputed item only.

**C. Taxes**

The City is exempt from payment of Federal Excise and Transportation Tax and Texas Limited Sales and Use Tax. Auditor's invoices to the City must not contain assessments of any of these taxes. The Director shall furnish the City's exemption certification and federal tax identification number to Auditor if requested.

**D. Limit Of Appropriation**

(1) The City's duty to pay money to Auditor under this Agreement is limited in its entirety by the provisions of this Section.

(2) In order to comply with Article II, Sections 19 and 19a of the City's Charter and Article XI, Section 5 of the Texas Constitution, the City has appropriated and allocated the sum of **\$600,000** to pay money due under this Agreement (the "Original Allocation"). The executive and legislative officers of the City, in their discretion, may allocate supplemental funds for this Agreement, but they are not obligated to do so. Therefore, the parties have agreed to the following procedures and remedies:

(3) The City makes a Supplemental Allocation by issuing to Auditor a Service Release Order, or similar form approved by the City Controller, containing the language set out below. When necessary, the Supplemental Allocation shall be approved by motion or ordinance of City Council.

**NOTICE OF SUPPLEMENTAL ALLOCATION OF FUNDS**

By the signature below, the City Controller certifies that, upon the request of the responsible director, the supplemental sum set out below has been allocated for the purposes of the Agreement out of funds appropriated for this purpose by the City Council of the City of Houston. This supplemental allocation has been charged to such appropriation.

\$ \_\_\_\_\_

(4) The Original Allocation plus all supplemental allocations are the Allocated Funds. The City shall never be obligated to pay any money under this Agreement in excess of the Allocated Funds. Auditor must assure itself that sufficient allocations have been made

to pay for services it provides. If Allocated Funds are exhausted, Auditor's only remedy is suspension or termination of its performance under this Agreement, and it has no other remedy in law or in equity against the City and no right to damages of any kind.

**E. Suspension Of Performance**

The Director may suspend Auditor's performance under this Agreement, with or without cause, by notifying Auditor in writing. For a period of fifteen days from suspension of the Auditor's performance under this Agreement and upon mutual agreement by the parties, Auditor shall resume work when directed to do so by the Director, at no additional cost to the City that is directly attributable to (i) the Director's suspension of the Auditor's performance under this Agreement or (ii) the period of suspension set forth above. The City shall not grant any compensation or extension of time under this Section if the suspension results from material non-compliance of Auditor or its subcontractors with any material requirement of this Agreement.

**F. City Assistance**

The City Department personnel shall be available to render all reasonable assistance and shall, to the extent permitted by law, provide all necessary books and records, supporting schedules, account reconciliations, and account analyses in the City's possession that are necessary for Auditor to perform services under this Agreement. The Director reserves the right to assign a member of the Department's staff to assist the Auditor in the performance of Services under this Agreement, as mutually agreed upon.

In addition, the City Controller's Central Financial Reporting and Accounting staff shall be available to render all possible assistance and shall respond promptly to verbal or written requests for information, provide all necessary books and records, detailed trial balances, supporting schedules, account reconciliations, and account analyses and shall provide the necessary coordination with the

Information Services Division of Finance to obtain computer support and selective access to computer files. The City Controller's Internal Audit Division shall assist the Auditor to the degree negotiated by both parties. Workpapers and reports on completed internal control evaluations shall be made available to the Auditor upon a written request to the City Controller.

**G. Reproduction Services And Workspace**

The City shall provide reasonable on-site reproduction services and clerical support. Costs of special or extensive reproduction shall be the responsibility of the Auditor.

The City shall provide reasonable working space to the Auditor in locations maintained by the Finance Department or Controller's Office or other City facilities.

**V. TERM AND TERMINATION**

**A. Contract Term**

This Agreement is effective on the Countersignature Date and remains in effect for three (3) years therefrom ("Initial Term"), unless sooner terminated under this Agreement.

**B. Renewals**

Upon expiration of the Initial Term, this Agreement may be renewed for two successive one-year terms each upon the same terms and conditions, if Director, at his or her sole discretion, makes a written request for renewal to Auditor at least thirty (30) days before expiration of the then-current term and if sufficient funds are allocated to pay for such renewal term.

**C. Time Extension**

If Auditor requests an extension of time to complete its performance, then the Director, may, in his or her sole discretion, extend the term so long as the extension does not exceed 180 days. The extension must be in writing but does not require amendment of this Agreement. Auditor is not entitled to damages for delay(s) regardless of the cause of the delay(s).

**D. Termination for Convenience by City**

The Director may terminate this Agreement at any time by giving 30 days written notice to Auditor. The City's right to terminate this Agreement for convenience is cumulative of all rights and remedies, which exist now or in the future.

On receiving the notice, Auditor shall, unless the notice directs otherwise, immediately discontinue all services under this Agreement and cancel all existing orders and subcontracts that are chargeable to this Agreement. As soon as practicable after receiving the termination notice, Auditor shall submit an invoice showing in detail the services performed under this Agreement up to the termination date. The City shall then pay the fees to Auditor for services actually performed, but not already paid for, in the same manner as prescribed in Section IV.B., unless the fees exceed the allocated funds remaining under this Agreement.

