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AN ORDINANCE 87006

AUTHORIZING THE EXECUTION OF CONTRACTS WITH KPMG PEAT MARWICK LLP, GARZA/GONZALEZ & ASSOCIATES, AND ROBERT J. WILLIAMS, C.P.A. TO PROVIDE INDEPENDENT AUDIT AND RELATED SERVICES FOR FISCAL YEARS 1997, 1998 AND 1999 FOR A TOTAL COST OF $203,000.00 IN YEAR ONE, $209,000.00 IN YEAR TWO, AND $215,000.00 IN YEAR THREE, WITH AN OPTION TO EXTEND THE CONTRACT, WITH CITY COUNCIL APPROVAL, FOR ONE (1) ADDITIONAL TWO (2) YEAR PERIOD.

* * * * *

WHEREAS, a City Council Audit Committee was appointed through Ordinance No. 86235, passed and approved on July 3, 1997, to guide and direct staff in the solicitation, evaluation and recommendation of a firm or firms to provide the City with independent audit and related services; and

WHEREAS, after consultation with the Audit Committee, City staff forwarded Request for Proposals for said services to thirteen certified public accounting firms; and

WHEREAS, once received, the proposals were reviewed and evaluated by a Staff committee, which consisted of representatives from the following City Departments: Finance, Internal Review, Budget and Management Analysis, Economic Development, and Housing and Community Development; and

WHEREAS, City Staff and the City Council Audit Committee now recommend an audit team of KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, C.P.A. to perform independent audit and related services through September 30, 2000 **NOW THEREFORE:**

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

SECTION 1. The audit team of KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, C.P.A. are hereby selected to provide the City of San Antonio with independent audit and related services through September 30, 2000. Said firms are to provide services according to the following distribution: KPMG Peat Marwick LLP, 55%; Garza/Gonzalez & Associates, 40%; and Robert J. Williams, C.P.A., 5%.

SECTION 2. The City Manager or the Director of Finance is hereby authorized to execute contracts with said firms for a three year period, ending Fiscal Year 2000, for a total cost of $203,000.00 in year one, $209,000.00 in year two and $215,000.00 in year three. Said Contracts may be renewed and extended for one additional two year period, subject to and contingent upon City Council approval. A copy of the Contracts are attached hereto and incorporated herein as Attachments I, II and III, respectively. The terms and provisions of said Contracts are hereby approved.

SECTION 3. The provision of Contingent Additional Services as provided within Article IV of each Contract are hereby authorized. The services shall be requested and initiated, as stated in said Contracts, at the discretion of the City, acting by and through its Director of Finance. Said Contingent Additional Services consists of the following: guidance on tax, compliance, or other non-audit consultation matters; other services which may be required for a City bond offering; assistance with the preparation of aspects of the annual report or the analysis of new accounting standards or pronouncements; and/or advisory or consultant services to assist in the resolution of audit findings and questioned costs reported by federal and state agencies. Funds for the provision of said services shall have been allocated prior to such a request or initiation by the City.

SECTION 4. The City hereby consents to the assignment of the interest of KPMG Peat Marwick LLP in its Contract to the successor which may result from the combination of it and another national accounting firm during the term of the Contract.

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SECTION 5. Funds are encumbered in the total amount of $203,000.00, in Fund 11-000 (General Fund-Non Departmental) Index Code 419226 (Professional Fees to Outside Auditors), and made payable, in accordance with the terms of their respective Contracts, to KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, for independent audit and related services provided to the City of San Antonio for Fiscal Year 1997. Said Contracts are authorized in the total amount of $209,000.00 for 1998, and in the total amount of $215,000.00 for 1999, which said funds will be appropriated through future ordinances and paid in accordance with the terms of their respective Contracts.

SECTION 6. This ordinance shall take effect on the tenth day from the date of passage hereof.

PASSED AND APPROVED this 20th ***day of*** NOVEMBER ***, 1997.***

M A Y O R
Howard W. Peak

ATTEST:

ASSISTANT ***City Clerk***

APPROVED AS TO FORM:

City Attorney

97-47

	ALAMODOME
	ARTS & CULTURAL AFFAIRS
	ASSET MANAGEMENT
	AVIATION
/	BUDGET & MANAGEMENT ANALYSIS
	BUILDING INSPECTIONS
	HOUSE NUMBERING
	CITY ATTORNEY
	MUNICIPAL COURT
	REAL ESTATE (FASSNIDGE)
	REAL ESTATE (WOOD)
	RISK MANAGEMENT
	CITY MANAGER
	SPECIAL PROJECTS - FRANCES GONZALES
	CITY PUBLIC SERVICE - GENERAL MANAGER
	CITY PUBLIC SERVICE - MAPS AND RECORDS
	CODE COMPLIANCE
	COMMERCIAL RECORDER
	COMMUNITY INITIATIVES
	COMMUNITY RELATIONS
	PUBLIC INFORMATION
	CONVENTION AND VISITORS BUREAU
	CONVENTION CENTER EXPANSION OFFICE
	CONVENTION FACILITIES
	ECONOMIC DEVELOPMENT
/	FINANCE - DIRECTOR
	FINANCE - ASSESSOR
/	FINANCE - CONTROLLER
	FINANCE - GRANTS
	FINANCE - TREASURY
	FIRE DEPARTMENT
	HOUSING AND COMMUNITY DEVELOPMENT
	HUMAN RESOURCES (PERSONNEL)
	INFORMATION SERVICES
	INTERGOVERNMENTAL RELATIONS
	INTERNAL REVIEW
	INTERNATIONAL AFFAIRS
	LIBRARY
	METROPOLITAN HEALTH DISTRICT
	MUNICIPAL CODE CORPORATION
	MUNICIPAL COURT
	PARKS AND RECREATION
	MARKET SQUARE
	PLANNING DEPARTMENT
	DISABILITY ACCESS OFFICE
	LAND DEVELOPMENT SERVICES
	POLICE DEPARTMENT
	GROUND TRANSPORTATION
	PUBLIC WORKS DIRECTOR
	CAPITAL PROJECTS
	CENTRAL MAPPING
	ENGINEERING
	PARKING DIVISION
	REAL ESTATE DIVISION
	SOLID WASTE
	TRAFFIC ENGINEERING
	PURCHASING AND GENERAL SERVICES
	SAN ANTONIO WATER SYSTEMS (SAWS)
	VIA
	YOUTH INITIATIVES

MEETING OF THE CITY COUNCIL

AGENDA ITEM NUMBER: 43

DATE: NOV 20 1997

MOTION: Sanchez

ORDINANCE NUMBER: 87006

RESOLUTION NUMBER:

ZONING CASE NUMBER:

TRAVEL AUTHORIZATION:

NAME	ROLL	AYE	NAY
ROGER FLORES, II District 1		✓	
MARIO SALAS District 2		✓	
DEBRA GUERRERO District 3		✓	
RAUL PRADO District 4		✓	
RICK VASQUEZ District 5		✓	
JOSE MENENDEZ District 6		✓	
ED GARZA District 7		✓	
ROBERT MARBUT District 8		✓	
TIM BANNWOLF District 9		✓	
JEFF S. WEBSTER District 10		✓	
HOWARD W. PEAK Mayor		✓	

FILE "KDMS DEAT MARWICK"

97-47

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11-20-97

AUDIT SERVICES CONTRACT

STATE OF TEXAS)(
)(
)(
COUNTY OF BEXAR)(

This Contract 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 Director of Finance, Nora W. Chávez-Barrera, pursuant to Ordinance No. 87006, passed and approved on November 20, 1997, and KPMG Peat Marwick LLP, acting by and through its Partner, Santos Fraga (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 contain certain audit and financial reporting requirements; and

WHEREAS, CITY has gone through an extensive selection process and chosen three entities (collectively referred to as "CPA Contractors") to collectively provide the services described herein for a three year period to include the required audits for the fiscal years ending September 30, 1997, 1998, and 1999 with an option, at the **CITY**'s sole discretion, to renew for one additional two year term, under the same terms and conditions, save and except fees and compensation, to include the audits of the fiscal years ending September 30, 2000 and 2001; and

WHEREAS, CITY will execute Contracts, containing the same terms and conditions, with all three parties referred to as CPA Contractors, wherein each party is collectively and severally bound to provide the services contained in this Contract; **NOW THEREFORE:**

Attachment I

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 Contract, the word "**CONTRACTOR**" as used herein shall refer to KPMG Peat Marwick LLP.

1.2 For purposes of this Contract, the term "**CPA Contractors**" as used herein shall refer to KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, C.P.A., collectively, or any one or two of said named entities.

II. PROVISION OF SERVICES

2.1 It is acknowledged and understood that before the commencement of the provision of services described in Article III, **CPA Contractors** will each execute an annual engagement letter with **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's Audit, the allocation of work to be performed as part of each Audit by each **CPA Contractor**, and the portion of the total compensation for such Audits that each **CPA Contractor** will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4.

2.2 **CITY** and **CONTRACTOR** mutually agree that the engagement letter executed by **CONTRACTOR** shall become part of this Contract, in accordance with Article VIII, each time it is executed; and that this Contract, the other two Contracts executed with the other **CPA Contractors**, and the engagement letters shall govern the agreement between the parties for the fiscal year noted in the engagement letters.

2.3 It is also understood and agreed that **CONTRACTOR** has been designated as the coordinator entity for the **CPA Contractors**. In this regard, the coordinator will serve as the point of contact for **CITY** in facilitating and administering the Contract.

2.4 **CONTRACTOR**, by executing this Contract, acknowledges the existence of two other Contracts containing the same terms and conditions. **CONTRACTOR**, therefore, understands and agrees that no one **CPA Contractor** has the exclusive right to perform the services, either in whole or in part, listed in this Contract. Thereby, **CITY** reserves the right to request the services to be provided by one, two, or all three of **CPA Contractors** at any time.

III. SCOPE OF SERVICES

CPA Contractors, including but not limited to **CONTRACTOR**, in accordance with the annual engagement letter, shall provide the following services:

3.1 **CPA Contractors** are to collectively audit the financial statements of **CITY** during the contract period and evaluate the fairness of presentation of the statements in conformity with generally accepted accounting principles. **CONTRACTOR** agrees to meet with the other **CPA Contractors** selected by **CITY**, to agree with such other **CPA Contractors** on a cooperative audit plan acceptable to **CITY** permitting each **CPA Contractor** to participate in each annual Audit performed pursuant to the provisions contained in this Contract; to perform the work allocated to it under the engagement letter; and to evaluate and review the work performed by the other two **CPA Contractors** to the extent necessary or desirable to permit it to issue its opinion or opinions required hereby. It is understood that this audit will be conducted in accordance with generally accepted auditing standards which will include a review of the system of internal controls and tests of transactions to the extent necessary. Accordingly, they will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although the possibility exists that such discovery may result. The San Antonio Water System, the City Public Service Board, San Antonio Fire and Police Pension Fund, and certain other component units of **CITY** are audited by other auditors. These component units which currently are or those which may be included in the future with the application of GASB 14 "the Financial Reporting Entity", are included in the scope of work to be performed hereunder but limited only to their respective incorporation into **CITY's** Comprehensive Annual Financial Report.

3.2 **CPA Contractors** agree to perform in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, and any other authoritative pronouncements which may be deemed applicable. Those standards require that **CPA Contractors** plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. The objective of this audit is the expression of an opinion of **CPA Contractors**, including but not limited to **CONTRACTOR**, or in the event such an opinion is not practicable, consistent with prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of

Public Accountancy ("Professional Standards"), as evidenced by a letter drafted and issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, that **CONTRACTOR** is unable, because of a certain Professional Standard identified in said letter, to issue an opinion jointly with either or both of the other **CPA Contractors**, the expression of an individual and separate opinion by **CONTRACTOR**, in accordance with the provisions of this Contract. The wording of the Audit opinion will, of course, be dependent on the facts and circumstances at the date of the reports. If the opinion will be other than unqualified, the reasons therefore will be fully disclosed. The opinion will be signed by **CPA Contractors** who will assume responsibility, both jointly and severally, for the audit of the financial statements of **CITY**.

3.3 **CITY** agrees that it will maintain at least its present degree of conformance to the standards of the Governmental Accounting Standards Board pertaining to internal controls, and the recording of financial transactions, and that the contract price for the Audits by **CPA Contractors** as quoted in subsections 7.1 through 7.4, is predicated upon this conformance. **CITY** agrees that the detailed annual financial statements and notes to such statements will be prepared by its Department of Finance as nearly as practical in accordance with the form outlined in "Governmental Accounting, Auditing, and Financial Reporting" published by the National Committee on such financial statements, and any supplemental schedules which it prepares will be submitted and provided to the **CPA Contractors** in sufficient time (as completed) for full reconciliation with **CPA Contractors** findings, and to facilitate publication of **CITY**'s Comprehensive Annual Financial Report within approximately 120 days after the close of each fiscal year. Responsibility for the proper recording of transactions into the books of account, and for the accuracy of the financial statements, which are the representations of management, are with **CITY**.

3.4 **CITY** shall have completed and balanced all accounts and have prepared financial statements and schedules for all funds, and account groups to be audited by the **CPA Contractors** and shall provide **CPA Contractors** with working space deemed adequate by **CPA Contractors** for efficient conduct of the audit. **CITY** shall provide **CPA Contractors** for its use and retention, with copies of these financial statements and schedules and shall provide **CPA Contractors** with trial balances of the various funds and account groups in a form acceptable to **CPA Contractors**.

3.5 The Comprehensive Annual Financial Report will be completed and available for distribution within approximately 120 days of **CITY**'s fiscal year end of September 30th. The "Management Letter" and "Single Audit Report" will be completed and available for distribution within a reasonable period of time after completion of the Comprehensive Annual Financial Report.

3.6 **CONTRACTOR** understands and agrees that, other provisions to the contrary notwithstanding, **CITY** requires the issuance of a joint opinion by **CPA Contractors**; and that **CITY** will only accept singular opinions from **CONTRACTOR** in the event it is determined, in accordance with the provisions of subsections 3.2 and 10.6, that **CONTRACTOR** is unable to issue a joint opinion.

3.7 On an annual basis during the term of the Contract, **CPA Contractors** will provide twenty-four (24) hours of continuing professional education training to approximately forty-five (45) of **CITY**'s professional accounting and internal audit staff. This training will be required to be certified by the Texas State Board of Public Accountancy and will be based on mutually agreed upon topics. This service is considered a part of the fee structure for the independent audit.

IV. CONTINGENT ADDITIONAL SERVICES

4.1 **CONTRACTOR** acknowledges that the services listed below were identified in the Request for Proposal at page 4 as those additional services which the **CITY** may request **CONTRACTOR** to provide. If requested, **CONTRACTOR** shall provide said service(s) under the same terms and conditions of this Contract, save and except those provisions specifically revised by the Director of Finance in the forwarded request (subsection 4.2).

