

AN ORDINANCE **101628**

**AUTHORIZING THE EXTENSION OF THE AGREEMENTS WITH KPMG, LLP, LEAL AND CARTER, P.C., AND ROBERT J. WILLIAMS, CPA, TO PROVIDE INDEPENDENT AUDIT SERVICES TO THE CITY FOR FISCAL YEAR 2005 AT A TOTAL FEE OF APPROXIMATELY \$543,895.00.**

\* \* \* \* \*

**WHEREAS**, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the City's financial records by an independent certified public accountant; and

**WHEREAS**, Chapter 103 of the Texas Local Government Code requires the City to have its records and accounts audited annually by an independent certified public accountant; and

**WHEREAS**, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

**WHEREAS**, Ordinance No. 96458, passed and approved September 26, 2002, authorized the execution of contracts and approved the firms of KPMG, LLP, Leal and Carter, P.C., and Robert J. Williams, CPA, to provide the City with independent audit services for Fiscal Years 2002, 2003, and 2004, with two, one-year options to renew and extend, at the City's sole discretion, subject to City Council approval; and

**WHEREAS**, after due deliberations on and consideration of the matter, the City Council desires to approve, effective October 1, 2005, the renewal and extension of contracts, with the firms of KPMG, LLP, Leal and Carter, P.C., and Robert J. Williams, CPA, to provide independent audit services to the City for Fiscal Year 2005, with the scope of services to be substantially the same as in the present contracts, and with the total fee not to exceed \$543,895; **NOW, THEREFORE;**

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:**

**SECTION 1.** The agreements with KPMG, LLP, Leal and Carter, P.C., and Robert J. Williams, CPA, are hereby authorized to be renewed and extended for a period to commence October 1, 2005 and to terminate upon completion of the audit of the City's records and accounts for Fiscal Year 2005, for a total amount not to exceed \$543,895.00. Said firms are to provide independent audit services to the City for Fiscal Year 2005, substantially according to the following distribution: KPMG, LLP 50%; Leal and Carter, P.C. 40%; and Robert J. Williams CPA 10%.

**SECTION 2.** The City Manager, or the City Manager's designee, is hereby authorized to execute a one year extension agreement with each of said firms in the form attached hereto and incorporated herein as Attachments I, II, and III, respectively. The terms and conditions of said extension agreements are hereby approved.

**SECTION 3.** Funds in the amount of \$543,895.00 are authorized to be encumbered in Fiscal Year 2006 in Fund 11-001000 (General Fund), in Cost Centers 8002060012 for \$500,000 and in Cost Center 7001990002 for \$43,895, Account Number 5201040 (Fees to Professional Contractors), and made payable as indicated below for audit services for fiscal year 2005:

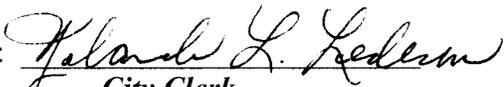
KPMG, L.L.P.	Not to Exceed \$287,128.00
Leal and Carter, P.C.	Not to Exceed \$205,414.00
Robert J. Williams, CPA	Not to Exceed \$ 51,353.00

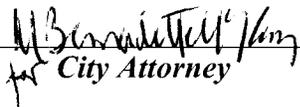
**SECTION 4.** The financial allocations in this Ordinance are subject to approval by the Director of Finance, City of San Antonio. The Director may, subject to concurrence by the City Manager or the City Manager's designee, correct allocations to specific Index Codes and Fund Numbers as necessary to carry out the purpose of this Ordinance.

**SECTION 5.** This ordinance is effective immediately upon passage by eight (8) affirmative votes; otherwise, said effective date shall be ten (10) days from the date of passage hereof.

**PASSED AND APPROVED** this 3<sup>rd</sup> day of November, 2005.

  
M A Y O R  
PHIL HARDBERGER

ATTEST:   
ASSISTANT City Clerk

APPROVED AS TO FORM:   
City Attorney

MEETING OF THE CITY COUNCIL

ALAMODOME
ASSET MANAGEMENT
AVIATION
CITY ATTORNEY
MUNICIPAL COURT
REAL ESTATE
REAL ESTATE (WOOD)
RISK MANAGEMENT
CITY MANAGER
SPECIAL PROJECTS
CODE COMPLIANCE
COMMERCIAL RECORDER
COMMUNITY INITIATIVES
CONVENTION AND VISITORS BUREAU
CONVENTION CENTER EXPANSION OFFICE
CONVENTION FACILITIES
CONTRACT SERVICES
COUNCIL OFFICES
CULTURAL AFFAIRS
CUSTOMER SERVICE/311 SYSTEM
DEVELOPMENT SERVICES
HOUSE NUMBERING
LAND DEVELOPMENT SERVICES
TRAFFIC & DRAINAGE PLAN REVIEW
ECONOMIC DEVELOPMENT
ENVIRONMENTAL SERVICES
SOLID WASTE
EXTERNAL RELATIONS
PUBLIC INFORMATION OFFICE
FINANCE - DIRECTOR
FINANCE - ASSESSOR
FINANCE - CONTROLLER
FINANCE - GRANTS
FINANCE - TREASURY
FIRE DEPARTMENT
HOUSING AND COMMUNITY DEVELOPMENT
HUMAN RESOURCES (PERSONNEL)
INFORMATION SERVICES
INTERNAL REVIEW
INTERNATIONAL AFFAIRS
LIBRARY
MANAGEMENT & BUDGET (OFFICE OF) OMB
MAYOR'S OFFICE
METROPOLITAN HEALTH DISTRICT
MUNICIPAL CODE CORPORATION
MUNICIPAL COURT
NEIGHBORHOOD ACTION
PARKS AND RECREATION
MARKET SQUARE
YOUTH INITIATIVES
PLANNING DEPARTMENT -NEIGHBORHOOD PLNG; URBAN DESIGN/HISTORIC PRESERVATION DISABILITY ACCESS OFFICE
POLICE DEPARTMENT
GROUND TRANSPORTATION
PUBLIC UTILITIES
PUBLIC WORKS DIRECTOR
CAPITAL PROJECTS
CENTRAL MAPPING
ENGINEERING
PARKING DIVISION
REAL ESTATE DIVISION
TRAFFIC ENGINEERING
PURCHASING AND GENERAL SERVICES
SAN ANTONIO WATER SYSTEMS (SAWS)
VIA