TERMINATION OF THIS AGREEMENT AND RECEIPT OF PAYMENT FOR SERVICES RENDERED ARE AUDITOR'S ONLY REMEDIES FOR THE CITY'S TERMINATION FOR CONVENIENCE, WHICH DOES NOT CONSTITUTE A DEFAULT OR BREACH OF THIS AGREEMENT. AUDITOR WAIVES ANY CLAIM (OTHER THAN ITS CLAIM FOR PAYMENT AS SPECIFIED IN THIS SECTION) IT MAY HAVE NOW OR IN THE FUTURE FOR FINANCIAL LOSSES OR OTHER DAMAGES RESULTING FROM THE CITY'S TERMINATION FOR CONVENIENCE.

**E. Termination for Cause by City**

If Auditor defaults under this Agreement, the Director may terminate this Agreement after providing Auditor written notice and an opportunity to cure the default as provided below. The City's right to terminate this Agreement for Auditor's default is cumulative of all rights and remedies, which exist now or in the future. Default by Auditor occurs if:

- (1) Auditor fails to perform any of its material duties under this Agreement;
  - (2) Auditor becomes insolvent;
  - (3) all or a substantial part of Auditor's assets are assigned for the benefit of its creditors;
- or
- (4) a receiver or trustee is appointed for Auditor.

If a default occurs, the Director shall deliver a written notice to Auditor describing the default and the termination date. The Director, at his sole option, may, but is not obligated to, allow Auditor a time to cure the default, or extend the termination date to a later date by a written notice to Auditor. If the Director allows the Auditor to cure the default and Auditor does so to the Director's satisfaction before the termination date, then the termination is ineffective. If Auditor does not cure the default before the termination date, then the Director may terminate this Agreement on the termination date, at no further obligation of the City.

To effect final termination, the Director must notify Auditor in writing. After receiving the notice, Auditor shall, unless the notice directs otherwise, immediately discontinue all services under this Agreement, and promptly cancel all orders or subcontracts chargeable to this Agreement.

**F. Termination for Cause by Auditor**

Auditor may terminate its performance under this Agreement only if the City defaults and fails to cure the default after receiving written notice of it. Default by the City occurs if the City fails to perform one or more of its material duties under this Agreement. If a default occurs and Auditor wishes to terminate the Agreement, then Auditor must deliver a written notice to the Director describing the default and the proposed termination date. The date must be at least 30 days after the Director receives the notice. Auditor, at its sole option, may extend the proposed termination date to a later date. If the City cures the default before the proposed termination date,

then the proposed termination is ineffective. If the City does not cure the default before the proposed termination date, then Auditor may terminate its performance under this Agreement on the termination date.

**G. Effects of Termination**

Upon termination, Auditor shall immediately turn over all work in progress and final Deliverables to the Director.

**VI. MISCELLANEOUS**

**A. Independent Contractor**

Auditor is an independent contractor and shall perform the services provided for in this Agreement in that capacity. The City has no control or supervisory powers over the manner or method of Auditor's performance under this Agreement. All personnel Auditor uses or provides are its personnel, employees or subcontractors and not the City's employees, agents, or subcontractors for any purpose whatsoever. Auditor is solely responsible for the compensation of its personnel, including but not limited to: the withholding of income, social security, and other payroll taxes and all worker's compensation benefits coverage.

**B. Force Majeure**

1. Neither party is liable for delays or other failures to perform its obligations under this Agreement to the extent the delay or failure is caused by Force Majeure. Force Majeure means fires, floods, explosions, and other acts of God, war, terrorist acts, riots, court orders, and the acts of superior governmental or military authority.

2. This relief is not applicable unless the affected party does the following:

(a) uses due diligence to remove the Force Majeure as quickly as possible;

- (b) provides the other party with prompt written notice of the cause and its anticipated effect (unless the Force Majeure prevents such party from providing such notice); and
- (c) provides the other party with written notice describing the actual delay or non-performance incurred within 7 days after the Force Majeure ceases.

3. If the Force Majeure continues for more than ten days, the Director may terminate this Agreement by giving 7 days written notice to Auditor. This termination is not a default or breach of this Agreement. AUDITOR WAIVES ANY CLAIM IT MAY HAVE FOR FINANCIAL LOSSES OR OTHER DAMAGES RESULTING DIRECTLY FROM TERMINATION IN ACCORDANCE WITH THIS SECTION VI (B), EXCEPT FOR AMOUNTS DUE UNDER THE AGREEMENT AT THE TIME OF THE TERMINATION.

4. Auditor is not relieved from performing its obligations under this Agreement due to a strike or work slowdown of its employees. Auditor shall employ only competent and qualified personnel during a strike.

**C. Severability**

If any part of this Agreement is for any reason found to be unenforceable, all other parts remain enforceable unless the result materially prejudices either party.

**D. Entire Agreement**

This Agreement merges the prior negotiations and understandings of the Parties and embodies the entire agreement of the Parties. No other agreements, assurances, conditions, covenants (express or implied), or other terms of any kind, exist between the Parties regarding this Agreement.

**E. Written Amendment**

Unless otherwise specified elsewhere in this Agreement, this Agreement may be amended only by written instrument executed on behalf of the City (by authority of an ordinance adopted by the City Council) and Auditor. The Director is only authorized to perform the functions specifically delegated to him or her in this Agreement.