4.2 **CITY** will effect such a request for contingent additional services by forwarding a written request, executed by the Director of Finance or her designee, to the coordinator entity at its respective address provided herein. Within said request, the Director of Finance shall state the scope of services **CPA Contractors** are to provide; the period of time within which said services are to be completed; and the consideration to be paid by **CITY** for the services provided, in accordance with subsection 7.8. The coordinator entity shall notify **CITY** as to which entity or entities will provide the contingent additional service. Provided however, if **CITY**, at its discretion, designates the entity or entities to provide said contingent additional services, the request for the provision of contingent additional services shall be forwarded directly to that designated entity or entities.

4.3 The entity or entities so designated agree to provide the following services at the request of the **CITY**:

4.3.1 Guidance on tax, compliance, or other non-audit consultation matters.

4.3.2 Other services which may be required for a **CITY** bond offering.

4.3.3 Assistance with the preparation of aspects of the annual report or the analysis of new accounting standards or pronouncements.

4.3.4 Advisory or consultant services to assist in the resolution of audit findings and questioned costs reported by Federal and State Agencies.

V. QUALITY CONTROL REVIEWS

5.1 Pursuant to Government Auditing Standards, **CONTRACTOR** is required to make certain work papers available to federal regulatory agencies upon request, for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of **CONTRACTOR's** personnel. **CITY** shall be notified immediately by **CONTRACTOR** in the event of any such request. Costs incurred by **CONTRACTOR** related to such review of audit quality will not be reimbursed by **CITY**. To the extent such work papers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors request additional procedures beyond the requirements of the Single Audit Act, **CONTRACTOR** will notify and discuss such request with **CITY** prior to any costs being incurred by **CONTRACTOR**. Any such costs agreed to be reimbursed by **CITY** will be based on fees negotiated on an individual engagement basis.

VI. TERM AND COMMENCEMENT OF WORK

6.1 The term of this Contract shall be from November 30, 1997 through September 30, 2000 and shall include the audits of the **CITY**'s records and accounts for the fiscal years ending September 30, 1997, 1998, and 1999, unless renewal and extension or earlier termination shall occur pursuant to any of the provisions of this Contract. Continuation of this Contract beyond the first year and each and every year thereafter is subject to and contingent upon an annual appropriation of funds by City Council.

6.2 In the event **CITY** requests **CPA Contractors** to provide the contingent additional services set out in Article IV, the commencement and termination dates shall be established in the written request from the Director of Finance.

6.3 This Contract may be renewed and extended for one additional two year period, under the same terms and conditions, save and except compensation and fees. This option to renew and extend shall be at the **CITY**'s sole discretion and such renewal or extension shall be subject to City Council approval, evidenced by passage of an ordinance. **CITY** shall initiate the request to renew and extend by forwarding written notice of such to **CONTRACTOR** on or before thirty (30) days prior to September 30, 2000.

VII. CONTRACT PRICING AND BILLING

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the services provided for in Article III for fiscal year 1997 shall not exceed the amount of $203,000.00; for fiscal year 1998 shall not exceed the amount of $209,000.00; and for fiscal year 1999 shall not exceed the amount of $215,000.00. Such fees being 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 Review will provide 1,150 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that while the total fee for the services required by Article III under this Contract for the Audit of fiscal year 1997 shall not exceed $203,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 111,650.00
Garza/Gonzalez & Associates	$ 81,200.00
Robert J. Williams, C.P.A.	$ 10,150.00

7.3 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audit of fiscal year 1998 shall not exceed $209,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 114,950.00
Garza/Gonzalez & Associates	$ 83,600.00
Robert J. Williams, C.P.A.	$ 10,450.00

7.4 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audit of fiscal year 1999 shall not exceed $215,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 118,250.00
Garza/Gonzalez & Associates	$ 86,000.00
Robert J. Williams, C.P.A.	$ 10,750.00

7.5 Subject to subsections 7.1 through 7.4, **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, subcontractor costs, if any, and all other **CONTRACTOR** expenses necessary to complete the services stated herein shall be borne at **CONTRACTOR**'s sole cost and expense.

7.6 Progress billings for the annual fees established herein, subsections 7.1 through 7.4, will be rendered by the **CONTRACTOR** to the **CITY** and detailed as to the amount due each of the **CONTRACTOR** parties. Upon receipt of such billing statements, the amount due will be paid by the **CITY** as specified on such statements. However, **CITY** will retain ten percent (10%) of the total annual fee, until the **CITY**'s Comprehensive Annual Financial Report, Single Audit Report, and Management Letter have been completed. Funds for the payment of such fees shall be derived from the "Professional Fees - Outside Audit" line item, in the General Fund, Non-Departmental, Non-Operating budget of the **CITY**.

7.7 In the event that the **CITY** does not provide assistance as provided for in subsection 7.1, or other similar extenuating circumstances are encountered, as to materially alter the performance and scope of work hereunder, it may be necessary for **CONTRACTOR** to consider the issuance of a settlement statement which details and compares the actual work performed against the original audit plan. However, in no instance will the **CITY** make any payment for the services provided for in Article III in excess of the annual amounts of $203,000.00, $209,000.00 and $215,000.00, respectively, established in subsections 7.1 without formal written revision of this Contract and related City Council approval.

7.8 Payments for contingent additional services provided in accordance with Article IV, payments for any costs to be reimbursed by **CITY** in accordance with Article V, and payments for any additional work required in accordance with subsection 10.5.1 or 10.6.1, will be based on fees negotiated on an individual engagement basis. KPMG Peat Marwick LLP, Garza/Gonzalez & Associates and/or Robert J. Williams, C.P.A., as the entity designated to provide said services shall prepare and submit a billing statement to **CITY** specifying the scope of work performed and amount due. Upon receipt of the billing statement, **CITY** will review and if in compliance with the established fees, pay the amount specified due on such statement to the appropriate entity.

VIII. INCORPORATION BY REFERENCE

8.1 The engagement letter executed by **CITY** and **CONTRACTOR**, attached hereto as Exhibit A, is hereby incorporated into this Contract and specifically made a part hereof as though it is fully set out herein.

8.2 The parties hereto acknowledge and agree that prior to the commencement of the 1997, 1998 and 1999 Audits herein required, and the Audits covered by any renewal and extension hereof, if applicable, **CITY** and **CONTRACTOR** will execute a new engagement letter for the upcoming fiscal year. That engagement letter, once executed, shall be incorporated herein for that next fiscal year and shall supersede the previously attached engagement letter.

8.3 In the event of a conflict or inconsistency between the terms of this Contract and the provisions of any of the engagement letters ultimately attached hereto as Exhibit A, the terms of this Contract shall govern and prevail.

IX. RECORDS

9.1 **CONTRACTOR** and its subcontractors, if any, shall properly, accurately and completely maintain all documents, papers, and records, and other evidence pertaining to the services rendered hereunder, save and except for preliminary scratch, and sketch documentation, and shall make such materials available to the **CITY** at their respective offices, with reasonable notice by the **CITY**, at all reasonable times and as often as **CITY** may deem necessary during the contract period, including any extension or renewal hereof, for purposes of inspection, examination, and making excerpts or copies of same by **CITY** and any of its authorized representatives.

9.2 **CONTRACTOR** shall retain any and all documents produced as a result of services provided hereunder for a period of three (3) years from the date of termination of the Contract. If at the end of three (3) years there is litigation or other questions arising from, involving or concerning this documentation or the services provided hereunder, **CONTRACTOR** shall retain the records until the resolution of such litigation or other such questions.

9.3 **CITY** shall be notified immediately by **CONTRACTOR** in the event of any requests for information by a third party received by **CONTRACTOR** which pertain to the documentation and records referenced in subsections 9.1 and 9.2. As such, **CONTRACTOR** understands and agrees that **CITY** will process and handle all such requests.

X. TERMINATION

10.1 For purposes of this Contract, "termination" of this Contract shall mean termination by completion of the provision of services required herein or earlier termination pursuant to any of the provisions hereof.

10.2 Other provisions of this Contract notwithstanding, **CITY** may terminate this Contract as to **CONTRACTOR** in accordance with this clause, in whole or in part, for any of the following:

10.2.1 Neglect or failure by **CONTRACTOR** to perform or observe any of the terms, conditions, covenants or guarantees of this Contract or of any amendment between **CITY** and **CONTRACTOR**; or

10.2.2 Violation by **CONTRACTOR** of any rule, regulation or law to which **CONTRACTOR** is bound or shall be bound by terms of this Contract.

10.3 Subsection 10.2 notwithstanding, in the event that any such neglect or failure to perform or observe terms, conditions, covenants, or guarantees occurs, **CITY** shall give written notice to **CONTRACTOR**, and allow **CONTRACTOR** ten (10) days from the date of such notice to cure the neglect or failure. If the noted deficiencies are not remedied within the allotted time and to the satisfaction of the **CITY**, the **CITY** may proceed with the termination of **CONTRACTOR**.

10.4 Upon a decision to terminate by **CITY**, written notice of such shall be immediately provided to **CONTRACTOR** specifying the basis for said termination, the effective date of termination, and the extent to which performance of work under this Contract will be terminated. A copy of said notice shall be provided, for informational purposes only, by **CITY** to the remaining **CPA Contractors**, by hand or facsimile, as soon as practicable.

10.4.1 Upon receipt of a notice to terminate, all finished or unfinished documents, data, charts, schedules, or other appended documentation to, prepared by or on behalf of **CONTRACTOR** under this Contract, save and except for preliminary scratch, and sketch documentation, shall at the option of **CITY**, and in accordance hereof, be accessible to the **CITY** as provided in Article IX.

10.4.2 Within thirty (30) days of the effective date of termination (unless an extension is authorized in writing by **CITY**), **CONTRACTOR** shall submit to **CITY** its claim in detail for any monies owed by **CITY** for services performed under this Contract, including all work performed by **CONTRACTOR** required by the provisions of this Contract to the date of notice and for any necessary and proper work performed in the ensuing thirty day period, to be determined after discussion with **CITY**, provided however, that such payment does not exceed the maximum amount set out in subsections 7.1 through 7.4.

10.5 In the event **CITY** terminates any other **CPA Contractor** under the contract between them, **CITY** shall deliver a copy of said notice to **CONTRACTOR**, for informational purposes only, by hand or facsimile, as soon as practicable.

10.5.1 In the event of such termination (subsection 10.5), **CITY** and **CONTRACTOR** shall meet within ten (10) days of the effective date of termination specified in the notice of termination and shall agree to complete the services required herein with any remaining **CPA Contractors**. **CITY** and the remaining **CPA Contractors** shall execute a new engagement letter redefining the roles and tasks of **CPA Contractors**. To the extent termination of other **CPA Contractors** results in additional work for the remaining **CPA Contractors** in order to complete the services required herein, **CITY** and **CPA**

Contractors agree, in good faith, to renegotiate fees, which agreement shall be reflected in the new engagement letter. Said new engagement letter shall supersede any previously executed engagement letter.

10.5.2 In the event **CITY** and **CONTRACTOR** are unable or fail to ageee on any issue the subject of the renegotiation cited in 10.5.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections 10.4, 10.4.1 and 10.4.2.

10.5.3 If **CITY** chooses, as a result of any such termination (subsection 10.5), to select and hire another Certified Public Accountant or Certified Public Accounting firm or firms, other than the remaining **CPA Contractors**, **CITY** agrees to coordinate said selection with **CONTRACTOR**. However, the final selection and hiring of said CPA, CPA firm or firms, shall be at the **CITY's** sole discretion.

10.6 In the event **CONTRACTOR** is unable to issue a joint opinion with either or both of the other **CPA Contractors** because of a certain prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy ("Professional Standards"), as evidenced by and in a letter drafted and issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, **CITY** shall have the right to obtain separate and singular opinions from **CONTRACTOR**; and **CONTRACTOR** shall issue separate and singular opinions.

10.6.1 In the event **CITY** decides to obtain separate and singular opinions from **CONTRACTOR**, and **CONTRACTOR** is unable to rely on the work provided by one or both of the other **CPA Contractors** or if **CONTRACTOR's** issuing its separate opinions results in additional work, **CITY** and **CONTRACTOR** agree, in good faith, to renegotiate fees and services to be performed in order to complete the separate opinions. Said agreements shall be reflected in a new engagement letter which shall supersede any previously executed engagement letter.

10.6.2 In the event **CITY** and **CONTRACTOR** are unable or fail to ageee on any issue the subject of the renegotiation cited in 10.6.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections 10.4, 10.4.1 and 10.4.2.

10.7 The parties understand and agree that in the event **CITY** terminates any **CPA Contractor** other than **CONTRACTOR**, all references to "**CPA Contractor(s)**"

contained herein shall thereafter refer to **CONTRACTOR** and any other remaining **CPA Contractor**.

XI. SUBCONTRACTING

11.1 Any other clause of this Contract to the contrary notwithstanding, none of the work or services covered by this Contract, shall be subcontracted without the prior approval of **CITY**, and, unless specific waiver is granted in writing by **CITY**, such subcontracted work shall be subject by its terms to all provisions of this Contract. Compliance by subcontractors with this Contract shall be the responsibility of **CONTRACTOR**.

XII. ASSIGNABILITY

12.1 It is **CITY's** understanding, that during the term of this Contract, **CONTRACTOR** proposes to combine with another national accounting firm. **CITY** hereby expressly consents to the assignment of **CONTRACTOR's** interest in this Contract to any successor of KPMG Peat Marwick LLP which may result from such a combination.

12.2 The provisions of 12.1 notwithstanding, **CONTRACTOR** shall not assign any interest in this Contract to any other party without the prior written consent of **CITY**.

XIII. CONFLICT OF INTEREST

13.1 **CONTRACTOR** acknowledges that it is informed that the City of San Antonio **CITY** Charter prohibits contracts between the **CONTRACTOR** and any local public official, such as a **CITY** officer or employee, and that the prohibition extends to an officer and employee of **CITY** agencies such as **CITY**-owned utilities and **CITY** boards and commissions, and to contracts involving a business entity in which the official has a substantial interest, as defined by Texas law, if it is reasonably foreseeable that an action on the matter would confer an economic benefit on the business entity. **CONTRACTOR** certifies, and this Contract is made in reliance thereon, that neither it, its individual officers, employees or agents, nor any person having a substantial interest in this Contract or the financial affairs of the **CITY** government is an officer or employee of the **CITY** or any of its agencies. **CONTRACTOR** warrants that it has tendered to **CITY** a Disclosure Statement in compliance with the **CITY**'s Ethics Ordinance.