AGENDA ITEM NUMBER: 45

DATE: NOV 3 2005

MOTION/SECOND: \_\_\_\_\_

ORDINANCE NUMBER: 101628 DM

RESOLUTION NUMBER: \_\_\_\_\_

ZONING CASE NUMBER: \_\_\_\_\_

TRAVEL AUTHORIZATION: \_\_\_\_\_

NAME	ROLE	AYE	NAY
ROGER O. FLORES District 1			
SHEILA D. MCNEIL District 2			
ROLAND GUTIERREZ District 3			
RICHARD PEREZ District 4			
PATTI RADLE District 5			
DELICIA HERRERA District 6			
ELENA GUAJARDO District 7			
ART A. HALL District 8			
KEVIN A. WOLFF District 9			
CHRISTOPER "CHIP" HAASS District 10			
PHIL HARDBERGER Mayor			

**CONSENT AGENDA**

**A T T A C H M E N T I**

## FIRST EXTENSION OF AUDIT SERVICES CONTRACT

THE STATE OF TEXAS                    §

THE COUNTY OF BEXAR                §

This *First Extension Of Audit Services Contract* (“Agreement”) is made and entered into by and between the **CITY OF SAN ANTONIO** (hereinafter referred to as “**CITY**”), a Texas Municipal Corporation, acting by and through its City Manager or his designee, pursuant to Ordinance No. \_\_\_\_\_, passed and approved November 3, 2005, and **KPMG, L.L.P.**, acting by and through its duly authorized representative (hereinafter referred to as “**CONTRACTOR**”).

**WHEREAS**, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the **CITY’S** financial records by an independent certified public accountant; and

**WHEREAS**, Chapter 103 of the Texas Local Government Code requires the **CITY** to have its records and accounts audited annually by an independent certified public accountant; and

**WHEREAS**, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

**WHEREAS**, pursuant to Ordinance No. 96458, passed and approved September 26, 2002 (“Ordinance”), **CITY** and **CONTRACTOR** entered into an *Audit Services Contract* pursuant to which **CONTRACTOR** has rendered professional services to **CITY** in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

**WHEREAS**, pursuant to the Ordinance, **CITY** has also entered into an *Audit Services Contract* with **LEAL AND CARTER, P.C.**, (“Leal and Carter”) and **ROBERT J. WILLIAMS, CPA** (“Williams”) in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

**WHEREAS**, each of the *Audit Services Contracts* provides for two (2), one-year extensions, at **CITY’S** sole discretion, upon the same terms and conditions as the Contract, save and except compensation and fees and scope of services, as evidenced by a signed writing and subject to City Council approval; and

WHEREAS, **CITY** desires to renew and extend the Contract for an additional one (1) year period upon the terms and conditions set forth in this Agreement, and **CONTRACTOR** desires to do the same; and

WHEREAS, **CITY** will also execute a *First Extension Of Audit Services Contract* with KPMG and Leal and Carter, upon substantially the same terms and conditions as this Agreement, as the result of which **CONTRACTOR**, Leal and Carter and Williams will be jointly and severally bound to provide the services described in the respective documents; **NOW, THEREFORE:**

**FOR VALUABLE CONSIDERATION**, the parties hereto severally and collectively agree, and by the execution hereof are bound, to the mutual obligations herein contained and to the performance and accomplishment of the tasks hereinafter described.

## I. DEFINITIONS

- 1.1 For purposes of this Agreement, the word “**CONTRACTOR**” as used herein shall refer to **KPMG, L.L.P.**
- 1.2 For purposes of this Agreement, the term “**CPA Contractors**” as used herein shall refer to **KPMG, L.L.P.**; **LEAL AND CARTER, P.C.**; and **ROBERT J. WILLIAMS, CPA.**
- 1.3 For purposes of this Agreement, the word “**CONTRACT**” as used herein shall refer to the *Audit Services Contract* (“Contract”) executed with KPMG, L.L.P., authorized by Ordinance No. 96458.

## II. RENEWAL AND EXTENSION OF CONTRACT

2.1 The Contract is hereby renewed and extended for the period from October 1, 2005 through September 30, 2006 to cover the services provided for herein related to the **CITY’S** records and accounts for the Fiscal Year ending September 30, 2005 (“Audits”), pursuant to the provisions of subsection 6.3 of the Contract.

### III. SCOPE OF SERVICES

- 3.1 **CONTRACTOR** and the **CPA Contractors** under their respective Agreements shall provide the same services as are set forth in Article III, Article IV, and Article V of the Contract.

### IV. CONTRACT PRICING AND BILLING

- 4.1 Pursuant to provisions of subsection 6.3 and 7.9 of the Contract, whereby the parties agreed that in the event the CITY exercised its option to renew and extend the Contract, that said Contract shall be renewed and extended under the same terms and conditions, save and except compensation and fees and scope of services, the parties agree to the following:

The total of all payments and other obligations made and incurred by **CITY** under this Agreement, in performance of the services provided for in Article III of this Agreement shall not exceed **\$543,895.00** (“Contract Price”). This amount is predicated on the expectation that the Finance Department of the **CITY** will provide the preparation of the annual financial reports and statements, and supporting work papers and schedules at a comparable level with prior years; and that the Office of Internal Audit of the **CITY** will provide **-0- hours** of assistance to the annual audit process. It is understood that the Contract Price will be paid individually as follows:

The sum of \$30,360.00 to be billed by and paid to KPMG, in connection with services rendered by KPMG IT auditors in accordance with Article III of this Agreement;

The remainder of the Contract Price, \$513,535.00, shall be paid individually as follows:

		<u>Audit Participation</u>
KPMG, L.L.P.	\$ 256,767.50	(50%)
LEAL & CARTER, P.C.	\$ 205,414.00	(40%)
ROBERT J. WILLIAMS, P.C.	\$ 51,353.50	(10%)

## **ARTICLE V. CONFLICT OF INTEREST**

- 5.1 Pursuant to subsection 18.3 of the Contract, which provides that any change to local, state and federal rules, regulations, or laws applicable to the Contract are automatically incorporated in the Contract, the parties acknowledge and agree that subsection 13.3 of the Contract is hereby revised as follows:

13.3 CONTRACTOR acknowledges that it is informed that the Charter of the CITY and its Ethics Code prohibit a CITY officer or employee, as those terms are defined in Part B, Section 10 of the Ethics Code, from having a financial interest in any contract with the CITY or any CITY agency such as CITY owned utilities. An officer or employee has a “prohibited financial interest” in a contract with the CITY or in the sale to the CITY of land, materials, supplies or service, if any of the following individual(s) or entities is a party to the contract or sale: a CITY officer or employee; his parent, child or spouse; a business entity in which the officer or employee, or his parent, child or spouse owns ten (10) percent or more of the voting stock or shares of the business entity, or ten (10) percent or more of the fair market value of the business entity; a business entity in which any individual or entity above listed is a subcontractor on a CITY contract, a partner or a parent or subsidiary business entity.