**F. Applicable Laws**

This Agreement is subject to the laws of the State of Texas, the City Charter and Ordinances, the laws of the federal government of the United States, and all rules and regulations of any regulatory body or officer having jurisdiction.

Venue for any litigation relating to this Agreement is Harris County, Texas.

**G. Notices**

All notices to either party to the Agreement must be in writing and must be delivered by hand, facsimile, United States registered or certified mail, return receipt requested, United States Express Mail, Federal Express, Airborne Express, UPS or any other national overnight express delivery service. The notice must be addressed to the party to whom the notice is given at its address set out in Section I of this Agreement or other address the receiving party has designated previously by proper notice to the sending party. Postage or delivery charges must be paid by the party giving the notice.

**H. Captions**

Captions contained in this Agreement are for reference only, and, therefore, have no effect in construing this Agreement. The captions are not restrictive of the subject matter of any section in this Agreement.

**I. Non-Waiver**

If either party fails to require the other to perform a term of this Agreement, that failure does not prevent the party from later enforcing that term and all other terms. If either party waives the other's breach of a term, that waiver does not waive a later breach of this Agreement.

An approval by the Director, or by any other employee or agent of the City, of any part of Auditor's performance does not waive compliance with this Agreement or establish a standard of performance other than that required by this Agreement and by law. The Director is not authorized to vary the terms of this Agreement.

**J. Inspections and Audits**

City representatives may perform, or have performed, (1) audits of Auditor's books and records relating to Auditor's performance under this Agreement, and (2) inspections of all places where work is undertaken in connection with this Agreement. Auditor shall keep its books and records available for this purpose for at least 5 years after this Agreement terminates. This provision does not affect the applicable statute of limitations.

**K. Enforcement**

The City Attorney or his or her designee may enforce all legal rights and obligations of the City under this Agreement without further authorization from the City Council. Auditor shall provide the City Attorney all documents and records that the City Attorney requests to assist in determining Auditor's compliance with this Agreement, with the exception of those documents made confidential by federal or State law or regulation.

**L. Ambiguities**

If any term of this Agreement is ambiguous, it shall not be construed for or against any party on the basis that the party did or did not write it.

**M. Survival**

Auditor shall remain obligated to the City under all clauses of this Agreement that expressly or by their nature extend beyond the expiration or termination of this Agreement, including but not limited to, the indemnity provisions.

**N. Publicity**

Auditor shall make no announcement or release of information concerning this Agreement unless the release has been submitted to and approved, in writing, by the Director.

**O. Parties In Interest**

This Agreement does not bestow any rights upon any third party, but binds and benefits the City and Auditor only.

**P. Successors and Assigns**

This Agreement binds and benefits the Parties and their legal successors and permitted assigns; however, this provision does not alter the restrictions on assignment and disposal of assets set out in the following paragraph. This Agreement does not create any personal liability on the part of any officer or agent of the City.

**Q. Business Structure and Assignments**

Auditor shall not assign this Agreement at law or otherwise or dispose of all or substantially all of its assets without the Director's prior written consent. Nothing in this clause, however, prevents the assignment of accounts receivable or the creation of a security interest as described in §9.406 of the Texas Business & Commerce Code. In the case of such an assignment, Auditor shall immediately furnish the City with proof of the assignment and the name, telephone number, and address of the Assignee and a clear identification of the fees to be paid to the Assignee.

Auditor shall not delegate any portion of its performance under this Agreement without the Director's prior written consent.

**R. Remedies Cumulative**

Unless otherwise specified elsewhere in this Agreement, the rights and remedies contained in this Agreement are not exclusive, but are cumulative of all rights and remedies which exist now or in the future. Neither party may terminate its duties under this Agreement except in accordance with its provisions.

**S. AUDITOR DEBT**

IF AUDITOR, AT ANY TIME DURING THE TERM OF THIS AGREEMENT, INCURS A DEBT, AS THE WORD IS DEFINED IN SECTION 15-122 OF THE HOUSTON CITY CODE OF ORDINANCES, IT SHALL IMMEDIATELY NOTIFY THE CITY CONTROLLER IN WRITING UPON THE AUDITOR'S ENGAGEMENT LEADER BECOMES AWARE OF SUCH DEBT. IF THE CITY CONTROLLER BECOMES AWARE THAT AUDITOR HAS INCURRED A DEBT, HE/SHE SHALL IMMEDIATELY NOTIFY AUDITOR IN WRITING. IF AUDITOR DOES NOT PAY THE DEBT WITHIN 30 DAYS OF EITHER SUCH NOTIFICATION, THE CITY CONTROLLER MAY DEDUCT FUNDS IN AN AMOUNT EQUAL TO THE DEBT FROM ANY PAYMENTS OWED TO AUDITOR UNDER THIS AGREEMENT, AND AUDITOR WAIVES ANY RECOURSE THEREFOR.

AUDITOR SHALL FILE A NEW AFFIDAVIT OF OWNERSHIP USING THE FORM DESIGNATED BY CITY, BETWEEN FEBRUARY 1 AND MARCH 1 OF EVERY YEAR DURING THE TERM OF THIS AGREEMENT.