13.2 **CONTRACTOR** acknowledges that from time to time **CITY** releases Request for Proposals or other solicitations. **CONTRACTOR** agrees that to the extent

practicable, in the event it chooses to submit a proposal in response to any of **CITY's** solicitations, it will notify **CITY** of said submittal, in writing, in accordance with Article XXII.

XIV. COMPLIANCE

14.1 **CONTRACTOR** shall comply with the independence standards promulgated by the American Institute of Certified Public Accountants and any other standard related to independence promulgated by any other authoritative body, as applicable to the services provided hereunder.

14.2 **CONTRACTOR** shall comply with any and all other applicable standards promulgated by the American Institute of Certified Public Accountants and by any other authoritative body, as applicable to the services provided herein, while in the performance of the services hereunder.

14.3 **CONTRACTOR** shall comply with all federal, state and local laws, rules and regulations applicable to the services provided hereunder, including but not limited to the Single Audit Act Amendments of 1996, OMB Circular A-133, Chapter 103 of the Texas Local Government Code, and Section 107 of the San Antonio **CITY** Charter.

XV. INSURANCE

15.1 Prior to execution of this Contract, **CONTRACTOR** shall furnish a completed Certificate of Insurance to the Finance Department, Attention: Nora W. Chávez-Barrera, P.O. Box 839966, San Antonio, Texas 78283-3966, which shall be completed by an agent authorized to bind the named underwriter(s) and their company to the coverage, limit and termination provision shown thereon, and which shall furnish and contain all required information referenced or indicated thereon. **CITY** shall have no duty to pay or perform under this CONTRACT until such certificate has been delivered, and no officer or employee other than the **CITY**'s Risk Manager shall have authority to waive this requirement.

15.2 **CITY** reserves the right to review the insurance requirement of this section during the effective period of the Contract, including any extension or renewal hereof, and to amend insurance coverage and its limit when deemed necessary and prudent by the Risk Management Division based upon changes in statutory law, court decisions or the claims history of the industry, as well as the **CONTRACTOR**. In no instance will the **CITY** allow modification whereupon the **CITY** may incur increased risk.

15.3 **CONTRACTOR** shall procure, pay for and maintain insurance for the term of this Contract, including any extensions or renewals hereof, with companies authorized or admitted to do business in the State of Texas, and rated A or better by A.M. Best Co. and/or otherwise acceptable to **CITY** in the following type/amount:

TYPE	AMOUNT
Workers' Compensation & Employer's Liability, with waiver of subrogation in favor of the **CITY**	Statutory $500,000/$500,000/$500,000
Professional Liability	$1,000,000 per occurrence

15.4 The insurance policy required by this Contract shall contain the following clauses:

"This insurance shall not be canceled, limited in scope or coverage, or non-renewed until after thirty (30) days prior written notice has been given to the Director of Finance, **CITY** of San Antonio."

"It is agreed that any insurance or self-insurance maintained by the **CITY** of San Antonio shall apply in excess of and not contribute with insurance provided by this policy."

XVI. INDEMNITY

16.1 **CONTRACTOR agrees to INDEMNIFY and HOLD CITY, ITS OFFICERS AND EMPLOYEES, HARMLESS against any and all claims, lawsuits, judgments, costs, liens, losses, expenses, fees (including reasonable attorney's fees and costs of defense), proceedings, actions, demands, causes of action, liability and suits of any kind and nature, including but not limited to, personal injury (including death), property damage or other harm for which recovery of damages is sought that may ARISE OUT OF OR BE OCCASIONED OR CAUSED BY CONTRACTOR'S NEGLIGENT ACTIVITIES UNDER THIS CONTRACT, OR BY ANY OTHER NEGLIGENT ACT, ERROR, OR OMISSION OF CONTRACTOR, ANY AGENT, OFFICER, DIRECTOR, REPRESENTATIVE, EMPLOYEE, CONSULTANT, OR SUBCONTRACTOR OF CONTRACTOR, AND THEIR RESPECTIVE OFFICERS, AGENTS, EMPLOYEES, DIRECTORS, AND REPRESENTATIVES while in the exercise of performance of the rights or duties under this contract. The indemnity provided for in this paragraph shall not apply to any liability resulting from the negligence of CITY, its officers, or employees in instances where such negligence causes personal or bodily injury, death, or property damage, or to any claim against CITY arising out of CITY's exercise of its right to**

terminate any CPA Contractor, including but not limited to CONTRACTOR, pursuant to any provision herein contained. IN THE EVENT CONTRACTOR AND CITY ARE FOUND JOINTLY LIABLE BY A COURT OF COMPETENT JURISDICTION, LIABILITY SHALL BE APPORTIONED COMPARATIVELY IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT HOWEVER, WAIVING ANY GOVERNMENTAL IMMUNITY AVAILABLE TO THE CITY UNDER TEXAS LAW AND WITHOUT WAIVING ANY DEFENSES OF THE PARTIES UNDER TEXAS LAW. The provisions of this paragraph are solely for the benefit of the parties hereto and not intended to create or grant any rights, contractual or otherwise, to any other person or entity.

16.2 **CONTRACTOR shall promptly advise the CITY in writing of any claim or demand against the CITY or CONTRACTOR known to CONTRACTOR related to or arising out of CONTRACTOR'S activities under this contract. In turn, CITY shall promptly advise CONTRACTOR in writing of any such claim or demand against the CONTRACTOR or CITY known to CITY.**

16.3 **CITY and CONTRACTOR acknowledge and agree that it is the parties' intention, by this provisions, that each party shall pay for its respective attorney's fees and costs of defense in the event of any such claim and/or lawsuit.**

XVII. INDEPENDENT CONTRACTOR

17.1 It is expressly understood and agreed that the **CONTRACTOR** provides services as an independent **CONTRACTOR** responsible for its respective acts or omissions and that **CITY** shall in no way be responsible therefor. Neither party hereto has authority to bind the other or to hold out to third parties that it has the authority to bind the other.

XVIII. CHANGES AND AMENDMENTS

18.1 Except where the terms of this Contract expressly provide otherwise, any alterations, additions, or deletions to the terms hereof, shall be effected by amendment, in writing, executed by both **CITY** and **CONTRACTOR**, and subject to approval by the **CITY** of San Antonio **CITY** Council, evidenced by passage of an ordinance.

18.2 The parties hereto understand and agree that the request by the **CITY** to provide additional services as listed in Article IV is not an amendment to the provisions of this Contract.

18.3 It is understood and agreed by the parties hereto that changes in local, state and federal rules, regulations or laws applicable hereto may occur during the term of this Contract and that any such changes shall be automatically incorporated into this Contract without written amendment hereto, and shall become a part hereof as of the effective date of the rule, regulation or law.

XIX. LICENSES/CERTIFICATIONS

19.1 **CONTRACTOR** warrants and certifies that **CONTRACTOR** and any other person designated to provide services hereunder has the requisite training, license and/or certification to provide said services, and meets all competence standards promulgated by all other authoritative bodies, as applicable to the services provided herein.

XX. OTHER AGREEMENTS

20.1 It is acknowledged and understood by the parties hereto that simultaneously with the execution of this Contract, two other such contacts will be executed by and with the remaining **CPA Contractors**. As such, all three Contracts, the authorizing ordinance and any Exhibits to the Contracts constitute the final and entire agreement between **CITY** and **CPA Contractors** and contain all of the terms and conditions agreed upon. It is also acknowledged and understood that at the inception of each annual audit, an engagement letter consistent with the provisions of this contract shall be executed by **CITY** and **CONTRACTOR** (or each **CPA Contractor**).

XXI. SEVERABILITY

21.1 If any clause or provision of this Contract is held invalid, illegal or unenforceable under present or future federal, state or local laws, including but not limited to the **CITY** Charter, **CITY** Code, or ordinances of the **CITY** of San Antonio, Texas, then and in that event it is the intention of the parties hereto that such invalidity, illegality or unenforceability shall not affect any other clause or provision hereof and that the remainder of this Contract shall be construed as if such invalid, illegal or unenforceable clause or provision was never contained herein; it is also the intention of the parties hereto that in lieu of each clause or provision of this Contract that is invalid, illegal, or unenforceable, there be added as a part of the Contract a clause or provision as similar in terms to such invalid, illegal or unenforceable clause or provision as may be possible, legal, valid and enforceable.

XXII. NOTICES

22.1 For purposes of this Contract, all official communications and notices among the parties shall be deemed sufficient if in writing and mailed, certified mail, postage prepaid, to the addresses set forth below:

CITY

City of San Antonio
Attn: Nora W. Chávez-Barrera, Director of Finance
P.O. Box 839966
San Antonio, Texas 78283-3966

CONTRACTOR/CPA Contractor

KPMG Peat Marwick LLP
Santos Fraga, Partner
112 E. Pecan, Suite 2400
San Antonio, TX 78205
-1585

Garza/Gonzalez & Associates
Gregory R. Garza, Senior Partner
212 Stumberg, Suite 208
San Antonio, TX 78204

Robert J. Williams, C.P.A.
1100 N. W. Loop 410,
Suite 700
San Antonio, TX 78213
-2269

XXIII. LAW APPLICABLE

23.1 **THIS CONTRACT SHALL BE CONSTRUED UNDER AND IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND ALL OBLIGATIONS OF THE PARTIES CREATED HEREUNDER ARE PERFORMABLE IN BEXAR COUNTY, TEXAS.**

23.2 Any legal action or proceeding brought or maintained, directly or indirectly, as a result of this Contract shall be heard and determined in the City of San Antonio, County of Bexar, Texas.

XXIV. LEGAL AUTHORITY

24.1 The signer of this Contract for **CONTRACTOR** represents, warrants, assures and guarantees that he has full legal authority to execute this Contract on behalf of **CONTRACTOR** and to bind **CONTRACTOR** to all of the terms, conditions, provisions and obligations herein contained.

XXV. PARTIES BOUND

25.1 This Contract shall be binding on and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, and successors, except as otherwise expressly provided for herein.

XXVI. GENDER

26.1 Words of any gender used in this Contract shall be held and construed to include any other gender.

XXVII. CAPTIONS

27.1 The captions contained in this Contract are for convenience of reference only, and in no way limit or enlarge the terms and/or conditions of this Contract.

EXECUTED and **AGREED** to this the 24TH day of NOVEMBER, 1997.

CITY:
CITY OF SAN ANTONIO

Nora W. Chávez-Barrera
Director of Finance

CONTRACTOR:
KPMG Peat Marwick LLP

Santos Fraga,
Partner

Approved as to form:

Frank J. Garza
Acting City Attorney

AUDIT SERVICES CONTRACT

STATE OF TEXAS)(
)(
)(
COUNTY OF BEXAR)(

This Contract 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 Director of Finance, Nora W. Chávez-Barrera, pursuant to Ordinance No. 8 7 0 0 6 passed and approved on November 20, 1997, and Garza/Gonzalez & Associates, acting by and through its Senior Partner, Gregory R. Garza (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 contain certain audit and financial reporting requirements; and

WHEREAS, CITY has gone through an extensive selection process and chosen three entities (collectively referred to as "CPA Contractors") to collectively provide the services described herein for a three year period to include the required audits for the fiscal years ending September 30, 1997, 1998, and 1999 with an option, at the **CITY**'s sole discretion, to renew for one additional two year term, under the same terms and conditions, save and except fees and compensation, to include the audits of the fiscal years ending September 30, 2000 and 2001; and

WHEREAS, CITY will execute Contracts, containing the same terms and conditions, with all three parties referred to as CPA Contractors, wherein each party is collectively and severally bound to provide the services contained in this Contract; **NOW THEREFORE:**

Attachment II

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 Contract, the word "**CONTRACTOR**" as used herein shall refer to Garza/Gonzalez & Associates.

1.2 For purposes of this Contract, the term "**CPA Contractors**" as used herein shall refer to KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, C.P.A., collectively, or any one or two of said named entities.

II. PROVISION OF SERVICES

2.1 It is acknowledged and understood that before the commencement of the provision of services described in Article III, **CPA Contractors** will each execute an annual engagement letter with **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's Audit, the allocation of work to be performed as part of each Audit by each **CPA Contractor**, and the portion of the total compensation for such Audits that each **CPA Contractor** will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4.

2.2 **CITY** and **CONTRACTOR** mutually agree that the engagement letter executed by **CONTRACTOR** shall become part of this Contract, in accordance with Article VIII, each time it is executed; and that this Contract, the other two Contracts executed with the other **CPA Contractors**, and the engagement letters shall govern the agreement between the parties for the fiscal year noted in the engagement letters.

2.3 It is also understood and agreed that KPMG Peat Marwick LLP has been designated as the coordinator entity for the **CPA Contractors**. In this regard, the coordinator will serve as the point of contact for **CITY** in facilitating and administering the Contract.

2.4 **CONTRACTOR**, by executing this Contract, acknowledges the existence of two other Contracts containing the same terms and conditions. **CONTRACTOR**, therefore, understands and agrees that no one **CPA Contractor** has the exclusive right to perform the services, either in whole or in part, listed in this Contract. Thereby, **CITY** reserves the right to request the services to be provided by one, two, or all three of **CPA Contractors** at any time.

III. SCOPE OF SERVICES

CPA Contractors, including but not limited to **CONTRACTOR**, in accordance with the annual engagement letter, shall provide the following services:

3.1 **CPA Contractors** are to collectively audit the financial statements of **CITY** during the contract period and evaluate the fairness of presentation of the statements in conformity with generally accepted accounting principles. **CONTRACTOR** agrees to meet with the other **CPA Contractors** selected by **CITY**, to agree with such other **CPA Contractors** on a cooperative audit plan acceptable to **CITY** permitting each **CPA Contractor** to participate in each annual Audit performed pursuant to the provisions contained in this Contract; to perform the work allocated to it under the engagement letter; and to evaluate and review the work performed by the other two **CPA Contractors** to the extent necessary or desirable to permit it to issue its opinion or opinions required hereby. It is understood that this audit will be conducted in accordance with generally accepted auditing standards which will include a review of the system of internal controls and tests of transactions to the extent necessary. Accordingly, they will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although the possibility exists that such discovery may result. The San Antonio Water System, the City Public Service Board, San Antonio Fire and Police Pension Fund, and certain other component units of **CITY** are audited by other auditors. These component units which currently are or those which may be included in the future with the application of GASB 14 "the Financial Reporting Entity", are included in the scope of work to be performed hereunder but limited only to their respective incorporation into **CITY's** Comprehensive Annual Financial Report.