Pursuant to the foregoing provisions, CONTRACTOR warrants and certifies, and this Agreement is made in reliance thereon, that it, its officers, employees and agents are neither officers nor employees of the City. CONTRACTOR further warrants and certifies that it has tendered to the CITY a Discretionary Contracts Disclosure Statement in compliance with the City’s Ethics Code.

## **ARTICLE VI. INCORPORATION OF TERMS AND CONDITIONS OF CONTRACT BY REFERENCE**

- 6.1 Except as provided for in this Agreement, all other terms and conditions of the Contract, approved by Ordinance No. 96458 on September 26, 2002, are hereby renewed and extended pursuant to the terms of this Agreement, and incorporated into this Agreement, and are made a part hereof for all purposes.

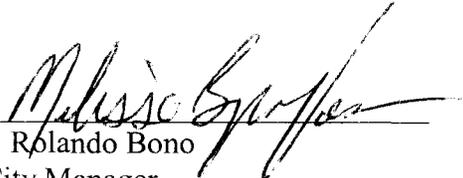
**ARTICLE VII. CONFLICT PROVISIONS**

7.1 Any discrepancy between the provisions of this Agreement and the provisions of the Contract shall be resolved in favor of this Agreement.

EXECUTED and AGREED TO this by City and Contractor on the dates indicated below:

**CITY:**  
CITY OF SAN ANTONIO

**CONTRACTOR:**  
KPMG, L.L.P.

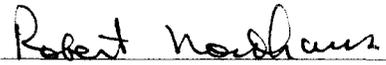
  
\_\_\_\_\_  
J. Rolando Bono  
City Manager

BY:   
\_\_\_\_\_  
TITLE: Partner

DATE: \_\_\_\_\_

DATE: 10/28/05

Approved as to form:

  
\_\_\_\_\_  
Robert Nordhaus  
Assistant City Attorney



**KPMG LLP**  
Suite 1200  
300 Convent Street  
San Antonio, TX 78205

Telephone 210 227 9272  
Fax 210 224 0126  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

September 5, 2005

City of San Antonio  
P.O. Box 839966  
San Antonio, Texas 78783-3966

Attention: Mr. Milo Nitschke, Finance Department Director

Dear Milo:

This letter will confirm our understanding of our engagement to provide professional services to the City of San Antonio, Texas (City).

### **Objectives and Limitations of Services**

#### *Financial Statement Audit Services*

KPMG, Leal & Carter, P.C. and Robert J. Williams, CPA (collectively "CPA Contractors") will issue a written report upon our audit of the City's financial statements as of and for the year ending September 30, 2005.

We have a responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements conforms with accounting principles generally accepted in the United States of America.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
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*Internal Control Over Financial Reporting and Compliance and Other Matters*

In planning and performing our audit of the financial statements, we will consider the City's internal control in order to determine the nature, timing and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

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 certain provisions of laws, regulations, contracts and grants, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for reportable conditions as part of our audit of the financial statements, this report will include any reportable conditions to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The definition of *reportable conditions* does not include potential future internal control problems, that is, control problems coming to our attention that do not affect the preparation of financial statements for the period under audit. This report will also include illegal acts and fraud, unless clearly inconsequential and material violations of grants, contracts and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards* we will also issue a management letter to communicate other deficiencies in internal controls that are not reportable conditions and other violations of grants and contracts, and abuse that comes to our attention unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
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*OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies Audit Services*

We will also perform audit procedures with respect to the City's major federal and state programs and its passenger facility charge program in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies. These publications include specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to each of the City's major programs and its passenger facility charge program. The tests of internal control performed in accordance with OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to federal programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*, the *Texas Uniform Grants Management Standards*, and *Passenger Facility Charge Audit Guide for Public Agencies*. The procedures outlined in these publications are those suggested by each federal and state agency and do not cover all areas of regulations governing each program. Program reviews by federal and state agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will prepare written reports which (1) provide our opinions on the schedule of expenditures of federal awards, the schedule of expenditures of state awards, and the schedule of expenditures of passenger facility charges in relation to the City's financial statements, (2) provide our opinions on compliance with laws, regulations, contracts and grant that could have a direct and material effect on a major federal and state program and the passenger facility charge program and (3) communicates our consideration of internal control over major federal and state programs and the passenger facility charge program. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
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### *Offering Documents*

Should the City wish to include or incorporate by reference these financial statements and our audit reports thereon into an exempt offering, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

### **Our Responsibility to Communicate With the City Council**

We will report to you, in writing, the following matters:

- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other serious difficulties encountered in performance of our audit.
- Other matters required to be communicated by generally accepted auditing standards in the United States of America

We will also read minutes, if any, of City Council meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for modification or withdrawal.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
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### **Management Responsibilities**

The management of the City is responsible for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all reportable conditions in the design or operation of such controls.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal and state programs and the passenger facility charge program as discussed above the following is required:

OMB Circular A-133 requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

The State of Texas Single Audit Circular requires the City to prepare a:

- Schedule of expenditures of state awards

The Passenger Facility Charge Audit Guide for Public Agencies requires the City to prepare a:

- Schedule of expenditures of passenger facility charges

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
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Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to October 1, 2005.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG LLP and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAS report within 14 days of being provided with draft findings.

Management is responsible for the distribution of the reports issued by KPMG. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

#### **Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG LLP (KPMG) and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
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KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

\* \* \* \* \*

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

*Other Government Auditing Standards Matters*

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report and letter of comments.

*Fees for Services*

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to this letter.