## EXHIBIT "A"

### SCOPE OF SERVICES

- I. **BASIC SERVICES** The Basic Services to be performed under any Engagement Letter shall be set forth in such Engagement Letter. Such Basic Services may include, but are not necessarily limited to:

**Task 1: Audit of Comprehensive Annual Financial Report (CAFR) commencing with fiscal year beginning July 1, 2013.**

1.1 Auditor shall conduct annual financial audits of the COH's basic financial statements for the fiscal years ending June 30, 2014, 2015 and 2016. These audits shall be performed in accordance with generally accepted auditing standards; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments and Non-profit Organizations, as amended*.

1.2 The Auditor shall plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud, and shall perform tests of the COH's compliance with certain provisions of laws, regulations, contract, and grants. However, because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. An audit is not designed to detect error or fraud that is immaterial to the financial statements or to detect immaterial instances of noncompliance.

1.3 In conjunction with its annual financial audit, the Auditor shall perform a compliance audit of management controls on investments, adherence to the City's established investment policies and the quarterly reports prepared by the investment manager. The results of the review shall be reported to the Audit Committee.

1.4 As part of the audit, the Auditor shall consider the COH internal control process and assess control risk, as required by generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, for the purpose of establishing a basis for determining the

nature, timing, and extent of auditing procedures necessary for expressing an opinion on the financial statements, and not as a means for providing assurance on the COH's internal control process or to identify reportable conditions.

1.5 The auditing procedures shall 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. The Auditor shall make audit inquiries and request written responses from the COH's attorneys as part of the engagement.

1.6 As part of the audit of compliance with the requirements of major federal programs, the Auditor shall obtain an understanding of the COH internal control process related to administering major federal programs and the Auditor shall assess risk as required by OMB Circular A-133 for the purpose of establishing the nature, timing, and extent of auditing procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

1.7 As required by OMB Circular A-133, the compliance audit shall also include tests of transactions related to federal award programs for compliance with applicable laws and regulations. However, because of the concept of reasonable assurance and because the Auditor shall not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by the Auditor. The Auditor shall advise the City however, of any related matters that come to the Auditor's attention, and shall include such matters in the reports required for an audit in accordance with OMB Circular A-133. The Auditor's responsibility as Auditor is limited to the periods for which the Auditor has been engaged as auditor or for which the Auditor has performed substantive auditing procedures.

1.8 The report on the Auditor's understanding of the City's internal control process and the assessment of control risk made as part of the City financial statement audit shall include: (1) the scope of our work in obtaining an understanding of the City's internal control and in assessing the control risk; and (2) the deficiencies in internal control, including the identification of significant deficiencies and material weaknesses identified as a result of the Auditor's work in understanding and assessing the control risk.

1.9 The Auditor shall complete and sign one copy of the Auditor's information section of the Data Collection form. COH management must prepare all other

sections of the form and sign the form prior to its submission to the Federal Audit Clearinghouse.

1.10 The Auditor's ability to express an opinion and render those reports and the wording of the Auditor's opinion and reports, will be dependent on the facts and circumstances at the date of such reports. If, for any reason, the Auditor is unable to complete the audit or is unable to form or has not formed an opinion, the Auditor may decline to express an opinion or decline to issue a report as a result of this engagement. If the Auditor is unable to complete the audit or if the auditor's reports require modification, the Auditor shall discuss the reasons with the Director.

1.11 The Auditor understands that the Auditor's reports on the City's internal control (as part of the financial statement audit and in compliance with laws and regulations) are intended for the information of the management and others within the City and applicable federal and statute granting organizations.

1.12 The Auditor shall advise the City Controller as the City Controller prepares and compiles the Comprehensive Annual Financial Report (CAFR) in accordance with Governmental Accounting and Financial Reporting Standards which is published and issued by the Governmental Accounting Standards Board (GASB) and all eligibility requirements of the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program.

1.13 The Auditor shall determine and issue reports including opinions on:

1.13.1 The entity-wide financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, which collectively comprise the City's basic financial statements as of the year end, and the respective changes in financial position and cash flows, where applicable, for the year then ended.

1.13.2 The financial statements of the Houston Airport System at year end, and the changes in financial position and cash flows thereof for the year then ended.

1.13.3 Whether the COH meets the financial assurance requirements of the Texas Commission on Environmental Quality (TCEQ).

1.13.4 Auditor shall prepare a management recommendation letter. The letter may communicate opportunities for the City to improve the economy and efficiencies of the City financial management practices that come to the Auditors attention during the audit process. The letter shall contain the responses from the responsible City Department Directors. Prior to issuance, the Auditor shall review the proposed draft letter with the Director of Finance and the City Controller. Subsequent to issuance, the Auditor shall review the final letter with the Mayor and City Council, if requested to do so. At the request of the City and, within 90 days after the issuance of the management recommendation letter, the Auditor shall evaluate the quality of the implementation of all agreed-to recommendations and submit a report on the status and condition of implementation to the Director of Finance and the City Controller.

**Task 2: Single Audit Report including the Schedule of Expenditures of Federal Awards (SEFA)**

2.1 In conjunction with the CAFR financial audit, the Auditor shall perform an audit of federal awards under the Single Audit Act, 1996, as amended, Office of Management and Budget (OMB) Circular A-133, and any amendments or supplements thereto. Successor publications will also apply in addition to the auditor requirements of OMB Circular A-133; the Auditor shall perform the following tasks:

2.2 The Auditor shall assist the City, up to a maximum of 20 hours, in its efforts to obtain acceptance of the Plan for Corrective Action by the Federal Cognizant Agency.