3.2 **CPA Contractors** agree to perform in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, and any other authoritative pronouncements which may be deemed applicable. Those standards require that **CPA Contractors** plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. The objective of this audit is the expression of an opinion of **CPA Contractors**, including but not limited to **CONTRACTOR**, or in the event such an opinion is not practicable, consistent with prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy ("Professional Standards"), as evidenced by a letter drafted and

issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, that CONTRACTOR is unable, because of a certain Professional Standard identified in said letter, to issue an opinion jointly with either or both of the other CPA Contractors, the expression of an individual and separate opinion by **CONTRACTOR**, in accordance with the provisions of this Contract. The wording of the Audit opinion will, of course, be dependent on the facts and circumstances at the date of the reports. If the opinion will be other than unqualified, the reasons therefore will be fully disclosed. The opinion will be signed by **CPA Contractors** who will assume responsibility, both jointly and severally, for the audit of the financial statements of **CITY**.

3.3 **CITY** agrees that it will maintain at least its present degree of conformance to the standards of the Governmental Accounting Standards Board pertaining to internal controls, and the recording of financial transactions, and that the contract price for the Audits by **CPA Contractors** as quoted in subsections 7.1 through 7.4, is predicated upon this conformance. **CITY** agrees that the detailed annual financial statements and notes to such statements will be prepared by its Department of Finance as nearly as practical in accordance with the form outlined in "Governmental Accounting, Auditing, and Financial Reporting" published by the National Committee on such financial statements, and any supplemental schedules which it prepares will be submitted and provided to the **CPA Contractors** in sufficient time (as completed) for full reconciliation with **CPA Contractors** findings, and to facilitate publication of **CITY**'s Comprehensive Annual Financial Report within approximately 120 days after the close of each fiscal year. Responsibility for the proper recording of transactions into the books of account, and for the accuracy of the financial statements, which are the representations of management, are with **CITY**.

3.4 **CITY** shall have completed and balanced all accounts and have prepared financial statements and schedules for all funds, and account groups to be audited by the **CPA Contractors** and shall provide **CPA Contractors** with working space deemed adequate by **CPA Contractors** for efficient conduct of the audit. **CITY** shall provide **CPA Contractors** for its use and retention, with copies of these financial statements and schedules and shall provide **CPA Contractors** with trial balances of the various funds and account groups in a form acceptable to **CPA Contractors**.

3.5 The Comprehensive Annual Financial Report will be completed and available for distribution within approximately 120 days of **CITY**'s fiscal year end of September 30th. The "Management Letter" and "Single Audit Report" will be completed and available for distribution within a reasonable period of time after completion of the Comprehensive Annual Financial Report.

3.6 **CONTRACTOR** understands and agrees that, other provisions to the contrary notwithstanding, **CITY** requires the issuance of a joint opinion by **CPA**

Contractors; and that **CITY** will only accept singular opinions from **CONTRACTOR** in the event it is determined, in accordance with the provisions of subsections 3.2 and 10.6, that **CONTRACTOR** is unable to issue a joint opinion.

3.7 On an annual basis during the term of the Contract, **CPA Contractors** will provide twenty-four (24) hours of continuing professional education training to approximately forty-five (45) of **CITY**'s professional accounting and internal audit staff. This training will be required to be certified by the Texas State Board of Public Accountancy and will be based on mutually agreed upon topics. This service is considered a part of the fee structure for the independent audit.

IV. CONTINGENT ADDITIONAL SERVICES

4.1 **CONTRACTOR** acknowledges that the services listed below were identified in the Request for Proposal at page 4 as those additional services which the **CITY** may request **CONTRACTOR** to provide. If requested, **CONTRACTOR** shall provide said service(s) under the same terms and conditions of this Contract, save and except those provisions specifically revised by the Director of Finance in the forwarded request (subsection 4.2).

4.2 **CITY** will effect such a request for contingent additional services by forwarding a written request, executed by the Director of Finance or her designee, to the coordinator entity at its respective address provided herein. Within said request, the Director of Finance shall state the scope of services **CPA Contractors** are to provide; the period of time within which said services are to be completed; and the consideration to be paid by **CITY** for the services provided, in accordance with subsection 7.8. The coordinator entity shall notify **CITY** as to which entity or entities will provide the contingent additional service. Provided however, if **CITY**, at its discretion, designates the entity or entities to provide said contingent additional services, the request for the provision of contingent additional services shall be forwarded directly to that designated entity or entities.

4.3 The entity or entities so designated agree to provide the following services at the request of the **CITY**:

4.3.1 Guidance on tax, compliance, or other non-audit consultation matters.

4.3.2 Other services which may be required for a **CITY** bond offering.

4.3.3 Assistance with the preparation of aspects of the annual report or the analysis of new accounting standards or pronouncements.

4.3.4 Advisory or consultant services to assist in the resolution of audit findings and questioned costs reported by Federal and State Agencies.

V. QUALITY CONTROL REVIEWS

5.1 Pursuant to Government Auditing Standards, **CONTRACTOR** is required to make certain work papers available to federal regulatory agencies upon request, for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of **CONTRACTOR's** personnel. **CITY** shall be notified immediately by **CONTRACTOR** in the event of any such request. Costs incurred by **CONTRACTOR** related to such review of audit quality will not be reimbursed by **CITY**. To the extent such work papers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors request additional procedures beyond the requirements of the Single Audit Act, **CONTRACTOR** will notify and discuss such request with **CITY** prior to any costs being incurred by **CONTRACTOR**. Any such costs agreed to be reimbursed by **CITY** will be based on fees negotiated on an individual engagement basis.

VI. TERM AND COMMENCEMENT OF WORK

6.1 The term of this Contract shall be from November 30, 1997 through September 30, 2000 and shall include the audits of the **CITY**'s records and accounts for the fiscal years ending September 30, 1997, 1998, and 1999, unless renewal and extension or earlier termination shall occur pursuant to any of the provisions of this Contract. Continuation of this Contract beyond the first year and each and every year thereafter is subject to and contingent upon an annual appropriation of funds by City Council.

6.2 In the event **CITY** requests **CPA Contractors** to provide the contingent additional services set out in Article IV, the commencement and termination dates shall be established in the written request from the Director of Finance.

6.3 This Contract may be renewed and extended for one additional two year period, under the same terms and conditions, save and except compensation and fees. This option to renew and extend shall be at the **CITY**'s sole discretion and such renewal or extension shall be subject to City Council approval, evidenced by passage of an ordinance. **CITY** shall initiate the request to renew and extend by forwarding written notice of such to **CONTRACTOR** on or before thirty (30) days prior to September 30, 2000.

VII. CONTRACT PRICING AND BILLING

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the services provided for in Article III for fiscal year

1997 shall not exceed the amount of $203,000.00; for fiscal year 1998 shall not exceed the amount of $209,000.00; and for fiscal year 1999 shall not exceed the amount of $215,000.00. Such fees being 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 Review will provide 1,150 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that while the total fee for the services required by Article III under this Contract for the Audit of fiscal year 1997 shall not exceed $203,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 111,650.00
Garza/Gonzalez & Associates	$ 81,200.00
Robert J. Williams, C.P.A.	$ 10,150.00

7.3 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audit of fiscal year 1998 shall not exceed $209,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 114,950.00
Garza/Gonzalez & Associates	$ 83,600.00
Robert J. Williams, C.P.A.	$ 10,450.00

7.4 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audits of fiscal year 1999 shall not exceed $215,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 118,250.00
Garza/Gonzalez & Associates	$ 86,000.00
Robert J. Williams, C.P.A.	$ 10,750.00

7.5 Subject to subsections 7.1 through 7.4, **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, subcontractor costs, if any, and all other **CONTRACTOR** expenses necessary to complete the services stated herein shall be borne at **CONTRACTOR**'s sole cost and expense.

7.6 Progress billings for the annual fees established herein, subsections 7.1 through 7.4, will be rendered by the **CONTRACTOR** to the **CITY** and detailed as to the amount due each of the **CONTRACTOR** parties. Upon receipt of such billing statements, the amount due will be paid by the **CITY** as specified on such

statements. However, **CITY** will retain ten percent (10%) of the total annual fee, until the **CITY**'s Comprehensive Annual Financial Report, Single Audit Report, and Management Letter have been completed. Funds for the payment of such fees shall be derived from the "Professional Fees - Outside Audit" line item, in the General Fund, Non-Departmental, Non-Operating budget of the **CITY**.

7.7 In the event that the **CITY** does not provide assistance as provided for in subsection 7.1, or other similar extenuating circumstances are encountered, as to materially alter the performance and scope of work hereunder, it may be necessary for **CONTRACTOR** to consider the issuance of a settlement statement which details and compares the actual work performed against the original audit plan. However, in no instance will the **CITY** make any payment for the services provided for in Article III in excess of the annual amounts of $203,000.00, $209,000.00 and $215,000.00, respectively, established in subsections 7.1 without formal written revision of this Contract and related City Council approval.

7.8 Payments for contingent additional services provided in accordance with Article IV, payments for any costs to be reimbursed by **CITY** in accordance with Article V, and payments for any additional work required in accordance with subsection 10.5.1or 10.6.1, will be based on fees negotiated on an individual engagement basis. KPMG Peat Marwick LLP, Garza/Gonzalez & Associates and/or Robert J. Williams, C.P.A., as the entity designated to provide said services shall prepare and submit a billing statement to **CITY** specifying the scope of work performed and amount due. Upon receipt of the billing statement, **CITY** will review and if in compliance with the established fees, pay the amount specified due on such statement to the appropriate entity.

VIII. INCORPORATION BY REFERENCE

8.1 The engagement letter executed by **CITY** and **CONTRACTOR**, attached hereto as Exhibit A, is hereby incorporated into this Contract and specifically made a part hereof as though it is fully set out herein.

8.2 The parties hereto acknowledge and agree that prior to the commencement of the 1997, 1998 and 1999 Audits herein required, and the Audits covered by any renewal and extension hereof, if applicable, **CITY** and **CONTRACTOR** will execute a new engagement letter for the upcoming fiscal year. That engagement letter, once executed, shall be incorporated herein for that next fiscal year and shall supersede the previously attached engagement letter.

8.3 In the event of a conflict or inconsistency between the terms of this Contract and the provisions of any of the engagement letters ultimately attached hereto as Exhibit A, the terms of this Contract shall govern and prevail.

IX. RECORDS

9.1 **CONTRACTOR** and its subcontractors, if any, shall properly, accurately and completely maintain all documents, papers, and records, and other evidence pertaining to the services rendered hereunder, save and except for preliminary scratch, and sketch documentation, and shall make such materials available to the **CITY** at their respective offices, with reasonable notice by the **CITY**, at all reasonable times and as often as **CITY** may deem necessary during the contract period, including any extension or renewal hereof, for purposes of inspection, examination, and making excerpts or copies of same by **CITY** and any of its authorized representatives.

9.2 **CONTRACTOR** shall retain any and all documents produced as a result of services provided hereunder for a period of three (3) years from the date of termination of the Contract. If at the end of three (3) years there is litigation or other questions arising from, involving or concerning this documentation or the services provided hereunder, **CONTRACTOR** shall retain the records until the resolution of such litigation or other such questions.

9.3 **CITY** shall be notified immediately by **CONTRACTOR** in the event of any requests for information by a third party received by **CONTRACTOR** which pertain to the documentation and records referenced in subsections 9.1 and 9.2. As such, **CONTRACTOR** understands and agrees that **CITY** will process and handle all such requests.

X. TERMINATION

10.1 For purposes of this Contract, "termination" of this Contract shall mean termination by completion of the provision of services required herein or earlier termination pursuant to any of the provisions hereof.

10.2 Other provisions of this Contract notwithstanding, **CITY** may terminate this Contract as to **CONTRACTOR** in accordance with this clause, in whole or in part, for any of the following:

10.2.1 Neglect or failure by **CONTRACTOR** to perform or observe any of the terms, conditions, covenants or guarantees of this Contract or of any amendment between **CITY** and **CONTRACTOR**; or

10.2.2 Violation by **CONTRACTOR** of any rule, regulation or law to which **CONTRACTOR** is bound or shall be bound by terms of this Contract.

10.3 Subsection 10.2 notwithstanding, in the event that any such neglect or failure to perform or observe terms, conditions, covenants, or guarantees occurs, **CITY** shall

give written notice to **CONTRACTOR**, and allow **CONTRACTOR** ten (10) days from the date of such notice to cure the neglect or failure. If the noted deficiencies are not remedied within the allotted time and to the satisfaction of the **CITY**, the **CITY** may proceed with the termination of **CONTRACTOR**.

10.4 Upon a decision to terminate by **CITY**, written notice of such shall be immediately provided to **CONTRACTOR** specifying the basis for said termination, the effective date of termination, and the extent to which performance of work under this Contract will be terminated. A copy of said notice shall be provided, for informational purposes only, by **CITY** to the remaining **CPA Contractors**, by hand or facsimile, as soon as practicable.

10.4.1 Upon receipt of a notice to terminate, all finished or unfinished documents, data, charts, schedules, or other appended documentation to, prepared by or on behalf of **CONTRACTOR** under this Contract, save and except for preliminary scratch, and sketch documentation, shall at the option of **CITY**, and in accordance hereof, be accessible to the **CITY** as provided in Article IX.

10.4.2 Within thirty (30) days of the effective date of termination (unless an extension is authorized in writing by **CITY**), **CONTRACTOR** shall submit to **CITY** its claim in detail for any monies owed by **CITY** for services performed under this Contract, including all work performed by **CONTRACTOR** required by the provisions of this Contract to the date of notice and for any necessary and proper work performed in the ensuing thirty day period, to be determined after discussion with **CITY**, provided however, that such payment does not exceed the maximum amount set out in subsections 7.1 through 7.4.

10.5 In the event **CITY** terminates any other **CPA Contractor** under the contract between them, **CITY** shall deliver a copy of said notice to **CONTRACTOR**, for informational purposes only, by hand or facsimile, as soon as practicable.

10.5.1 In the event of such termination (subsection 10.5), **CITY** and **CONTRACTOR** shall meet within ten (10) days of the effective date of termination specified in the notice of termination and shall agree to complete the services required herein with any remaining **CPA Contractors**. **CITY** and the remaining **CPA Contractors** shall execute a new engagement letter redefining the roles and tasks of **CPA Contractors**. To the extent termination of other **CPA Contractors** results in additional work for the remaining **CPA Contractors** in order to complete the services required herein, **CITY** and **CPA Contractors** agree, in good faith, to renegotiate fees, which agreement shall be reflected in the new engagement letter. Said new engagement letter shall supersede any previously executed engagement letter.

10.5.2 In the event **CITY** and **CONTRACTOR** are unable or fail to agree on any issue the subject of the renegotiation cited in 10.5.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections 10.4, 10.4.1 and 10.4.2.

10.5.3 If **CITY** chooses, as a result of any such termination (subsection 10.5), to select and hire another Certified Public Accountant or Certified Public Accounting firm or firms, other than the remaining **CPA Contractors**, **CITY** agrees to coordinate said selection with **CONTRACTOR**. However, the final selection and hiring of said CPA, CPA firm or firms, shall be at the **CITY's** sole discretion.