\* \* \* \* \*



Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 8

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

John T. Kennedy  
*Partner*

ACCEPTED:

**City of San Antonio**

Authorized Signature

Finance Director

Title

12-13-05

Date



**Fees for Services**

Based upon our discussions with and representations of management, our fees, including expenses, for services we will perform are estimated as follows:

Audit of financial statements of the City of San Antonio as of and for the year ended September 30, 2005	\$ 543,895
-------------------------------------------------------------------------------------------------------------	------------

*Other Reports*

The reports that we will issue as part of this engagement are as follows:

**Report**

Reports issued in connection with OMB Circular A-133

Reports issued in connection with the State of Texas Single Audit Circular

Reports issued in connection with the Passenger Facility Charge Audit Guide for Public Agencies

The above estimates are based on the level of experience of the individuals who will perform the services and are based on assumption that the City Auditor will provide 0 hours of direct assistance to the audit team. Expenses are included in the above fee estimate. Circumstances encountered during the performance of these services that warrant additional time or expense, including but not limited to additional procedures necessary due to the implementation in the current year of SAP, could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

These fees as noted above include a base fee to be allocated between the three accounting firms of \$513,535 and a fee for KPMG information technology auditors not to be allocated of \$30,360. These fees will be divided between the three accounting firms as follows:

	<u>Percentage</u>	
KPMG	50%	\$ 256,767
Leal & Carter	40%	205,414
Robert Williams	10%	51,354
Base fee to be allocated	100%	513,535
KPMG information technology auditors		30,360
Total joint audit fee with direct assistance		<u>\$ 543,895</u>

**A T T A C H M E N T   I I**

**FIRST EXTENSION OF AUDIT SERVICES CONTRACT**

THE STATE OF TEXAS                    §

THE COUNTY OF BEXAR                §

This *First Extension Of Audit Services Contract* (“Agreement”) is made and entered into by and between the **CITY OF SAN ANTONIO** (hereinafter referred to as “**CITY**”), a Texas Municipal Corporation, acting by and through its City Manager or his designee, pursuant to Ordinance No. \_\_\_\_\_, passed and approved November 3, 2005, and **LEAL AND CARTER, P.C.**, acting by and through its duly authorized representative (hereinafter referred to as “**CONTRACTOR**”).

**WHEREAS**, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the **CITY’S** financial records by an independent certified public accountant; and

**WHEREAS**, Chapter 103 of the Texas Local Government Code requires the **CITY** to have its records and accounts audited annually by an independent certified public accountant; and

**WHEREAS**, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

**WHEREAS**, pursuant to Ordinance No. 96458, passed and approved September 26, 2002 (“Ordinance”), **CITY** and **CONTRACTOR** entered into an *Audit Services Contract* pursuant to which **CONTRACTOR** has rendered professional services to **CITY** in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

**WHEREAS**, pursuant to the Ordinance, **CITY** has also entered into an *Audit Services Contract* with **KPMG, L.L.P.**, (“**KPMG**”) and **ROBERT J. WILLIAMS, CPA** (“**Williams**”) in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

**WHEREAS**, each of the *Audit Services Contracts* provides for two (2), one-year extensions, at **CITY’S** sole discretion, upon the same terms and conditions as the Contract, save and except compensation and fees and scope of services, as evidenced by a signed writing and subject to City Council approval; and

WHEREAS, **CITY** desires to renew and extend the Contract for an additional one (1) year period upon the terms and conditions set forth in this Agreement, and **CONTRACTOR** desires to do the same; and

WHEREAS, **CITY** will also execute a *First Extension Of Audit Services Contract* with KPMG and Williams, upon substantially the same terms and conditions as this Agreement, as the result of which **CONTRACTOR**, KPMG, and Williams will be jointly and severally bound to provide the services described in the respective documents; **NOW, THEREFORE:**

**FOR VALUABLE CONSIDERATION**, the parties hereto severally and collectively agree, and by the execution hereof are bound, to the mutual obligations herein contained and to the performance and accomplishment of the tasks hereinafter described.

## **I. DEFINITIONS**

- 1.1 For purposes of this Agreement, the word “**CONTRACTOR**” as used herein shall refer to **LEAL AND CARTER, P.C.**
- 1.2 For purposes of this Agreement, the term “**CPA Contractors**” as used herein shall refer to **KPMG, L.L.P.**; **LEAL AND CARTER, P.C.**; and **ROBERT J. WILLIAMS, CPA.**
- 1.3 For purposes of this Agreement, the word “**CONTRACT**” as used herein shall refer to the *Audit Services Contract* (“Contract”) executed with Leal and Carter, P.C., authorized by Ordinance No. 96458.

## **II. RENEWAL AND EXTENSION OF CONTRACT**

2.1 The Contract is hereby renewed and extended for the period from October 1, 2005 through September 30, 2006 to cover the services provided for herein related to the **CITY’S** records and accounts for the Fiscal Year ending September 30, 2005 (“Audits”), pursuant to the provisions of subsection 6.3 of the Contract.

### III. SCOPE OF SERVICES

- 3.1 **CONTRACTOR** and the **CPA Contractors** under their respective Agreements shall provide the same services as are set forth in Article III, Article IV, and Article V of the Contract.

### IV. CONTRACT PRICING AND BILLING

- 4.1 Pursuant to provisions of subsection 6.3 and 7.9 of the Contract, whereby the parties agreed that in the event the CITY exercised its option to renew and extend the Contract, that said Contract shall be renewed and extended under the same terms and conditions, save and except compensation and fees and scope of services, the parties agree to the following:

The total of all payments and other obligations made and incurred by CITY under this Agreement, in performance of the services provided for in Article III of this Agreement shall not exceed **\$543,895.00** ("Contract Price"). This amount is predicated on the expectation that the Finance Department of the CITY will provide the preparation of the annual financial reports and statements, and supporting work papers and schedules at a comparable level with prior years; and that the Office of Internal Audit of the CITY will provide **-0- hours** of assistance to the annual audit process. It is understood that the Contract Price will be paid individually as follows:

The sum of \$30,360.00 to be billed by and paid to KPMG, in connection with services rendered by KPMG IT auditors in accordance with Article III of this Agreement;

The remainder of the Contract Price, \$513,535.00, shall be paid individually as follows:

		<u>Audit Participation</u>
KPMG, L.L.P.	\$ 256,767.50	(50%)
LEAL & CARTER, P.C.	\$ 205,414.00	(40%)
ROBERT J. WILLIAMS, P.C.	\$ 51,353.50	(10%)

## **ARTICLE V. CONFLICT OF INTEREST**

5.1 Pursuant to subsection 18.3 of the Contract, which provides that any change to local, state and federal rules, regulations, or laws applicable to the Contract are automatically incorporated in the Contract, the parties acknowledge and agree that subsection 13.3 of the Contract is hereby revised as follows:

13.3 CONTRACTOR acknowledges that it is informed that the Charter of the CITY and its Ethics Code prohibit a CITY officer or employee, as those terms are defined in Part B, Section 10 of the Ethics Code, from having a financial interest in any contract with the CITY or any CITY agency such as CITY owned utilities. An officer or employee has a “prohibited financial interest” in a contract with the CITY or in the sale to the CITY of land, materials, supplies or service, if any of the following individual(s) or entities is a party to the contract or sale: a CITY officer or employee; his parent, child or spouse; a business entity in which the officer or employee, or his parent, child or spouse owns ten (10) percent or more of the voting stock or shares of the business entity, or ten (10) percent or more of the fair market value of the business entity; a business entity in which any individual or entity above listed is a subcontractor on a CITY contract, a partner or a parent or subsidiary business entity.