2.3 At the request of the Director, the Auditor shall conduct follow-up on corrective actions taken by the City ninety (90) days after issuance of the final audit report, evaluate the City's progress in correcting the problems, and separately report the findings to the Director of Finance and to the City Controller.

2.4 At the request of the Director, the Auditor shall follow-up on single-audit findings and recommendations to ascertain that resolution has been achieved. The Auditor shall, by the end of each month, submit a report to the Director and City Controller on the quality and timeliness of individual resolution decisions.

**Task 3: State of Texas Single Audit Circular (Uniform Grant Management Standard)**

3.1 In conjunction with the CAFR audit, the Auditor shall also perform auditing procedures on the City state programs in accordance with the provisions

of the State of Texas Single Audit Circular (Uniform Grant Management Standard)

3.2 Prior to the City publication of the State Single Audit Report, the Auditor shall review and evaluate the proposed Plan for Corrective Action.

3.3 The Auditor shall assist the City, up to a maximum of 20 hours, in its efforts to obtain acceptance of the Plan for Corrective Action by the State Cognizant Agency.

3.4 At the request of the Director, the Auditor shall conduct follow-up on corrective actions taken by the City ninety (90) days after issuance of the final audit report, evaluate the City's progress in correcting the problems and report separate findings to the Director of Finance and the City Controller.

3.5 At the request of the Director, the Auditor shall be responsible for follow-up on State single audit findings and recommendations to ascertain that resolution has been achieved. The Auditor shall, by the end of each month, submit a report to the Director and City Controller on the quality and timeliness of individual resolution decisions.

**Task 4: Reports to be issued:** Following the completion of the audit of each fiscal year's financial statements, the Auditor shall issue:

4.1 A report on the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

4.2 A report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with Government Auditing Standards.

4.3 A report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.

**Task 5: Special Services**

Special Services shall be requested in a written notice signed by the Mayor or designee only if City Council has allocated sufficient funds to pay for these Services.

5.1 Determine whether the COH is in substantial compliance with the significant financial and accounting requirements of ordinances pertaining to the revenue bonds associated with the various enterprise funds. The documents requiring opinions are:

5.1.1 Convention & Entertainment Facilities Department -Schedule of Pledged Revenues and Debt Service Requirements;

5.1.2 Airport - Schedule of Overhead and Direct Charges; Schedule of Gross Revenues, Net Revenues, and Debt Service Requirements;

5.1.3 Water and Sewer - Schedule of Gross Revenues, Net Revenues and Debt Service Requirements;

5.2 Selected Audits/Reviews/Corrective Action Plans. The Auditor may be requested to conduct various financial audits, and/or corrective action plans and reviews of City activities and funds.

5.3 Other Audits. The Auditor shall furnish all services and materials necessary for the performance of financial and compliance audits of any fund, department, or division operations of the City not included in the Scope of Services for Basic Services.

5.4 Travel. The Auditor shall journey to places outside Harris County, Texas in connection with any Special Services, if needed.

5.5 Expert Witness. The Auditor may be requested to assist the City as an expert witness in litigation with third parties or administrative proceedings.

5.6 Special Investigations or Studies. The Auditor shall conduct special investigations or studies within the Auditor's expertise, but not specified as a Basic Service.

5.7 Bond and Note Offerings. The Auditor shall furnish all services and materials necessary to render consents, to date reviews or other requested services for use in connection with the sale of bonds, notes, etc.; prepare and submit written reports with respect to such funds; advise and assist the COH in connection with such work and in connection with the preparation of various official statements relating thereto. In a typical year, the City will have four to six offerings, including, but not limited to:

5.7.1 A tax and revenue anticipation note for General Fund cash flow;

5.7.2 A public improvement bond issue;

5.7.3 Two utility system issues; and

5.7.4 An airport system and/or convention and entertainment system issue.

5.8 Conferences. The Auditor shall attend periodic conferences with City officials and regulatory officials.

5.9 Quality Control Review (QCR). The Auditor shall review and evaluate the work of other CPA firms engaged by the City. Such QCR will be provided for within the other CPA firm's contract with the City and may be performed in conjunction with members of the City Auditor's or federal cognizant audit agency staffs.

5.10 Governmental Accounting Standards Board. The Auditor shall furnish services and materials necessary or proper for the performance of reviewing the City's planning, preparation and implementation of GASB pronouncements.

5.11 Training for Finance Department and Other City Staff. Each year of the contract, the Auditor shall provide training as outlined below:

5.11.1 Accounting and Auditing Updates Provide a one-day seminar (equivalent to 8 CPE credits, including 2 credits of ethics) discussing accounting principles generally accepted in the United States of America, issues related to the City, recently issued, recently adopted and/or proposed GASB pronouncements of significance to the City, and ethics. This seminar will be provided to the Finance Department personnel and other City personnel designated by the Finance Director.