10.6 In the event **CONTRACTOR** is unable to issue a joint opinion with either or both of the other **CPA Contractors** because of a certain prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy ("Professional Standards"), as evidenced by and in a letter drafted and issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, **CITY** shall have the right to obtain separate and singular opinions from **CONTRACTOR**; and **CONTRACTOR** shall issue separate and singular opinions.

10.6.1 In the event **CITY** decides to obtain separate and singular opinions from **CONTRACTOR**, and **CONTRACTOR** is unable to rely on the work provided by one or both of the other **CPA Contractors** or if **CONTRACTOR's** issuing its separate opinions results in additional work, **CITY** and **CONTRACTOR** agree, in good faith, to renegotiate fees and services to be performed in order to complete the separate opinions. Said agreements shall be reflected in a new engagement letter which shall supersede any previously executed engagement letter.

10.6.2 In the event **CITY** and **CONTRACTOR** are unable or fail to agree on any issue the subject of the renegotiation cited in 10.6.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections 10.4, 10.4.1 and 10.4.2.

10.7 The parties understand and agree that in the event **CITY** terminates any **CPA Contractor** other than **CONTRACTOR**, all references to "**CPA Contractor(s)**" contained herein shall thereafter refer to **CONTRACTOR** and any other remaining **CPA Contractor**.

XI. SUBCONTRACTING

11.1 Any other clause of this Contract to the contrary notwithstanding, none of the work or services covered by this Contract, shall be subcontracted without the prior approval of **CITY**, and, unless specific waiver is granted in writing by **CITY**, such subcontracted work shall be subject by its terms to all provisions of this Contract. Compliance by subcontractors with this Contract shall be the responsibility of **CONTRACTOR**.

XII. ASSIGNABILITY

12.1 It is **CITY's** understanding, and **CONTRACTOR** hereby acknowledges, that during the term of this Contract, KPMG Peat Marwick LLP proposes to combine with another national accounting firm. **CITY** hereby expressly consents to the assignment of the interest of KPMG Peat Marwick LLP in its contract to any successor of KPMG Peat Marwick LLP which may result from such a combination.

12.2 The provisions of 12.1 notwithstanding, **CONTRACTOR** shall not assign any interest in this Contract to any other party without the prior written consent of **CITY**.

XIII. CONFLICT OF INTEREST

13.1 **CONTRACTOR** acknowledges that it is informed that the City of San Antonio **CITY** Charter prohibits contracts between the **CONTRACTOR** and any local public official, such as a **CITY** officer or employee, and that the prohibition extends to an officer and employee of **CITY** agencies such as **CITY**-owned utilities and **CITY** boards and commissions, and to contracts involving a business entity in which the official has a substantial interest, as defined by Texas law, if it is reasonably foreseeable that an action on the matter would confer an economic benefit on the business entity. **CONTRACTOR** certifies, and this Contract is made in reliance thereon, that neither it, its individual officers, employees or agents, nor any person having a substantial interest in this Contract or the financial affairs of the **CITY** government is an officer or employee of the **CITY** or any of its agencies. **CONTRACTOR** warrants that it has tendered to **CITY** a Disclosure Statement in compliance with the **CITY**'s Ethics Ordinance.

13.2 **CONTRACTOR** acknowledges that from time to time **CITY** releases Request for Proposals or other solicitations. **CONTRACTOR** agrees that to the extent practicable, in the event it chooses to submit a proposal in response to any of **CITY's** solicitations, it will notify **CITY** of said submittal, in writing, in accordance with Article XXII.

XIV. COMPLIANCE

14.1 **CONTRACTOR** shall comply with the independence standards promulgated by the American Institute of Certified Public Accountants and any other standard related to independence promulgated by any other authoritative body, as applicable to the services provided hereunder.

14.2 **CONTRACTOR** shall comply with any and all other applicable standards promulgated by the American Institute of Certified Public Accountants and by any other authoritative body, as applicable to the services provided herein, while in the performance of the services hereunder.

14.3 **CONTRACTOR** shall comply with all federal, state and local laws, rules and regulations applicable to the services provided hereunder, including but not limited to the Single Audit Act Amendments of 1996, OMB Circular A-133, Chapter 103 of the Texas Local Government Code, and Section 107 of the San Antonio **CITY** Charter.

XV. INSURANCE

15.1 Prior to execution of this Contract, **CONTRACTOR** shall furnish a completed Certificate of Insurance to the Finance Department, Attention: Nora W. Chávez-Barrera, P.O. Box 839966, San Antonio, Texas 78283-3966, which shall be completed by an agent authorized to bind the named underwriter(s) and their company to the coverage, limit and termination provision shown thereon, and which shall furnish and contain all required information referenced or indicated thereon. **CITY** shall have no duty to pay or perform under this CONTRACT until such certificate has been delivered, and no officer or employee other than the **CITY**'s Risk Manager shall have authority to waive this requirement.

15.2 **CITY** reserves the right to review the insurance requirement of this section during the effective period of the Contract, including any extension or renewal hereof, and to amend insurance coverage and its limit when deemed necessary and prudent by the Risk Management Division based upon changes in statutory law, court decisions or the claims history of the industry, as well as the **CONTRACTOR**. In no instance will the **CITY** allow modification whereupon the **CITY** may incur increased risk.

15.3 **CONTRACTOR** shall procure, pay for and maintain insurance for the term of this Contract, including any extensions or renewals hereof, with companies authorized or admitted to do business in the State of Texas, and rated A or better by A.M. Best Co. and/or otherwise acceptable to **CITY** in the following type/amount:

TYPE	AMOUNT
Workers' Compensation & Employer's Liability, with waiver of subrogation in favor of the **CITY**	Statutory $500,000/$500,000/$500,000
Professional Liability	$1,000,000 per occurrence

15.4 The insurance policy required by this Contract shall contain the following clauses:

"This insurance shall not be canceled, limited in scope or coverage, or non-renewed until after thirty (30) days prior written notice has been given to the Director of Finance, **CITY** of San Antonio."

"It is agreed that any insurance or self-insurance maintained by the **CITY** of San Antonio shall apply in excess of and not contribute with insurance provided by this policy."

XVI. INDEMNITY

16.1 **CONTRACTOR agrees to INDEMNIFY and HOLD CITY, ITS OFFICERS AND EMPLOYEES, HARMLESS against any and all claims, lawsuits, judgments, costs, liens, losses, expenses, fees (including reasonable attorney's fees and costs of defense), proceedings, actions, demands, causes of action, liability and suits of any kind and nature, including but not limited to, personal injury (including death), property damage or other harm for which recovery of damages is sought that may ARISE OUT OF OR BE OCCASIONED OR CAUSED BY CONTRACTOR'S NEGLIGENT ACTIVITIES UNDER THIS CONTRACT, OR BY ANY OTHER NEGLIGENT ACT, ERROR, OR OMISSION OF CONTRACTOR, ANY AGENT, OFFICER, DIRECTOR, REPRESENTATIVE, EMPLOYEE, CONSULTANT, OR SUBCONTRACTOR OF CONTRACTOR, AND THEIR RESPECTIVE OFFICERS, AGENTS, EMPLOYEES, DIRECTORS, AND REPRESENTATIVES while in the exercise of performance of the rights or duties under this contract. The indemnity provided for in this paragraph shall not apply to any liability resulting from the negligence of CITY, its officers, or employees in instances where such negligence causes personal or bodily injury, death, or property damage, or to any claim against CITY arising out of CITY's exercise of its right to terminate any CPA Contractor, including but not limited to CONTRACTOR, pursuant to any provision herein contained. IN THE EVENT CONTRACTOR AND CITY ARE FOUND JOINTLY LIABLE BY A COURT OF COMPETENT JURISDICTION, LIABILITY SHALL BE APPORTIONED COMPARATIVELY IN ACCORDANCE WITH THE**

LAWS OF THE STATE OF TEXAS, WITHOUT HOWEVER, WAIVING ANY GOVERNMENTAL IMMUNITY AVAILABLE TO THE CITY UNDER TEXAS LAW AND WITHOUT WAIVING ANY DEFENSES OF THE PARTIES UNDER TEXAS LAW. The provisions of this paragraph are solely for the benefit of the parties hereto and not intended to create or grant any rights, contractual or otherwise, to any other person or entity.

16.2 **CONTRACTOR shall promptly advise the CITY in writing of any claim or demand against the CITY or CONTRACTOR known to CONTRACTOR related to or arising out of CONTRACTOR'S activities under this contract. In turn, CITY shall promptly advise CONTRACTOR in writing of any such claim or demand against the CONTRACTOR or CITY known to CITY.**

16.3 **CITY and CONTRACTOR acknowledge and agree that it is the parties' intention, by this provisions, that each party shall pay for its respective attorney's fees and costs of defense in the event of any such claim and/or lawsuit.**

XVII. INDEPENDENT CONTRACTOR

17.1 It is expressly understood and agreed that the **CONTRACTOR** provides services as an independent **CONTRACTOR** responsible for its respective acts or omissions and that **CITY** shall in no way be responsible therefor. Neither party hereto has authority to bind the other or to hold out to third parties that it has the authority to bind the other.

XVIII. CHANGES AND AMENDMENTS

18.1 Except where the terms of this Contract expressly provide otherwise, any alterations, additions, or deletions to the terms hereof, shall be effected by amendment, in writing, executed by both **CITY** and **CONTRACTOR**, and subject to approval by the **CITY** of San Antonio **CITY** Council, evidenced by passage of an ordinance.

18.2 The parties hereto understand and agree that the request by the **CITY** to provide additional services as listed in Article IV is not an amendment to the provisions of this Contract.

18.3 It is understood and agreed by the parties hereto that changes in local, state and federal rules, regulations or laws applicable hereto may occur during the term of this Contract and that any such changes shall be automatically incorporated into this Contract without written amendment hereto, and shall become a part hereof as of the effective date of the rule, regulation or law.

XIX. LICENSES/CERTIFICATIONS

19.1 **CONTRACTOR** warrants and certifies that **CONTRACTOR** and any other person designated to provide services hereunder has the requisite training, license and/or certification to provide said services, and meets all competence standards promulgated by all other authoritative bodies, as applicable to the services provided herein.

XX. OTHER AGREEMENTS

20.1 It is acknowledged and understood by the parties hereto that simultaneously with the execution of this Contract, two other such contacts will be executed by and with the remaining **CPA Contractors**. As such, all three Contracts, the authorizing ordinance and any Exhibits to the Contracts constitute the final and entire agreement between **CITY** and **CPA Contractors** and contain all of the terms and conditions agreed upon. It is also acknowledged and understood that at the inception of each annual audit, an engagement letter consistent with the provisions of this contract shall be executed by **CITY** and **CONTRACTOR** (or each **CPA Contractor**).

XXI. SEVERABILITY

21.1 If any clause or provision of this Contract is held invalid, illegal or unenforceable under present or future federal, state or local laws, including but not limited to the **CITY** Charter, **CITY** Code, or ordinances of the **CITY** of San Antonio, Texas, then and in that event it is the intention of the parties hereto that such invalidity, illegality or unenforceability shall not affect any other clause or provision hereof and that the remainder of this Contract shall be construed as if such invalid, illegal or unenforceable clause or provision was never contained herein; it is also the intention of the parties hereto that in lieu of each clause or provision of this Contract that is invalid, illegal, or unenforceable, there be added as a part of the Contract a clause or provision as similar in terms to such invalid, illegal or unenforceable clause or provision as may be possible, legal, valid and enforceable.

XXII. NOTICES

22.1 For purposes of this Contract, all official communications and notices among the parties shall be deemed sufficient if in writing and mailed, certified mail, postage prepaid, to the addresses set forth below:

CITY

City of San Antonio
Attn: Nora W. Chávez-Barrera, Director of Finance
P.O. Box 839966
San Antonio, Texas 78283-3966

CONTRACTOR/CPA Contractors

KPMG Peat Marwick LLP Santos Fraga, Partner 112 E. Pecan, Suite 2400 San Antonio, TX 78205 -1585	Garza/Gonzalez & Associates Gregory R. Garza, Senior Partner 212 Stumberg, Suite 208 San Antonio, TX 78204	Robert J. Williams, C.P.A. 1100 N. W. Loop 410, Suite 700 San Antonio, TX 78213 -2269

XXIII. LAW APPLICABLE

23.1 **THIS CONTRACT SHALL BE CONSTRUED UNDER AND IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND ALL OBLIGATIONS OF THE PARTIES CREATED HEREUNDER ARE PERFORMABLE IN BEXAR COUNTY, TEXAS.**

23.2 Any legal action or proceeding brought or maintained, directly or indirectly, as a result of this Contract shall be heard and determined in the City of San Antonio, County of Bexar, Texas.

XXIV. LEGAL AUTHORITY

24.1 The signer of this Contract for **CONTRACTOR** represents, warrants, assures and guarantees that he has full legal authority to execute this Contract on behalf of **CONTRACTOR** and to bind **CONTRACTOR** to all of the terms, conditions, provisions and obligations herein contained.

XXV. PARTIES BOUND

25.1 This Contract shall be binding on and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, and successors, except as otherwise expressly provided for herein.

XXVI. GENDER

26.1 Words of any gender used in this Contract shall be held and construed to include any other gender.

XXVII. CAPTIONS

27.1 The captions contained in this Contract are for convenience of reference only, and in no way limit or enlarge the terms and/or conditions of this Contract.

EXECUTED and **AGREED** to this the 24TH day of NOVEMBER, 1997.

CITY:
CITY OF SAN ANTONIO

Nora W. Chávez-Barrera
Director of Finance

CONTRACTOR:
Garza/Gonzalez & Associates

Gregory R. Garza,
Senior Partner

Approved as to form:

Frank J. Garza
Acting City Attorney

AUDIT SERVICES CONTRACT

STATE OF TEXAS)(
)(
)(
COUNTY OF BEXAR)(

This Contract 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 Director of Finance, Nora W. Chávez-Barrera, pursuant to Ordinance No. 87006 passed and approved on November 20, 1997, and Robert J. Williams, Certified Public Accountant (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 contain certain audit and financial reporting requirements; and

WHEREAS, CITY has gone through an extensive selection process and chosen three entities (collectively referred to as "CPA Contractors") to collectively provide the services described herein for a three year period to include the required audits for the fiscal years ending September 30, 1997, 1998, and 1999 with an option, at the **CITY**'s sole discretion, to renew for one additional two year term, under the same terms and conditions, save and except fees and compensation, to include the audits of the fiscal years ending September 30, 2000 and 2001; and

WHEREAS, CITY will execute Contracts, containing the same terms and conditions, with all three parties referred to as CPA Contractors, wherein each party is collectively and severally bound to provide the services contained in this Contract; **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 Contract, the word "**CONTRACTOR**" as used herein shall refer to Robert J. Williams, C.P.A..