Pursuant to the foregoing provisions, CONTRACTOR warrants and certifies, and this Agreement is made in reliance thereon, that it, its officers, employees and agents are neither officers nor employees of the City. CONTRACTOR further warrants and certifies that it has tendered to the CITY a Discretionary Contracts Disclosure Statement in compliance with the City’s Ethics Code.

## **ARTICLE VI. INCORPORATION OF TERMS AND CONDITIONS OF CONTRACT BY REFERENCE**

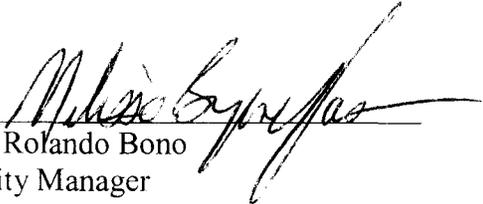
6.1 Except as provided for in this Agreement, all other terms and conditions of the Contract, approved by Ordinance No. 96458 on September 26, 2002, are hereby renewed and extended pursuant to the terms of this Agreement, and incorporated into this Agreement, and are made a part hereof for all purposes.

**ARTICLE VII. CONFLICT PROVISIONS**

7.1 Any discrepancy between the provisions of this Agreement and the provisions of the Contract shall be resolved in favor of this Agreement.

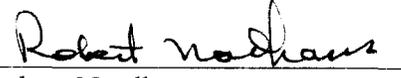
EXECUTED and AGREED TO by City and Contractor on the dates indicated below:

**CITY:**  
CITY OF SAN ANTONIO

  
\_\_\_\_\_  
J. Rolando Bono  
City Manager

DATE: \_\_\_\_\_

Approved as to form:

  
\_\_\_\_\_  
Robert Nordhaus  
Assistant City Attorney

**CONTRACTOR:**  
LEAL AND CARTER, P.C.

BY:   
\_\_\_\_\_  
TITLE: PRESIDENT

DATE: 10/27/05

**LEAL & CARTER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

FRANK J. LEAL, C.P.A.  
ROBERTO CARTER, C.P.A.

ROBERT V. HERRERA

11122 WURZBACH RD. / SUITE 200  
SAN ANTONIO, TEXAS 78230-2573  
TELEPHONE: (210) 696-6206  
FAX: (210) 696-6209

**AUDIT ENGAGEMENT LETTER**

November 21, 2005

City of San Antonio  
P.O. Box 839966  
San Antonio, Texas 78783-3966

Attention: Mr. Milo Nitschke, Finance Department Director

Dear Milo:

This letter will confirm our understanding of our engagement to provide professional services to the City of San Antonio, Texas (City).

**Objectives and Limitations of Services**

*Financial Statement Audit Services*

KPMG, Leal & Carter, P.C. and Robert J. Williams, CPA (collectively "CPA Contractors") will issue a written report upon our audit of the City's financial statements as of and for the year ending September 30, 2005.

We have a responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements conforms with accounting principles generally accepted in the United States of America.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

*Internal Control Over Financial Reporting and Compliance and Other Matters*

In planning and performing our audit of the financial statements, we will consider the City's internal control in order to determine the nature, timing and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

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 certain provisions of laws, regulations, contracts and grants, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for reportable conditions as part of our audit of the financial statements, this report will include any reportable conditions to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The definition of *reportable conditions* does not include potential future internal control problems, that is, control problems coming to our attention that do not affect the preparation of financial statements for the period under audit. This report will also include illegal acts and fraud, unless clearly inconsequential and material violations of grants, contracts and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards* we will also issue a management letter to communicate other deficiencies in internal controls that are not reportable conditions and other violations of grants and contracts, and abuse that comes to our attention unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

*OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies Audit Services*

We will also perform audit procedures with respect to the City's major federal and state programs and its passenger facility charge program in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies. These publications include specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to each of the City's major programs and its passenger facility charge program. The tests of internal control performed in accordance with OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to federal programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*, the *Texas Uniform Grants Management Standards*, and *Passenger Facility Charge Audit Guide for Public Agencies*. The procedures outlined in these publications are those suggested by each federal and state agency and do not cover all areas of regulations governing each program. Program reviews by federal and state agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will prepare written reports which (1) provide our opinions on the schedule of expenditures of federal awards, the schedule of expenditures of state awards, and the schedule of expenditures of passenger facility charges in relation to the City's financial statements, (2) provide our opinions on compliance with laws, regulations, contracts and grant that could have a direct and material effect on a major federal and state program and the passenger facility charge program and (3) communicates our consideration of internal control over major federal and state programs and the passenger facility charge program. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

### *Offering Documents*

Should the City wish to include or incorporate by reference these financial statements and our audit reports thereon into an exempt offering, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

### **Our Responsibility to Communicate With the City Council**

We will report to you, in writing, the following matters:

- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other serious difficulties encountered in performance of our audit.
- Other matters required to be communicated by generally accepted auditing standards in the United States of America

We will also read minutes, if any, of City Council meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for modification or withdrawal.

### **Management Responsibilities**

The management of the City is responsible for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all reportable conditions in the design or operation of such controls.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal and state programs and the passenger facility charge program as discussed above the following is required:

OMB Circular A-133 requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

The State of Texas Single Audit Circular requires the City to prepare a:

- Schedule of expenditures of state awards

The Passenger Facility Charge Audit Guide for Public Agencies requires the City to prepare a:

- Schedule of expenditures of passenger facility charges

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify Leal & Carter, P.C. of any such request by a granting agency and to work with Leal & Carter, P. C. to modify the terms of this letter as necessary to accommodate such a request.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to October 1, 2005.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release Leal & Carter, P.C. and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAS report within 14 days of being provided with draft findings.