5.12 Any other services requested.

**EXHIBT "B"**

**BASIC SERVICES**

**YEAR 1**

Position	Rate	Estimated No. of Hours	Total
Partner	\$ 300	800	\$ 240,000
Manager	\$ 225	1,200	\$ 270,000
Senior	\$ 150	5,000	\$ 750,000
Staff	\$ 125	3,000	\$ 375,000

Total \$ 1,635,000  
Discount \$ (435,000)  
Base Year (FY2014) Fee \$ 1,200,000

**YEAR 2**

Position	Rate	Estimated No. of Hours	Total
Partner	\$ 309	800	\$ 247,200
Manager	\$ 232	1,200	\$ 278,400
Senior	\$ 155	5,000	\$ 775,000
Staff	\$ 129	3,000	\$ 387,000

Total \$ 1,687,600  
Discount \$ (451,600)  
Base Year (FY2015) Fee \$ 1,236,000

**YEAR 3**

Position	Rate	Estimated No. of Hours	Total
Partner	\$ 318	800	\$ 254,400
Manager	\$ 239	1,200	\$ 286,800
Senior	\$ 159	5,000	\$ 795,000
Staff	\$ 133	3,000	\$ 399,000

Total \$ 1,735,200  
Discount \$ (461,200)  
Base Year (FY2016) Fee \$ 1,274,000

\*Fees for Option Renewal Years with a 4% increase: FY2017 (\$1,325,000) and FY2018 (\$1,378,000)

**SPECIAL SERVICES**  
**HOURLY RATES**  
**DURING AGREEMENT INITIAL TERM**

<b><u>POSITION</u></b>	<b><u>RATE</u></b>
<b>PARTNER</b>	<b>\$300/hour</b>
<b>SENIOR MANAGER/MANAGER</b>	<b>\$225/hour</b>
<b>SENIOR AUDITOR</b>	<b>\$150/hour</b>
<b>STAFF AUDITOR</b>	<b>\$125/hour</b>

\*Rates for Special Services for Option Renewal Years (FY2017 and FY2018) may have a 4% increase, as mutually agreed to between the Parties.

## EXHIBIT "C"

### EQUAL EMPLOYMENT OPPORTUNITY

1. The contractor, subcontractor, vendor, supplier, or lessee will not discriminate against any employee or applicant for employment because of race, religion, color, sex, national origin, or age. The contractor, subcontractor, vendor, supplier, or lessee will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, religion, color, sex, national origin, or age. Such action will include, but not be limited to, the following: employment; upgrading; demotion or transfer; recruitment advertising; layoff or termination; rates of pay or other forms of compensation and selection for training, including apprenticeship. The contractor, subcontractor, vendor, supplier or lessee agrees to post in conspicuous places available to employees, and applicants for employment, notices to be provided by the City setting forth the provisions of this Equal Employment Opportunity Clause.

2. The contractor, subcontractor, vendor, supplier, or lessee states that all qualified applicants will receive consideration for employment without regard to race, religion, color, sex, national origin or age.

3. The contractor, subcontractor, vendor, supplier, or lessee will send to each labor union or representatives of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer advising the said labor union or worker's representative of the contractor's and subcontractor's commitments under Section 202 of Executive Order No. 11246, as amended and superseded, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The contractor, subcontractor, vendor, supplier, or lessee will comply with all provisions of Executive Order No. 11246, as amended and superseded, and the rules, regulations, and relevant orders of the Secretary of Labor or other Federal Agency responsible for enforcement of the equal employment opportunity and affirmative action provisions applicable and will likewise furnish all information and reports required by the Mayor and/or Contractor Compliance Officer(s) for purposes of investigation to ascertain and effect compliance with this program.

5. The contractor, subcontractor, vendor, supplier, or lessee will furnish all information and reports required by Executive Order No. 11246, as amended and superseded, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to all books, records, and accounts by the appropriate City and Federal Officials for purposes of investigations to ascertain compliance with such rules, regulations, and orders. Compliance reports filed at such times as directed shall contain information as to the employment practice policies, program, and work force statistics of the contractor, subcontractor, vendor, supplier, or lessee.

6. In the event of the contractor's, subcontractor's, vendor's, supplier's, or lessee's non-compliance with the non-discrimination clause of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated, or suspended in whole or in part, and the contractor, subcontractor, vendor, supplier, or lessee may be declared ineligible for further City contracts in accordance with procedures provided in Executive Order No. 11246, as amended and superseded, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order, or by rule, regulation, or order of the Secretary of Labor, or as may otherwise be provided by law.

7. The contractor shall include the provisions of paragraphs 1-8 of this Equal Employment Opportunity Clause in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, as amended and superseded, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontractor or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event the contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

8. The contractor shall file and shall cause his or her subcontractors, if any, to file compliance reports with the City in the form and to the extent as may be prescribed by the Mayor. Compliance reports filed at such times as directed shall contain information as to the practices, policies, programs, and employment policies and employment statistics of the contractor and each subcontractor.

**EXHIBIT "E"**

**CONTRACTOR'S CERTIFICATION  
OF NO SAFETY IMPACT POSITIONS  
IN PERFORMANCE OF A CITY CONTRACT**

I, \_\_\_\_\_, \_\_\_\_\_,  
(Name) (Title)

as an owner or officer of \_\_\_\_\_ (Contractor)  
(Name of Company)

have authority to bind the Contractor with respect to its bid, and hereby certify that Contractor has no employee safety impact positions, as defined in §5.18 of Executive Order No. 1-31, that will be involved

in performing \_\_\_\_\_.  
(Project)

Contractor agrees and covenants that it shall immediately notify the City of Houston Director of Human Resources if any safety impact positions are established to provide services in performing this City Contract.