1.2 For purposes of this Contract, the term "**CPA Contractors**" as used herein shall refer to KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, C.P.A., collectively, or any one or two of said named entities.

II. PROVISION OF SERVICES

2.1 It is acknowledged and understood that before the commencement of the provision of services described in Article III, **CPA Contractors** will each execute an annual engagement letter with **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's Audit, the allocation of work to be performed as part of each Audit by each **CPA Contractor**, and the portion of the total compensation for such Audits that each **CPA Contractor** will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4.

2.2 **CITY** and **CONTRACTOR** mutually agree that the engagement letter executed by **CONTRACTOR** shall become part of this Contract, in accordance with Article VIII, each time it is executed; and that this Contract, the other two Contracts executed with the other **CPA Contractors**, and the engagement letters shall govern the agreement between the parties for the fiscal year noted in the engagement letters.

2.3 It is also understood and agreed that KPMG Peat Marwick LLP has been designated as the coordinator entity for the **CPA Contractors**. In this regard, the coordinator will serve as the point of contact for **CITY** in facilitating and administering the Contract.

2.4 **CONTRACTOR**, by executing this Contract, acknowledges the existence of two other Contracts containing the same terms and conditions. **CONTRACTOR**, therefore, understands and agrees that no one **CPA Contractor** has the exclusive right to perform the services, either in whole or in part, listed in this Contract. Thereby, **CITY** reserves the right to request the services to be provided by one, two, or all three of **CPA Contractors** at any time.

III. SCOPE OF SERVICES

CPA Contractors, including but not limited to **CONTRACTOR**, in accordance with the annual engagement letter, shall provide the following services:

3.1 **CPA Contractors** are to collectively audit the financial statements of **CITY** during the contract period and evaluate the fairness of presentation of the statements in conformity with generally accepted accounting principles. **CONTRACTOR** agrees to meet with the other **CPA Contractors** selected by **CITY**, to agree with such other **CPA Contractors** on a cooperative audit plan acceptable to **CITY** permitting each **CPA Contractor** to participate in each annual Audit performed pursuant to the provisions contained in this Contract; to perform the work allocated to it under the engagement letter; and to evaluate and review the work performed by the other two **CPA Contractors** to the extent necessary or desirable to permit it to issue its opinion or opinions required hereby. It is understood that this audit will be conducted in accordance with generally accepted auditing standards which will include a review of the system of internal controls and tests of transactions to the extent necessary. Accordingly, they will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although the possibility exists that such discovery may result. The San Antonio Water System, the City Public Service Board, San Antonio Fire and Police Pension Fund, and certain other component units of **CITY** are audited by other auditors. These component units which currently are or those which may be included in the future with the application of GASB 14 "the Financial Reporting Entity", are included in the scope of work to be performed hereunder but limited only to their respective incorporation into **CITY's** Comprehensive Annual Financial Report.

3.2 **CPA Contractors** agree to perform in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, and any other authoritative pronouncements which may be deemed applicable. Those standards require that **CPA Contractors** plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. The objective of this audit is the expression of an opinion of **CPA Contractors**, including but not limited to **CONTRACTOR**, or in the event such an opinion is not practicable, consistent with prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy ("Professional Standards"), as evidenced by a letter drafted and

issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, that **CONTRACTOR** is unable, because of a certain Professional Standard identified in said letter, to issue an opinion jointly with either or both of the other **CPA Contractors**, the expression of an individual and separate opinion by **CONTRACTOR**, in accordance with the provisions of this Contract. The wording of the Audit opinion will, of course, be dependent on the facts and circumstances at the date of the reports. If the opinion will be other than unqualified, the reasons therefore will be fully disclosed. The accountant's opinion will be signed by **CPA Contractors** who will assume responsibility, both jointly and severally, for the audit of the financial statements of **CITY**.

3.3 **CITY** agrees that it will maintain at least its present degree of conformance to the standards of the Governmental Accounting Standards Board pertaining to internal controls, and the recording of financial transactions, and that the contract price for the Audits by **CPA Contractors** as quoted in subsections 7.1 through 7.4, is predicated upon this conformance. **CITY** agrees that the detailed annual financial statements and notes to such statements will be prepared by its Department of Finance as nearly as practical in accordance with the form outlined in "Governmental Accounting, Auditing, and Financial Reporting" published by the National Committee on such financial statements, and any supplemental schedules which it prepares will be submitted and provided to the **CPA Contractors** in sufficient time (as completed) for full reconciliation with **CPA Contractors** findings, and to facilitate publication of **CITY**'s Comprehensive Annual Financial Report within approximately 120 days after the close of each fiscal year. Responsibility for the proper recording of transactions into the books of account, and for the accuracy of the financial statements, which are the representations of management, are with **CITY**.

3.4 **CITY** shall have completed and balanced all accounts and have prepared financial statements and schedules for all funds, and account groups to be audited by the **CPA Contractors** and shall provide **CPA Contractors** with working space deemed adequate by **CPA Contractors** for efficient conduct of the audit. **CITY** shall provide **CPA Contractors** for its use and retention, with copies of these financial statements and schedules and shall provide **CPA Contractors** with trial balances of the various funds and account groups in a form acceptable to **CPA Contractors**.

3.5 The Comprehensive Annual Financial Report will be completed and available for distribution within approximately 120 days of **CITY**'s fiscal year end of September 30th. The "Management Letter" and "Single Audit Report" will be completed and available for distribution within a reasonable period of time after completion of the Comprehensive Annual Financial Report.

3.6 **CONTRACTOR** understands and agrees that, other provisions to the contrary notwithstanding, **CITY** requires the issuance of a joint opinion by **CPA**

Contractors; and that **CITY** will only accept singular opinions from **CONTRACTOR** in the event it is determined, in accordance with the provisions of subsections 3.2 and 10.6, that **CONTRACTOR** is unable to issue a joint opinion.

3.7 On an annual basis during the term of the Contract, **CPA Contractors** will provide twenty-four (24) hours of continuing professional education training to approximately forty-five (45) of **CITY**'s professional accounting and internal audit staff. This training will be required to be certified by the Texas State Board of Public Accountancy and will be based on mutually agreed upon topics. This service is considered a part of the fee structure for the independent audit.

IV. CONTINGENT ADDITIONAL SERVICES

4.1 **CONTRACTOR** acknowledges that the services listed below were identified in the Request for Proposal at page 4 as those additional services which the **CITY** may request **CONTRACTOR** to provide. If requested, **CONTRACTOR** shall provide said service(s) under the same terms and conditions of this Contract, save and except those provisions specifically revised by the Director of Finance in the forwarded request (subsection 4.2).

4.2 **CITY** will effect such a request for contingent additional services by forwarding a written request, executed by the Director of Finance or her designee, to the coordinator entity at its respective address provided herein. Within said request, the Director of Finance shall state the scope of services **CPA Contractors** are to provide; the period of time within which said services are to be completed; and the consideration to be paid by **CITY** for the services provided, in accordance with subsection 7.8. The coordinator entity shall notify **CITY** as to which entity or entities will provide the contingent additional service. Provided however, if **CITY**, at its discretion, designates the entity or entities to provide said contingent additional services, the request for the provision of contingent additional services shall be forwarded directly to that designated entity or entities.

4.3 The entity or entities so designated agree to provide the following services at the request of the **CITY**:

4.3.1 Guidance on tax, compliance, or other non-audit consultation matters.

4.3.2 Other services which may be required for a **CITY** bond offering.

4.3.3 Assistance with the preparation of aspects of the annual report or the analysis of new accounting standards or pronouncements.

4.3.4 Advisory or consultant services to assist in the resolution of audit findings and questioned costs reported by Federal and State Agencies.

V. QUALITY CONTROL REVIEWS

5.1 Pursuant to Government Auditing Standards, **CONTRACTOR** is required to make certain work papers available to federal regulatory agencies upon request, for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of **CONTRACTOR's** personnel. **CITY** shall be notified immediately by **CONTRACTOR** in the event of any such request. Costs incurred by **CONTRACTOR** related to such review of audit quality will not be reimbursed by **CITY**. To the extent such work papers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors request additional procedures beyond the requirements of the Single Audit Act, **CONTRACTOR** will notify and discuss such request with **CITY** prior to any costs being incurred by **CONTRACTOR**. Any such costs agreed to be reimbursed by **CITY** will be based on fees negotiated on an individual engagement basis.

VI. TERM AND COMMENCEMENT OF WORK

6.1 The term of this Contract shall be from November 30, 1997 through September 30, 2000 and shall include the audits of the **CITY**'s records and accounts for the fiscal years ending September 30, 1997, 1998, and 1999, unless renewal and extension or earlier termination shall occur pursuant to any of the provisions of this Contract. Continuation of this Contract beyond the first year and each and every year thereafter is subject to and contingent upon an annual appropriation of funds by City Council.

6.2 In the event **CITY** requests **CPA Contractors** to provide the contingent additional services set out in Article IV, the commencement and termination dates shall be established in the written request from the Director of Finance.

6.3 This Contract may be renewed and extended for one additional two year period, under the same terms and conditions, save and except compensation and fees. This option to renew and extend shall be at the **CITY**'s sole discretion and such renewal or extension shall be subject to City Council approval, evidenced by passage of an ordinance. **CITY** shall initiate the request to renew and extend by forwarding written notice of such to **CONTRACTOR** on or before thirty (30) days prior to September 30, 2000.

VII. CONTRACT PRICING AND BILLING

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the services provided for in Article III for fiscal year

1997 shall not exceed the amount of $203,000.00; for fiscal year 1998 shall not exceed the amount of $209,000.00; and for fiscal year 1999 shall not exceed the amount of $215,000.00. Such fees being 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 Review will provide 1,150 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that while the total fee for the services required by Article III under this Contract for the Audit of fiscal year 1997 shall not exceed $203,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 111,650.00
Garza/Gonzalez & Associates	$ 81,200.00
Robert J. Williams, C.P.A.	$ 10,150.00

7.3 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audit of fiscal year 1998 shall not exceed $209,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 114,950.00
Garza/Gonzalez & Associates	$ 83,600.00
Robert J. Williams, C.P.A.	$ 10,450.00

7.4 It is understood and agreed by the parties hereto that while the total fee for the services contained in Article III under this Contract for the Audit of fiscal year 1999 shall not exceed $215,000.00, it is understood that this sum will be paid individually as follows:

KPMG Peat Marwick LLP	$ 118,250.00
Garza/Gonzalez & Associates	$ 86,000.00
Robert J. Williams, C.P.A.	$ 10,750.00

7.5 Subject to subsections 7.1 through 7.4, **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, subcontractor costs, if any, and all other **CONTRACTOR** expenses necessary to complete the services stated herein shall be borne at **CONTRACTOR**'s sole cost and expense.

7.6 Progress billings for the annual fees established herein, subsections 7.1 through 7.4, will be rendered by the **CONTRACTOR** to the **CITY** and detailed as to the amount due each of the **CONTRACTOR** parties. Upon receipt of such billing statements, the amount due will be paid by the **CITY** as specified on such

statements. However, **CITY** will retain ten percent (10%) of the total annual fee, until the **CITY**'s Comprehensive Annual Financial Report, Single Audit Report, and Management Letter have been completed. Funds for the payment of such fees shall be derived from the "Professional Fees - Outside Audit" line item, in the General Fund, Non-Departmental, Non-Operating budget of the **CITY**.

7.7 In the event that the **CITY** does not provide assistance as provided for in subsection 7.1, or other similar extenuating circumstances are encountered, as to materially alter the performance and scope of work hereunder, it may be necessary for **CONTRACTOR** to consider the issuance of a settlement statement which details and compares the actual work performed against the original audit plan. However, in no instance will the **CITY** make any payment for the services provided for in Article III in excess of the annual amounts of $203,000.00, $209,000.00 and $215,000.00, respectively, established in subsections 7.1 without formal written revision of this Contract and related City Council approval.

7.8 Payments for contingent additional services provided in accordance with Article IV, payments for any costs to be reimbursed by **CITY** in accordance with Article V, and payments for any additional work required in accordance with subsection 10.5.1 or 10.6.1, will be based on fees negotiated on an individual engagement basis. KPMG Peat Marwick LLP, Garza/Gonzalez & Associates and/or Robert J. Williams, C.P.A., as the entity designated to provide said services shall prepare and submit a billing statement to **CITY** specifying the scope of work performed and amount due. Upon receipt of the billing statement, **CITY** will review and if in compliance with the established fees, pay the amount specified due on such statement to the appropriate entity.

VIII. INCORPORATION BY REFERENCE

8.1 The engagement letter executed by **CITY** and **CONTRACTOR**, attached hereto as Exhibit A, is hereby incorporated into this Contract and specifically made a part hereof as though it is fully set out herein.

8.2 The parties hereto acknowledge and agree that prior to the commencement of the 1997, 1998 and 1999 Audits herein required, and the Audits covered by any renewal and extension hereof, if applicable, **CITY** and **CONTRACTOR** will execute a new engagement letter for the upcoming fiscal year. That engagement letter, once executed, shall be incorporated herein for that next fiscal year and shall supersede the previously attached engagement letter.

8.3 In the event of a conflict or inconsistency between the terms of this Contract and the provisions of any of the engagement letters ultimately attached hereto as Exhibit A, the terms of this Contract shall govern and prevail.

IX. RECORDS

9.1 **CONTRACTOR** and its subcontractors, if any, shall properly, accurately and completely maintain all documents, papers, and records, and other evidence pertaining to the services rendered hereunder, save and except for preliminary scratch, and sketch documentation, and shall make such materials available to the **CITY** at their respective offices, with reasonable notice by the **CITY**, at all reasonable times and as often as **CITY** may deem necessary during the contract period, including any extension or renewal hereof, for purposes of inspection, examination, and making excerpts or copies of same by **CITY** and any of its authorized representatives.

9.2 **CONTRACTOR** shall retain any and all documents produced as a result of services provided hereunder for a period of three (3) years from the date of termination of the Contract. If at the end of three (3) years there is litigation or other questions arising from, involving or concerning this documentation or the services provided hereunder, **CONTRACTOR** shall retain the records until the resolution of such litigation or other such questions.

9.3 **CITY** shall be notified immediately by **CONTRACTOR** in the event of any requests for information by a third party received by **CONTRACTOR** which pertain to the documentation and records referenced in subsections 9.1 and 9.2. As such, **CONTRACTOR** understands and agrees that **CITY** will process and handle all such requests.