Management is responsible for the distribution of the reports issued by Leal & Carter, P.C.. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

#### **Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between Leal & Carter, P.C. and the City and between Leal & Carter, P.C. and outside specialists or other entities engaged by either Leal & Carter, P.C. or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of Leal & Carter, P.C. Leal & Carter, P.C. will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to Leal & Carter, P.C. a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal Leal & Carter, P.C. presentations and intranet sites.

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
November 21, 2005  
Page 7

The work papers for this engagement are the property of KPMG, Leal & Carter, P.C. & Robert J. Williams, CPA. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG and /or Leal & Carter, P.C and Robert J. Williams, CPA personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event Leal & Carter, P.C. is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the City in judicial or administrative proceedings to which Leal & Carter, P.C. is not a party, the City shall reimburse Leal & Carter, P.C. at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

*Other Government Auditing Standards Matters*

As required by *Government Auditing Standards*, we have attached a copy of Leal & Carter's most recent peer review report and letter of comments.

*Fees for Services*

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to this letter.

\* \* \* \* \*

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
November 21, 2005  
Page 8

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

Leal & Carter, P.C.



Roberto Carter  
Vice-President, Stockholder-Director

ACCEPTED:

**City of San Antonio**



Authorized Signature

Finance Director

Title

12-13-05

Date

**APPENDIX I**

Fees For Services

Based upon our discussions with and representations of management, our fees, including expenses, for services we will perform are estimated as follows:

Audit of financial statements of the City of San Antonio as of and for the year ended September 30, 2005	\$ 543,895
-------------------------------------------------------------------------------------------------------------	------------

*Other Reports*

The reports that we will issue as part of this engagement are as follows:

**Report**

Reports issued in connection with OMB Circular A-133

Reports issued in connection with the State of Texas Single Audit Circular

Reports issued in connection with the Passenger Facility Charge Audit Guide for Public Agencies

The above estimates are based on the level of experience of the individuals who will perform the services and are based on assumption that the City Auditor will provide 0 hours of direct assistance to the audit team. Expenses are included in the above fee estimate. Circumstances encountered during the performance of these services that warrant additional time or expense, including but not limited to additional procedures necessary due to the implementation in the current year of SAP, could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

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These fees as noted above include a base fee to be allocated between the three accounting firms of \$513,535 and a fee for KPMG information technology auditors not to be allocated of \$30,360. These fees will be divided between the three accounting firms as follows:

	<b>Percentage</b>		
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Leal & Carter	40%		205,414
Robert Williams	10%		51,354
Base fee to be allocated	100%		513,535
KPMG information technology auditors			30,360
Total joint audit fee with direct assistance		\$	543,895

# HALLS, JOHNSON, McLEMORE, REDFIELD & RODRIGUES, LLP

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**CERTIFIED PUBLIC ACCOUNTANTS**  
**A REGISTERED LIMITED LIABILITY PARTNERSHIP**  
1329 N. University Dr., Suite A3, Nacogdoches, Texas 75961  
Phone: (936) 564-8186 Fax: (936) 564-3811 Web Site: hjmrr.com

Michael Halls, CPA  
Gary Johnson, CPA  
Terre McLemore, CPA  
J.D. Redfield, CPA  
Kenneth Rodrigues, CPA, P.C.

---

August 1, 2003

To Leal & Carter, P.C.

We have reviewed the system of quality control for the auditing practice of Leal & Carter, P.C. (the firm) in effect for the year ended March 31, 2003. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the auditing practice of Leal & Carter, P.C. in effect for the year ended March 31, 2003, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

*Halls, Johnson, McLemore, Redfield & Rodrigues, LLP*

HALLS, JOHNSON, McLEMORE, REDFIELD & RODRIGUES, LLP

:

**A T T A C H M E N T   I I I**

**FIRST EXTENSION OF AUDIT SERVICES CONTRACT**

THE STATE OF TEXAS                    §

THE COUNTY OF BEXAR                §

This *First Extension Of Audit Services Contract* (“Agreement”) is made and entered into by and between the **CITY OF SAN ANTONIO** (hereinafter referred to as “**CITY**”), A Texas Municipal Corporation, acting by and through its City Manager or his designee, pursuant to Ordinance No. \_\_\_\_\_, passed and approved November 3, 2005, and **ROBERT J. WILLIAMS, CPA**, acting by and through Robert J. Williams (hereinafter referred to as “**CONTRACTOR**”).

**WHEREAS**, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the **CITY’S** financial records by an independent certified public accountant; and

**WHEREAS**, Chapter 103 of the Texas Local Government Code requires the **CITY** to have its records and accounts audited annually by an independent certified public accountant; and

**WHEREAS**, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

**WHEREAS**, pursuant to Ordinance No. 96458, passed and approved September 26, 2002 (“Ordinance”), **CITY** and **CONTRACTOR** entered into an *Audit Services Contract* pursuant to which **CONTRACTOR** has rendered professional services to **CITY** in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

WHEREAS, pursuant to the Ordinance, **CITY** has also entered into an *Audit Services Contract* with **KPMG, L.L.P.** (“**KPMG**”) and **LEAL AND CARTER, P.C.**, (“**Leal and Carter**”) in connection with the required audits for the Fiscal Years ending September 30, 2002, 2003, and 2004; and

WHEREAS, each of the *Audit Services Contracts* provides for two (2), one-year extensions, at **CITY’S** sole discretion, upon the same terms and conditions as the Contract, save and except compensation and fees and scope of services, as evidenced by a signed writing and subject to City Council approval; and

WHEREAS, **CITY** desires to renew and extend the Contract for an additional one (1) year period upon the terms and conditions set forth in this Agreement, and **CONTRACTOR** desires to do the same; and

WHEREAS, **CITY** will also execute a *First Extension Of Audit Services Contract* with KPMG and Leal and Carter, upon substantially the same terms and conditions as this Agreement, as the result of which **CONTRACTOR**, KPMG, and Leal and Carter will be jointly and severally bound to provide the services described in the respective documents; **NOW, THEREFORE:**

**FOR VALUABLE CONSIDERATION**, the parties hereto severally and collectively agree, and by the execution hereof are bound, to the mutual obligations herein contained and to the performance and accomplishment of the tasks hereinafter described.