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Typed or Printed Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Title)

**EXHIBIT "D"**

**DRUG POLICY COMPLIANCE AGREEMENT**

I, \_\_\_\_\_ as an owner or officer of  
(Name) (Print/Type) (Title)  
\_\_\_\_\_ (Contractor)  
(Name of Company)

have authority to bind Contractor with respect to its bid, offer or performance of any and all contracts it may enter into with the City of Houston; and that by making this Agreement, I affirm that Contractor be bound by and agree to designate appropriate safety impact positions for company employee positions and to comply with the following requirements before the City issues a notice to proceed:

1. Develop and implement a written Drug Free Workplace Policy and related drug testing procedures for the Contractor that meet the criteria and requirements established by the Mayor's Amended Policy on Drug Detection and Deterrence (Mayor's Drug Policy) and the Mayor's Drug Detection and Deterrence Procedures for Contractors (Executive Order No. 1-31).]
4. Obtain a facility to collect urine samples consistent with Health and Human Services (HHS) guidelines and a HHS certified drug testing laboratory to perform the drug tests.
5. Monitor and keep records of drug tests given and the results; and upon request from the City of Houston, provide confirmation of such testing and results.
6. Submit semi-annual Drug Policy Compliance Declarations.

I affirm on behalf of the Contractor that full compliance with the Mayor's Drug Policy and Executive Order No. 1-31 is a material condition of the contract with the City of Houston.

I further acknowledge that falsification, failure to comply with or failure to timely submit declarations and/or documentation in compliance with the Mayor's Drug Policy and/or Executive Order No. 1-31 will be considered a breach of the contract with the City and may result in non-award or termination of the contract by the City of Houston.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Contractor Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

**EXHIBIT "F"**

**DRUG POLICY COMPLIANCE DECLARATION**

I, \_\_\_\_\_ as an owner or officer of  
 \_\_\_\_\_  
 (Name) (Print/Type) (Title) (Contractor)  
 \_\_\_\_\_  
 (Name of Company)

have personal knowledge and full authority to make the following declarations:

This reporting period covers the preceding 6 months from \_\_\_\_\_ to \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_ A written Drug Free Workplace Policy has been implemented and employees notified.  
 Initials The policy meets the criteria established by the Mayor's Amended Policy on Drug Detection and Deterrence (Mayor's Policy).

\_\_\_\_\_ Written drug testing procedures have been implemented in conformity with the Mayor's  
 Initials Drug Detection and Deterrence Procedures for Contractors, Executive Order No. 1-31. Employees have been notified of such procedures.

\_\_\_\_\_ Collection/testing has been conducted in compliance with federal Health and Human  
 Initials Services (HHS) guidelines.

\_\_\_\_\_ Appropriate safety impact positions have been designated for employee positions  
 Initials performing on the City of Houston contract. The number of employees in safety impact positions during this reporting period is \_\_\_\_\_.

\_\_\_\_\_ From \_\_\_\_\_ to \_\_\_\_\_ the following test has occurred  
 Initials (Start date) (End date)

	<u>Random</u>	<u>Reasonable Suspicion</u>	<u>Post Accident</u>	<u>Total</u>
Number Employees Tested	_____	_____	_____	_____
Number Employees Positive	_____	_____	_____	_____
Percent Employees Positive	_____	_____	_____	_____

\_\_\_\_\_ Any employee who tested positive was immediately removed from the City worksite  
 Initials consistent with the Mayor's Policy and executive Order No.1.-31.

\_\_\_\_\_ I affirm that falsification or failure to submit this declaration timely in accordance  
 Initials with established guidelines will be considered a breach of contract.

\_\_\_\_\_ Date

\_\_\_\_\_ (Typed or Printed Name)

\_\_\_\_\_ (Signature)

\_\_\_\_\_ (Title)

**EXHIBIT "G"**

**Form of Engagement Letter for Basic Services**

Date  
Mayor  
City of Houston, Texas  
P.O. Box 1562  
Houston, TX 77251

Director of Finance  
City of Houston, Texas  
611 Walker, 10<sup>th</sup> Floor  
Houston, Texas 77002

Dear Mayor,

McConnell & Jones LLP (M&J) & Banks, Finley, White and Company (BFW), a Joint Venture Partnership doing business in Texas under the assumed name of J&J/BFW Team ("M&J/BFW Team" or "Auditor" or "we" or "us") are pleased to confirm our understanding of the services we are to provide the City of Houston, Texas (the "City") for the year ended June 30, \_\_\_\_\_. M&J/BFW Team will be responsible for the services that we perform for the City hereunder.

The services to be performed by M&J/BFW Team pursuant to this engagement are subject to the terms and conditions of the Agreement for Professional Auditing Services (Contract No. \_\_\_\_\_), dated effective \_\_\_\_\_ between the City and M&J/BFW Team ("the Agreement") and the terms and conditions set forth herein and in the accompanying appendices hereto. The terms and conditions hereof shall be effective as of the date of the commencement of services described herein.