X. TERMINATION

10.1 For purposes of this Contract, "termination" of this Contract shall mean termination by completion of the provision of services required herein or earlier termination pursuant to any of the provisions hereof.

10.2 Other provisions of this Contract notwithstanding, **CITY** may terminate this Contract as to **CONTRACTOR** in accordance with this clause, in whole or in part, for any of the following:

10.2.1 Neglect or failure by **CONTRACTOR** to perform or observe any of the terms, conditions, covenants or guarantees of this Contract or of any amendment between **CITY** and **CONTRACTOR**; or

10.2.2 Violation by **CONTRACTOR** of any rule, regulation or law to which **CONTRACTOR** is bound or shall be bound by terms of this Contract.

10.3 Subsection 10.2 notwithstanding, in the event that any such neglect or failure to perform or observe terms, conditions, covenants, or guarantees occurs, **CITY** shall

give written notice to **CONTRACTOR**, and allow **CONTRACTOR** ten (10) days from the date of such notice to cure the neglect or failure. If the noted deficiencies are not remedied within the allotted time and to the satisfaction of the **CITY**, the **CITY** may proceed with the termination of **CONTRACTOR**.

10.4 Upon a decision to terminate by **CITY**, written notice of such shall be immediately provided to **CONTRACTOR** specifying the basis for said termination, the effective date of termination, and the extent to which performance of work under this Contract will be terminated. A copy of said notice shall be provided, for informational purposes only, by **CITY** to the remaining **CPA Contractors**, by hand or facsimile, as soon as practicable.

10.4.1 Upon receipt of a notice to terminate, all finished or unfinished documents, data, charts, schedules, or other appended documentation to, prepared by or on behalf of **CONTRACTOR** under this Contract, save and except for preliminary scratch, and sketch documentation, shall at the option of **CITY**, and in accordance hereof, be accessible to the **CITY** as provided in Article IX.

10.4.2 Within thirty (30) days of the effective date of termination (unless an extension is authorized in writing by **CITY**), **CONTRACTOR** shall submit to **CITY** its claim in detail for any monies owed by **CITY** for services performed under this Contract, including all work performed by **CONTRACTOR** required by the provisions of this Contract to the date of notice and for any necessary and proper work performed in the ensuing thirty day period, to be determined after discussion with **CITY**, provided however, that such payment does not exceed the maximum amount set out in subsections 7.1 through 7.4.

10.5 In the event **CITY** terminates any other **CPA Contractor** under the contract between them, **CITY** shall deliver a copy of said notice to **CONTRACTOR**, for informational purposes only, by hand or facsimile, as soon as practicable.

10.5.1 In the event of such termination (subsection 10.5), **CITY** and **CONTRACTOR** shall meet within ten (10) days of the effective date of termination specified in the notice of termination and shall agree to complete the services required herein with any remaining **CPA Contractors**. **CITY** and the remaining **CPA Contractors** shall execute a new engagement letter redefining the roles and tasks of **CPA Contractors**. To the extent termination of other **CPA Contractors** results in additional work for the remaining **CPA Contractors** in order to complete the services required herein, **CITY** and **CPA Contractors** agree, in good faith, to renegotiate fees, which agreement shall be reflected in the new engagement letter. Said new engagement letter shall supersede any previously executed engagement letter.

10.5.2 In the event **CITY** and **CONTRACTOR** are unable or fail to agree on any issue the subject of the renegotiation cited in 10.5.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections 10.4, 10.4.1 and 10.4.2.

10.5.3 If **CITY** chooses, as a result of any such termination (subsection 10.5), to select and hire another Certified Public Accountant or Certified Public Accounting firm or firms, other than the remaining **CPA Contractors**, **CITY** agrees to coordinate said selection with **CONTRACTOR**. However, the final selection and hiring of said CPA, CPA firm or firms, shall be at the **CITY's** sole discretion.

10.6 In the event **CONTRACTOR** is unable to issue a joint opinion with either or both of the other **CPA Contractors** because of a certain prevailing law, regulation, rule and/or professional standards issued by the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy ("Professional Standards"), as evidenced by and in a letter drafted and issued by **CONTRACTOR's** legal counsel, the American Institute of Certified Public Accountants or the Texas State Board of Public Accountancy, **CITY** shall have the right to obtain separate and singular opinions from **CONTRACTOR**; and **CONTRACTOR** shall issue separate and singular opinions.

10.6.1 In the event **CITY** decides to obtain separate and singular opinions from **CONTRACTOR**, and **CONTRACTOR** is unable to rely on the work provided by one or both of the other **CPA Contractors** or if **CONTRACTOR's** issuing its separate opinions results in additional work, **CITY** and **CONTRACTOR** agree, in good faith, to renegotiate fees and services to be performed in order to complete the separate opinions. Said agreements shall be reflected in a new engagement letter which shall supersede any previously executed engagement letter.

10.6.2 In the event **CITY** and **CONTRACTOR** are unable or fail to agree on any issue the subject of the renegotiation cited in 10.6.1 within ten (10) days of said renegotiation meeting, **CITY** may terminate this Contract upon giving written notice in accordance with Article XXII. In the event of any such termination, **CITY** and **CONTRACTOR** shall proceed in accordance with subsections10.4, 10.4.1 and 10.4.2.

10.7 The parties understand and agree that in the event **CITY** terminates any **CPA Contractor** other than **CONTRACTOR**, all references to "**CPA Contractor(s)**" contained herein shall thereafter refer to **CONTRACTOR** and any other remaining **CPA Contractor**.

XI. SUBCONTRACTING

11.1 Any other clause of this Contract to the contrary notwithstanding, none of the work or services covered by this Contract, shall be subcontracted without the prior approval of **CITY**, and, unless specific waiver is granted in writing by **CITY**, such subcontracted work shall be subject by its terms to all provisions of this Contract. Compliance by subcontractors with this Contract shall be the responsibility of **CONTRACTOR**.

XII. ASSIGNABILITY

12.1 It is **CITY's** understanding, and **CONTRACTOR** hereby acknowledges, that during the term of this Contract, KPMG Peat Marwick LLP proposes to combine with another national accounting firm. **CITY** hereby expressly consents to the assignment of the interest of KPMG Peat Marwick LLP in its contract to any successor of KPMG Peat Marwick LLP which may result from such a combination.

12.2 The provisions of 12.1 notwithstanding, **CONTRACTOR** shall not assign any interest in this Contract to any other party without the prior written consent of **CITY**.

XIII. CONFLICT OF INTEREST

13.1 **CONTRACTOR** acknowledges that it is informed that the City of San Antonio **CITY** Charter prohibits contracts between the **CONTRACTOR** and any local public official, such as a **CITY** officer or employee, and that the prohibition extends to an officer and employee of **CITY** agencies such as **CITY**-owned utilities and **CITY** boards and commissions, and to contracts involving a business entity in which the official has a substantial interest, as defined by Texas law, if it is reasonably foreseeable that an action on the matter would confer an economic benefit on the business entity. **CONTRACTOR** certifies, and this Contract is made in reliance thereon, that neither it, its individual officers, employees or agents, nor any person having a substantial interest in this Contract or the financial affairs of the **CITY** government is an officer or employee of the **CITY** or any of its agencies. **CONTRACTOR** warrants that it has tendered to **CITY** a Disclosure Statement in compliance with the **CITY**'s Ethics Ordinance.

13.2 **CONTRACTOR** acknowledges that from time to time **CITY** releases Request for Proposals or other solicitations. **CONTRACTOR** agrees that to the extent practicable, in the event it chooses to submit a proposal in response to any of **CITY's** solicitations, it will notify **CITY** of said submittal, in writing, in accordance with Article XXII.

XIV. COMPLIANCE

14.1 **CONTRACTOR** shall comply with the independence standards promulgated by the American Institute of Certified Public Accountants and any other standard related to independence promulgated by any other authoritative body, as applicable to the services provided hereunder.

14.2 **CONTRACTOR** shall comply with any and all other applicable standards promulgated by the American Institute of Certified Public Accountants and by any other authoritative body, as applicable to the services provided herein, while in the performance of the services hereunder.

14.3 **CONTRACTOR** shall comply with all federal, state and local laws, rules and regulations applicable to the services provided hereunder, including but not limited to the Single Audit Act Amendments of 1996, OMB Circular A-133, Chapter 103 of the Texas Local Government Code, and Section 107 of the San Antonio **CITY** Charter.

XV. INSURANCE

15.1 Prior to execution of this Contract, **CONTRACTOR** shall furnish a completed Certificate of Insurance to the Finance Department, Attention: Nora W. Chávez-Barrera, P.O. Box 839966, San Antonio, Texas 78283-3966, which shall be completed by an agent authorized to bind the named underwriter(s) and their company to the coverage, limit and termination provision shown thereon, and which shall furnish and contain all required information referenced or indicated thereon. **CITY** shall have no duty to pay or perform under this CONTRACT until such certificate has been delivered, and no officer or employee other than the **CITY**'s Risk Manager shall have authority to waive this requirement.

15.2 **CITY** reserves the right to review the insurance requirement of this section during the effective period of the Contract, including any extension or renewal hereof, and to amend insurance coverage and its limit when deemed necessary and prudent by the Risk Management Division based upon changes in statutory law, court decisions or the claims history of the industry, as well as the **CONTRACTOR**. In no instance will the **CITY** allow modification whereupon the **CITY** may incur increased risk.

15.3 **CONTRACTOR** shall procure, pay for and maintain insurance for the term of this Contract, including any extensions or renewals hereof, with companies authorized or admitted to do business in the State of Texas, and rated A or better by A.M. Best Co. and/or otherwise acceptable to **CITY** in the following type/amount:

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14.1 **CONTRACTOR** shall comply with the independence standards promulgated by the American Institute of Certified Public Accountants and any other standard related to independence promulgated by any other authoritative body, as applicable to the services provided hereunder.

14.2 **CONTRACTOR** shall comply with any and all other applicable standards promulgated by the American Institute of Certified Public Accountants and by any other authoritative body, as applicable to the services provided herein, while in the performance of the services hereunder.

14.3 **CONTRACTOR** shall comply with all federal, state and local laws, rules and regulations applicable to the services provided hereunder, including but not limited to the Single Audit Act Amendments of 1996, OMB Circular A-133, Chapter 103 of the Texas Local Government Code, and Section 107 of the San Antonio **CITY** Charter.

XV. INSURANCE

15.1 Prior to execution of this Contract, **CONTRACTOR** shall furnish a completed Certificate of Insurance to the Finance Department, Attention: Nora W. Chávez-Barrera, P.O. Box 839966, San Antonio, Texas 78283-3966, which shall be completed by an agent authorized to bind the named underwriter(s) and their company to the coverage, limit and termination provision shown thereon, and which shall furnish and contain all required information referenced or indicated thereon. **CITY** shall have no duty to pay or perform under this CONTRACT until such certificate has been delivered, and no officer or employee other than the **CITY**'s Risk Manager shall have authority to waive this requirement.

15.2 **CITY** reserves the right to review the insurance requirement of this section during the effective period of the Contract, including any extension or renewal hereof, and to amend insurance coverage and its limit when deemed necessary and prudent by the Risk Management Division based upon changes in statutory law, court decisions or the claims history of the industry, as well as the **CONTRACTOR**. In no instance will the **CITY** allow modification whereupon the **CITY** may incur increased risk.

15.3 **CONTRACTOR** shall procure, pay for and maintain insurance for the term of this Contract, including any extensions or renewals hereof, with companies authorized or admitted to do business in the State of Texas, and rated A or better by A.M. Best Co. and/or otherwise acceptable to **CITY** in the following type/amount:

TYPE	AMOUNT
Workers' Compensation & Employer's Liability, with waiver of subrogation in favor of the **CITY**	Statutory $500,000/$500,000/$500,000
Professional Liability	$1,000,000 per occurrence

15.4 The insurance policy required by this Contract shall contain the following clauses:

"This insurance shall not be canceled, limited in scope or coverage, or non-renewed until after thirty (30) days prior written notice has been given to the Director of Finance, **CITY** of San Antonio."

"It is agreed that any insurance or self-insurance maintained by the **CITY** of San Antonio shall apply in excess of and not contribute with insurance provided by this policy."

XVI. INDEMNITY

16.1 **CONTRACTOR agrees to INDEMNIFY and HOLD CITY, ITS OFFICERS AND EMPLOYEES, HARMLESS against any and all claims, lawsuits, judgments, costs, liens, losses, expenses, fees (including reasonable attorney's fees and costs of defense), proceedings, actions, demands, causes of action, liability and suits of any kind and nature, including but not limited to, personal injury (including death), property damage or other harm for which recovery of damages is sought that may ARISE OUT OF OR BE OCCASIONED OR CAUSED BY CONTRACTOR'S NEGLIGENT ACTIVITIES UNDER THIS CONTRACT, OR BY ANY OTHER NEGLIGENT ACT, ERROR, OR OMISSION OF CONTRACTOR, ANY AGENT, OFFICER, DIRECTOR, REPRESENTATIVE, EMPLOYEE, CONSULTANT, OR SUBCONTRACTOR OF CONTRACTOR, AND THEIR RESPECTIVE OFFICERS, AGENTS, EMPLOYEES, DIRECTORS, AND REPRESENTATIVES while in the exercise of performance of the rights or duties under this contract. The indemnity provided for in this paragraph shall not apply to any liability resulting from the negligence of CITY, its officers, or employees in instances where such negligence causes personal or bodily injury, death, or property damage, or to any claim against CITY arising out of CITY's exercise of its right to terminate any CPA Contractor, including but not limited to CONTRACTOR, pursuant to any provision herein contained. IN THE EVENT CONTRACTOR AND CITY ARE FOUND JOINTLY LIABLE BY A COURT OF COMPETENT JURISDICTION, LIABILITY SHALL BE APPORTIONED COMPARATIVELY IN ACCORDANCE WITH THE**

LAWS OF THE STATE OF TEXAS, WITHOUT HOWEVER, WAIVING ANY GOVERNMENTAL IMMUNITY AVAILABLE TO THE CITY UNDER TEXAS LAW AND WITHOUT WAIVING ANY DEFENSES OF THE PARTIES UNDER TEXAS LAW. The provisions of this paragraph are solely for the benefit of the parties hereto and not intended to create or grant any rights, contractual or otherwise, to any other person or entity.

16.2 **CONTRACTOR shall promptly advise the CITY in writing of any claim or demand against the CITY or CONTRACTOR known to CONTRACTOR related to or arising out of CONTRACTOR'S activities under this contract. In turn, CITY shall promptly advise CONTRACTOR in writing of any such claim or demand against the CONTRACTOR or CITY known to CITY.**

16.3 **CITY and CONTRACTOR acknowledge and agree that it is the parties' intention, by this provisions, that each party shall pay for its respective attorney's fees and costs of defense in the event of any such claim and/or lawsuit.**

XVII. INDEPENDENT CONTRACTOR

17.1 It is expressly understood and agreed that the **CONTRACTOR** provides services as an independent **CONTRACTOR** responsible for its respective acts or omissions and that **CITY** shall in no way be responsible therefor. Neither party hereto has authority to bind the other or to hold out to third parties that it has the authority to bind the other.