## **I. DEFINITIONS**

- 1.1 For purposes of this Agreement, the word “**CONTRACTOR**” as used herein shall refer to **ROBERT J. WILLIAMS, CPA**.
- 1.2 For purposes of this Agreement, the term “**CPA Contractors**” as used herein shall refer to **KPMG, L.L.P.**; **LEAL AND CARTER, P.C.**; and **ROBERT J. WILLIAMS, CPA**.
- 1.3 For purposes of this Agreement, the word “**CONTRACT**” as used herein shall refer to the *Audit Services Contract* (“Contract”) executed with Robert J. Williams, CPA, authorized by Ordinance No. 96458.

## **II. RENEWAL AND EXTENSION OF CONTRACT**

- 2.1 The Contract is hereby renewed and extended for the period from October 1, 2005 through September 30, 2006 to cover the services provided for herein related to the **CITY’S** records and accounts for the Fiscal Year ending September 30, 2005 (“Audits”), pursuant to the provisions of subsection 6.3 of the Contract.

### III. SCOPE OF SERVICES

- 3.1 **CONTRACTOR** and the **CPA Contractors** under their respective Agreements shall provide the same services as are set forth in Article III, Article IV, and Article V of the Contract.

### IV. CONTRACT PRICING AND BILLING

- 4.1 Pursuant to provisions of subsection 6.3 and 7.9 of the Contract, whereby the parties agreed that in the event the CITY exercised its option to renew and extend the Contract, that said Contract shall be renewed and extended under the same terms and conditions, save and except compensation and fees and scope of services, the parties agree to the following:

The total of all payments and other obligations made and incurred by **CITY** under this Agreement, in performance of the services provided for in Article III of this Agreement shall not exceed **\$543,895.00** ("Contract Price"). This amount is predicated on the expectation that the Finance Department of the **CITY** will provide the preparation of the annual financial reports and statements, and supporting work papers and schedules at a comparable level with prior years; and that the Office of Internal Audit of the **CITY** will provide **-0-** hours of assistance to the annual audit process. It is understood that the Contract Price will be paid individually as follows:

The sum of \$30,360.00 to be billed by and paid to KPMG, in connection with services rendered by KPMG IT auditors in accordance with Article III of this Agreement;

The remainder of the Contract Price, \$513,535.00, shall be paid individually as follows:

		<u>Audit Participation</u>
KPMG, L.L.P.	\$ 256,767.50	(50%)
LEAL & CARTER, P.C.	\$ 205,414.00	(40%)
ROBERT J. WILLIAMS, P.C.	\$ 51,353.50	(10%)

## **ARTICLE V. CONFLICT OF INTEREST**

5.1 Pursuant to subsection 18.3 of the Contract, which provides that any change to local, state and federal rules, regulations, or laws applicable to the Contract are automatically incorporated in the Contract, the parties acknowledge and agree that subsection 13.3 of the Contract is hereby revised as follows:

13.3 CONTRACTOR acknowledges that it is informed that the Charter of the CITY and its Ethics Code prohibit a CITY officer or employee, as those terms are defined in Part B, Section 10 of the Ethics Code, from having a financial interest in any contract with the CITY or any CITY agency such as CITY owned utilities. An officer or employee has a “prohibited financial interest” in a contract with the CITY or in the sale to the CITY of land, materials, supplies or service, if any of the following individual(s) or entities is a party to the contract or sale: a CITY officer or employee; his parent, child or spouse; a business entity in which the officer or employee, or his parent, child or spouse owns ten (10) percent or more of the voting stock or shares of the business entity, or ten (10) percent or more of the fair market value of the business entity; a business entity in which any individual or entity above listed is a subcontractor on a CITY contract, a partner or a parent or subsidiary business entity.

Pursuant to the foregoing provisions, CONTRACTOR warrants and certifies, and this Agreement is made in reliance thereon, that it, its officers, employees and agents are neither officers nor employees of the City. CONTRACTOR further warrants and certifies that it has tendered to the CITY a Discretionary Contracts Disclosure Statement in compliance with the City’s Ethics Code.

## **ARTICLE VI. INCORPORATION OF TERMS AND CONDITIONS OF CONTRACT BY REFERENCE**

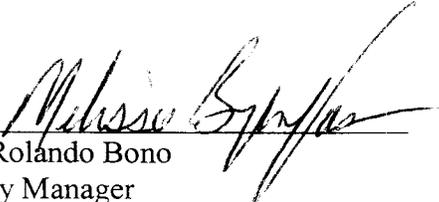
6.1 Except as provided for in this Agreement, all other terms and conditions of the Contract, approved by Ordinance No. 96458 on September 26, 2002, are hereby renewed and extended pursuant to the terms of this Agreement, and incorporated into this Agreement, and are made a part hereof for all purposes.

**ARTICLE VII. CONFLICT PROVISIONS**

7.1 Any discrepancy between the provisions of this Agreement and the provisions of the Contract shall be resolved in favor of this Agreement.

EXECUTED and AGREED TO by City and Contractor on the dates indicated below:

**CITY:**  
CITY OF SAN ANTONIO

  
\_\_\_\_\_  
J. Rolando Bono  
City Manager

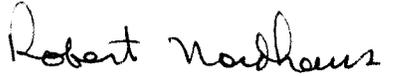
**CONTRACTOR:**  
ROBERT J. WILLIAMS, CPA

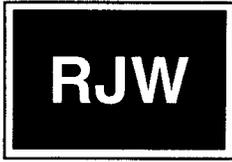
  
\_\_\_\_\_  
Robert J. Williams, CPA

DATE: \_\_\_\_\_

DATE: November 1, 2005

Approved as to form:

  
\_\_\_\_\_  
Robert Nordhaus  
Assistant City Attorney



**Robert J. Williams**

Certified Public Accountant  
P.O. Box 34058  
San Antonio, TX 78265-4058  
(210) 366-8733  
Fax (210) 366-0198

September 5, 2005

City of San Antonio  
P.O. Box 839966  
San Antonio, Texas 78783-3966

Attention: Mr. Milo Nitschke, Finance Department Director

Dear Milo

This letter will confirm our understanding of our engagement to provide professional services to the City of San Antonio, Texas (City).

**Objectives and Limitations of Services**

*Financial Statement Audit Services*

KPMG, Lear & Carter, P.C. and Robert J. Williams, CPA (collectively "CPA Contractors") will issue a written report upon our audit of the City's financial statements as of and for the year ending September 30, 2005.