We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the City as of and for the year ended June 30, \_\_\_\_\_. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis
- 2) General Operating Fund – Budget to Actual
- 3) Pension System Supplementary Information
- 4) Other Post Employment Retirement Benefits Supplementary Information

We have also been engaged to report on supplementary information other than RSI that accompanies the City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- 1) Schedule of Expenditures of Federal Awards (Federal and State of Texas)
- 2) Combining and Individual Fund financial statements in preparation of Comprehensive Annual Financial Report (CAFR)

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

- 1) Introductory Section of CAFR
- 2) Statistical Section of CAFR

### **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 supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and 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 paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

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; the Single Audit Act Amendments of 1996; the State of Texas Single Audit Act (Uniform Grant Management Standards); and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will 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, schedule of expenditures of federal and state awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal and state awards in accordance with the requirements of OMB Circular A-133 and the State of Texas Uniform Grant Management Standards. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal and state awards, and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal and state awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal and state awards, and related notes prior to their issuance and have accepted responsibility for them. You agree to assume all management responsibilities for any nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements 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 is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government, (4) access to information of components and/or component auditors relative to facilitating group audit requirements under GAAS.

Management responsibilities also include 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 written 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.

Management is 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 affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud 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.

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 during the preliminary phase of the audit.

Management is responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to [include the audited financial statements with any presentation of the schedule of expenditures of federal and state awards that includes our report thereon OR make the audited financial statements readily available to intended

users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon]. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) that you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

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.

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.

### **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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 of the inherent limitations of an audit, combined with the inherent limitations of internal control, 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, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. 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 the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors are 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.

In connection with the audit of the City, we will serve as the *group auditor* in connection with *components* of the City, both terms as defined by generally accepted auditing standards. During the planning phase of the City's audit, we will make a decision whether to make reference to component auditor's work in our auditor's report on the City's financial statements or perform additional audit procedures on the respective components in order to opine on the group financial statements. Under the capacity as group auditor and with the assistance of City management, we will request the following from component auditors:

- A copy of the financial statements of the respective components for the most recent audit period in relation to the City's fiscal year end.
- To advise us of other related parties not included on the list of City related parties as provided them and any related party transactions as they become known to the component auditors and of transactions with related parties that differ from any we may describe to them.
- To update their subsequent events procedures from the date of their report on the financial statements of respective components to the expected date of our report on the City's financial statements, and advise us of any subsequent events they identify that may require adjustment to, or disclosure in, the City's financial statements

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 Control**

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*.

As required by OMB Circular A-133, we will perform tests of controls over compliance 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 or to identify significant deficiencies or material weaknesses. 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, *Government Auditing Standards*, and OMB Circular A-133.

### **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 provisions of applicable laws, regulations, 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 tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on

the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

### **Engagement Administration, Fees, and Other**

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations and schedules we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. 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 corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit 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.

The audit documentation for this engagement is the property of the M&J/BFW Team and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Cognizant or Oversight 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 the M&J/BFW Team 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.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the federal cognizant agency for the City. 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.

We expect to begin our audit upon signing of this engagement letter and to issue our reports no later than December 1, \_\_\_\_\_. Gregory Ellison is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be \$\_\_\_\_\_ consistent with the fee set forth in Exhibit B of the Agreement with the City. Our invoices for these fees will be rendered each month in accordance with Section IV.B of the Agreement. The above fee is based on anticipated cooperation from City personnel and the assumption that unexpected circumstances will not be encountered during the audit.

We appreciate the opportunity to be of service to the City of Houston, Texas and believe this letter accurately summarizes the significant terms of our engagement under generally accepted auditing standards in addition to other provisions set forth in the Agreement.

If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

You have requested that we provide you with a copy of our most recent external peer review reports and any subsequent reports received during the contract period. Accordingly, our \_\_\_\_\_ peer review report accompanies this letter.

Very truly yours,

McConnell & Jones LLP (M&J)  
& Banks, Finley, White and Company (BFW)  
Under Assumed Name of M&J/BFW Team

\_\_\_\_\_  
Wayne McConnell, CPA  
Partner

**RESPONSE:**

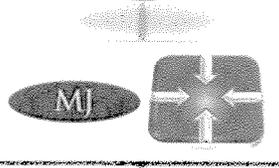
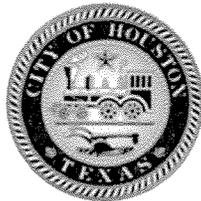
This letter correctly sets forth the understanding of the City of Houston, Texas.

Acknowledged and approved on behalf of  
The Mayor of the City of Houston, Texas:

Signature: \_\_\_\_\_  
Title: Finance Director  
Date: \_\_\_\_\_

**EXHIBIT "H"**  
**PROJECT TEAM**  
**(See attached)**

## **Organization Chart of Audit Team**



**Wayne McConnell, CPA**  
Client Service Partner

**Gregory Ellison, CPA**  
Engagement Partner

### Technical Partners

**Jim White, CPA**  
Gov't Funds/  
Financial Reporting

**Jeff White, CPA**  
Utility Systems

**L. Michael Forsythe,**  
**CPA, CFE**  
Airport Systems

**Enterprise Funds**

**Governmental  
Funds**

**Other Funds/  
Component Units**

**Single Audit**

**Wandalyn Wright, CPA**

**Shintasha Brock, CPA**

**Godwin Okoye, CPA**

**Imran Khimani, CPA**