We have a responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements conforms with accounting principles generally accepted in the United States of America.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 2

*Internal Control Over Financial Reporting and Compliance and Other Matters*

In planning and performing our audit of the financial statements, we will consider the City's internal control in order to determine the nature, timing and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control, which we would be happy to discuss with you at your convenience.

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 certain provisions of laws, regulations, contracts and grants, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for reportable conditions as part of our audit of the financial statements, this report will include any reportable conditions to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The definition of *reportable conditions* does not include potential future internal control problems, that is, control problems coming to our attention that do not affect the preparation of financial statements for the period under audit. This report will also include illegal acts and fraud, unless clearly inconsequential and material violations of grants, contracts and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards* we will also issue a management letter to communicate other deficiencies in internal controls that are not reportable conditions and other violations of grants and contracts, and abuse that comes to our attention unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 3

*OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies Audit Services*

We will also perform audit procedures with respect to the City's major federal and state programs and its passenger facility charge program in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies. These publications include specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to each of the City's major programs and its passenger facility charge program. The tests of internal control performed in accordance with OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to federal programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*, the *Texas Uniform Grants Management Standards*, and *Passenger Facility Charge Audit Guide for Public Agencies*. The procedures outlined in these publications are those suggested by each federal and state agency and do not cover all areas of regulations governing each program. Program reviews by federal and state agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, State of Texas Single Audit Circular, and Passenger Facility Charge Audit Guide for Public Agencies, we will prepare written reports which (1) provide our opinions on the schedule of expenditures of federal awards, the schedule of expenditures of state awards, and the schedule of expenditures of passenger facility charges in relation to the City's financial statements, (2) provide our opinions on compliance with laws, regulations, contracts and grant that could have a direct and material effect on a major federal and state program and the passenger facility charge program and (3) communicates our consideration of internal control over major federal and state programs and the passenger facility charge program. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal and state awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

### *Offering Documents*

Should the City wish to include or incorporate by reference these financial statements and our audit reports thereon into an exempt offering, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

### **Our Responsibility to Communicate With the City Council**

We will report to you, in writing, the following matters:

- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other serious difficulties encountered in performance of our audit.
- Other matters required to be communicated by generally accepted auditing standards in the United States of America

We will also read minutes, if any, of City Council meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for modification or withdrawal.

### **Management Responsibilities**

The management of the City is responsible for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all reportable conditions in the design or operation of such controls.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal and state programs and the passenger facility charge program as discussed above the following is required:

OMB Circular A-133 requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

The State of Texas Single Audit Circular requires the City to prepare a:

- Schedule of expenditures of state awards

The Passenger Facility Charge Audit Guide for Public Agencies requires the City to prepare a:

- Schedule of expenditures of passenger facility charges

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 6

audit cost arising from such selection. The City agrees to notify Robert J. Williams, CPA (RJW) of any such request by a granting agency and to work with RJW to modify the terms of this letter as necessary to accommodate such a request.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to October 1, 2005.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release RJW and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAS report within 14 days of being provided with draft findings.

Management is responsible for the distribution of the reports issued by RJW. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

**Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between Robert J. Williams, CPA (RJW) and the City and between RJW and outside specialists or other entities engaged by either RJW or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of RJW. RJW will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to RJW a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal RJW presentations and intranet sites.

Robert J. Williams, CPA is sole proprietorship certified public accountant and its principal is licensed as a certified public accountant in Texas.

\* \* \* \* \*

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 7

The work papers for this engagement are the property of RJW. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of RJW personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event RJW is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the City in judicial or administrative proceedings to which RJW is not a party, the City shall reimburse RJW at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

*Other Government Auditing Standards Matters*

As required by *Government Auditing Standards*, we have attached a copy of RJW's most recent peer review report.

*Fees for Services*

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to this letter.

\* \* \* \* \*

Mr. Milo Nitschke  
Finance Department Director  
City of San Antonio  
September 5, 2005  
Page 8

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

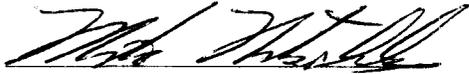
Robert J. Williams, CPA



Robert J Williams  
*Principal*

ACCEPTED:

**City of San Antonio**



Authorized Signature

Finance Director

Title

12-13-05

Date

### Fees for Services

Based upon our discussions with and representations of management, our fees, including expenses, for services we will perform are estimated as follows:

Audit of financial statements of the City of San Antonio as of and for the year ended September 30, 2005	\$ 543,895
-------------------------------------------------------------------------------------------------------------	------------

#### *Other Reports*

The reports that we will issue as part of this engagement are as follows:

#### **Report**

Reports issued in connection with OMB Circular A-133

Reports issued in connection with the State of Texas Single Audit Circular

Reports issued in connection with the Passenger Facility Charge Audit Guide for Public Agencies

The above estimates are based on the level of experience of the individuals who will perform the services and are based on assumption that the City Auditor will provide 0 hours of direct assistance to the audit team. Expenses are included in the above fee estimate. Circumstances encountered during the performance of these services that warrant additional time or expense, including but not limited to additional procedures necessary due to the implementation in the current year of SAP, could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where RJW is reimbursed for expenses, it is RJW's policy to bill clients the amount incurred at the time the good or service is purchased. If RJW subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, does not credit such payment to the client. Instead, RJS applies such payments to reduce its overhead costs, which costs are taken into account in determining RJW's standard billing rates and certain transaction charges which may be charged to clients.

These fees as noted above include a base fee to be allocated between the three accounting firms of \$513,535 and a fee for KPMG information technology auditors not to be allocated of \$30,360. These fees will be divided between the three accounting firms as follows:

	<u>Percentage</u>		
KPMG	50%	\$	256,767
Leal & Carter	40%		205,414
Robert Williams	10%		51,354
Base fee to be allocated	100%		513,535
KPMG information technology auditors			30,360
Total joint audit fee with direct assistance		\$	543,895



Thomas A. Akin  
David J. Doherty  
Howard H. Klein, Jr.  
Joseph V. Feuge, II

Certified Public Accountants  
Members of AICPA  
(SEC Practice Section)

## System Review Report

February 4, 2003

To the Owner  
Robert J. Williams, CPA

We have reviewed the system of quality control for the accounting and auditing practice of Robert J. Williams, CPA (the firm) in effect for the year ended November 30, 2001. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Robert J. Williams, CPA in effect for the year ended November 30, 2001 has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

  
Akin, Doherty, Klein & Feuge, P.C.