XVIII. CHANGES AND AMENDMENTS

18.1 Except where the terms of this Contract expressly provide otherwise, any alterations, additions, or deletions to the terms hereof, shall be effected by amendment, in writing, executed by both **CITY** and **CONTRACTOR**, and subject to approval by the **CITY** of San Antonio **CITY** Council, evidenced by passage of an ordinance.

18.2 The parties hereto understand and agree that the request by the **CITY** to provide additional services as listed in Article IV is not an amendment to the provisions of this Contract.

18.3 It is understood and agreed by the parties hereto that changes in local, state and federal rules, regulations or laws applicable hereto may occur during the term of this Contract and that any such changes shall be automatically incorporated into this Contract without written amendment hereto, and shall become a part hereof as of the effective date of the rule, regulation or law.

XIX. LICENSES/CERTIFICATIONS

19.1 **CONTRACTOR** warrants and certifies that **CONTRACTOR** and any other person designated to provide services hereunder has the requisite training, license and/or certification to provide said services, and meets all competence standards promulgated by all other authoritative bodies, as applicable to the services provided herein.

XX. OTHER AGREEMENTS

20.1 It is acknowledged and understood by the parties hereto that simultaneously with the execution of this Contract, two other such contacts will be executed by and with the remaining **CPA Contractors**. As such, all three Contracts, the authorizing ordinance and any Exhibits to the Contracts constitute the final and entire agreement between **CITY** and **CPA Contractors** and contain all of the terms and conditions agreed upon. It is also acknowledged and understood that at the inception of each annual audit, an engagement letter consistent with the provisions of this contract shall be executed by **CITY** and **CONTRACTOR** (or each **CPA Contractor**).

XXI. SEVERABILITY

21.1 If any clause or provision of this Contract is held invalid, illegal or unenforceable under present or future federal, state or local laws, including but not limited to the **CITY** Charter, **CITY** Code, or ordinances of the **CITY** of San Antonio, Texas, then and in that event it is the intention of the parties hereto that such invalidity, illegality or unenforceability shall not affect any other clause or provision hereof and that the remainder of this Contract shall be construed as if such invalid, illegal or unenforceable clause or provision was never contained herein; it is also the intention of the parties hereto that in lieu of each clause or provision of this Contract that is invalid, illegal, or unenforceable, there be added as a part of the Contract a clause or provision as similar in terms to such invalid, illegal or unenforceable clause or provision as may be possible, legal, valid and enforceable.

XXII. NOTICES

22.1 For purposes of this Contract, all official communications and notices among the parties shall be deemed sufficient if in writing and mailed, certified mail, postage prepaid, to the addresses set forth below:

CITY

City of San Antonio
Attn: Nora W. Chávez-Barrera, Director of Finance
P.O. Box 839966
San Antonio, Texas 78283-3966

CONTRACTOR/CPA Contractors

KPMG Peat Marwick LLP Santos Fraga, Partner 112 E. Pecan, Suite 2400 San Antonio, TX 78205 -1585	Garza/Gonzalez & Associates Gregory R. Garza, Senior Partner 212 Stumberg, Suite 208 San Antonio, TX 78204	Robert J. Williams, C.P.A. 1100 N. W. Loop 410, Suite 700 San Antonio, TX 78213 -2269

XXIII. LAW APPLICABLE

23.1 **THIS CONTRACT SHALL BE CONSTRUED UNDER AND IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND ALL OBLIGATIONS OF THE PARTIES CREATED HEREUNDER ARE PERFORMABLE IN BEXAR COUNTY, TEXAS.**

23.2 Any legal action or proceeding brought or maintained, directly or indirectly, as a result of this Contract shall be heard and determined in the City of San Antonio, County of Bexar, Texas.

XXIV. LEGAL AUTHORITY

24.1 The signer of this Contract for **CONTRACTOR** represents, warrants, assures and guarantees that he has full legal authority to execute this Contract on behalf of **CONTRACTOR** and to bind **CONTRACTOR** to all of the terms, conditions, provisions and obligations herein contained.

XXV. PARTIES BOUND

25.1 This Contract shall be binding on and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, and successors, except as otherwise expressly provided for herein.

XXVI. GENDER

26.1 Words of any gender used in this Contract shall be held and construed to include any other gender.

XXVII. CAPTIONS

27.1 The captions contained in this Contract are for convenience of reference only, and in no way limit or enlarge the terms and/or conditions of this Contract.

EXECUTED and **AGREED** to this the 24TH day of NOVEMBER, 1997.

CITY:
CITY OF SAN ANTONIO

Nora W. Chávez-Barrera
Director of Finance

CONTRACTOR:
Robert J. Williams,
Certified Public Accountant

Robert J. Williams,
Certified Public Accountant

Approved as to form:

Frank J. Garza
Acting City Attorney

AGENDA ITEM NO. 43

CITY OF SAN ANTONIO
OFFICE OF THE CITY COUNCIL
Interdepartmental Memorandum

TO: Mayor and City Council

FROM: City Council Audit Committee: Jeff S. Webster, District 10 - Committee Chair; Committee Members - Mario Salas, District 2; Raul Prado, District 4; Jose Menendez, District 6; Tim Bannwolf, District 9

COPIES TO: Alexander E. Briseño, City Manager; J. Rolando Bono, Assistant City Manager; Nora W. Chávez-Barrera, Director of Finance; Octavio Peña, Director of Internal Review; File

SUBJECT: Independent Audit of the City and Related Services Contract

DATE: November 13, 1997

SUMMARY AND RECOMMENDATION

The Council Audit Committee hereby recommends an Ordinance approving the firms KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams CPA, to provide the City independent audit services for the fiscal years 1997, 1998, and 1999, at a fee of $203,000 for year one, $209,000 for year two, and $215,000 for year three, which includes a Consumer Price Index (CPI) adjustment factor of approximately 3%, and with an option to extend, with Council approval, for one additional two year period.

BACKGROUND

The Council Audit Committee was appointed by Ordinance 86235, dated July 3, 1997, to guide and direct staff in the solicitation, evaluation, and recommendation of a contract to provide the City independent audit services. The City Charter requires that annual audits of the City's financial records be performed by independent certified public accountants. Additionally, independent audits are required by the Federal Single Audit Act and related OMB Circular A-133.

For the past four fiscal years, 1993 through 1996, the firms KPMG Peat Marwick LLP and Martinez, Mendoza & Colmenero, P.C., have been engaged to perform the independent audits of the City of San Antonio, jointly. During this period, all of the audits have resulted in unqualified ("clean") audit opinions. It is also important to note that the City has received the Certificate of Achievement for Excellence in Financial Reporting, the highest recognition in financial reporting, for the last twenty (20) years, including the last three fiscal years.

On August 4th and 8th, 1997, the Council Audit Committee met with staff to discuss the process of soliciting proposals from qualified firms, to provide the City annual independent audit and related services. This included review of the draft request for proposal, terms of the contract, evaluation criteria, a suggested timeline, etc. As a result, the Audit Committee directed staff to release, on August 12, 1997, a Request for Proposal to provide the City independent audit and related services for the City's fiscal years ending September 30, 1997, 1998, and 1999, with an option to extend, with City Council approval, for one additional two year period. Request for proposals were sent to thirteen (13) firms, including five "Big Six" national firms with local offices. The City received proposals from the following firms: Garza/Gonzalez & Associates; KPMG Peat Marwick LLP; Leal & Carter, P.C.; Martinez, Mendoza & Colmenero P.C.; and Robert J. Williams CPA.

The proposals were evaluated by a staff appointed committee which included representatives from the Finance, Internal Review, Budget and Management Analysis, Economic Development, and Housing and Community Development Departments. This committee evaluated the proposals based on criteria including firm background and experience, qualifications and experience of assigned personnel, fees, SBEDA qualifications, and affirmative action. The staff committee made several presentations to the Council Audit Committee. Based on the aforementioned process, the Council Audit Committee, hereby recommends an Ordinance approving an audit team including the firms of KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams CPA, based on a percentage distribution of 55%, 40%, and 5%, respectively, with a defined division of services and fees. It is important to note that the firms Garza/Gonzalez & Associates and Robert J. Williams CPA are local firms, and both are certified as Disadvantaged Business Enterprises.

As directed by the Council Audit Committee, staff negotiated annual audit fees with the proposed audit team. As a result of these discussions, annual fees have been negotiated at $203,000 for year one, $209,000 for year two, and $215,000 for year three, which includes a Consumer Price Index (CPI) adjustment factor of approximately 3%.

It is also important to note that Internal Review staff has historically provided assistance to the independent auditors to enhance the efficiency of the audit process, and to minimize audit fees. Therefore, in the process of negotiating fees for this contract, 1,150 annual hours of assistance from Internal Review were included. These firms are also recommended to provide specialized related services which may include other audits, reviews, or similar procedures as needed to comply with mandated requirements by regulatory and accounting agencies or boards.

FINANCIAL IMPACT

Annual audit fees of $203,000 for year one, $209,000 for year two, and $215,000 for year three, which includes a Consumer Price Index (CPI) adjustment factor of approximately 3%. Fees include assistance from the Office of Internal Review, and are subject to annual appropriation. Audit fees for the fiscal year 1997 audit will be paid from the Fiscal Year 1997-98 General Fund, Non-Departmental/Non-Operating Budget.

Audit related services which mandate specialization, as described above, will require the contracted firms to provide the City a written estimate and hourly rates on a case by case basis.

COORDINATION

This item has proceeded under the guidance and direction of the City Council Audit Committee. In addition, coordination of this item has included the following departments: Finance, Internal Review, Budget and Management Analysis, Economic Development, Housing and Community Development, and City Attorney's Office.

SUPPLEMENTAL COMMENTS

The ethics disclosure forms required by Ordinance will be attached.

Councilman Jeff S. Webster, District 10
Chair -Council Audit Committee

Councilman Mario Salas, District 2
Council Audit Committee Member

Councilman Raul Prado, District 4
Council Audit Committee Member

Councilman Jose Menendez, District 6
Council Audit Committee Member

Councilman Tim Bannwolf, District 9
Council Audit Committee Member

CITY OF SAN ANTONIO
ETHICS ORDINANCE
REQUIRED DISCLOSURES

On October 19, 1994, the City Council of the City of San Antonio revised the Ethics Ordinance. Among other things, it requires that before certain contracts can be considered by the City Council, certain information must be obtained about the proposed contractor. This form is for the purpose of obtaining that information.

1. Name of Proposed Contractor & Address: KPMG Peat Marwick LLP; 112 E. Pecan, Suite 2400; San Antonio, Texas 78205

2. If a for-profit entity, list all individuals who own at least a 10% interest in the proposed contractor. The following represents the partners in the San Antonio office:

Park E. Pearson	Paul J. Zucconi
Walter E. Belt, III	Mark M. Bielstein
S. Fred Bartz	Jorge A. Del Alamo, Jr.
Dan M. Slattery	Alfred B. Fichera, Jr.
Santos Fraga	

3. List all political contributions of more than $100 made during the previous twenty-four months to any City Council member or members or to any political action committee by the entity or any of the individuals listed above.

Mayor Howard Peak	$ 900
Tim Bannwolf	1,000
Debra Guerrero	200
Robert Marbut	1,100

4. Lobbying Statement: To lobby is to represent third parties for pay in attempting to influence members of the City Council with regard to policy decisions or proposals awaiting decision, by verbal, written, or other arguments or means of persuasion.

   Does entity engage in lobbying or plan to engage in lobbying during the term of this agreement? No

   If the entity should be awarded the contract, and the answer to the above should change during the term of the contract, a revised Lobbying Statement must be filed with the City Clerk.

Santos Fraga, Partner
Signature/Title of Authorized Representative

11-14-97
Date

C. .Y OF SAN ANTONIO

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1. Name of Proposed Contractor and Address: Robert J Williams CPA
1100 NW Loop 410 #700, San Antonio TX 78213

2. If a for-profit entity, list all individuals who own at least a 10% interest in the proposed contractor.
Robert J Williams 100%

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None

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Does entity engage in lobbying or plan to engage in lobbying during the term of this Agreement?
Yes (No)

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Robert J Williams
Signature/Title of Authorized Representative

11/14/97
Date

CITY OF SAN ANTONIO

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212 Stumberg, Suite 208 San Antonio, Texas 78204

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11/14/97
Date

CITY OF SAN ANTONIO
OFFICE OF THE CITY COUNCIL
Interdepartmental Memorandum

TO: Mayor and City Council

FROM: City Council Audit Committee: Jeff S. Webster, District 10 - Committee Chair; Committee Members - Mario Salas, District 2; Raul Prado, District 4; Jose Menendez, District 6; Tim Bannwolf, District 9

COPIES TO: Alexander E. Briseño, City Manager; J. Rolando Bono, Assistant City Manager; Nora W. Chávez-Barrera, Director of Finance; Octavio Peña, Director of Internal Review; File

SUBJECT: Independent Audit of the City and Related Services Contract

DATE: November 13, 1997

SUMMARY AND RECOMMENDATION

The Council Audit Committee hereby recommends an Ordinance approving the firms KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams CPA, to provide the City independent audit services for the fiscal years 1997, 1998, and 1999, at a fee of $203,000 for year one, $209,000 for year two, and $215,000 for year three, which includes a Consumer Price Index (CPI) adjustment factor of approximately 3%, and with an option to extend, with Council approval, for one additional two year period.

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Santos Fraga, Partner
Signature/Title of Authorized Representative

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Signature/Title of Authorized Representative

11/14/97
Date

RECEIVED
CITY OF SAN ANTONIO
CITY CLERK
98 FEB 27 PM 1:56

CITY OF SAN ANTONIO
Finance Department
Office of the Controller

TO: Dick Porter, Assistant City Clerk
FROM: Veronica A. Carrillo, Fiscal Officer
COPIES: Ben Gorzell Jr., Controller
SUBJECT: Attachment for Ordinance No. 87006

DATE: February 26, 1998

Please attach the enclosed engagement letters to Ordinance No. **87006** which was approved on **November 20, 1997**. Should you have any questions do not hesitate to contact me at (210) 207-8096.

Veronica A. Carrillo
Fiscal Officer

KPMG Peat Marwick LLP

1897·1997

112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

Telephone 210 227 9272

Telefax 210 224 0126
210 227 4707

November 20, 1997

Nora W. Chávez-Barrera
Director of Finance
City of San Antonio
San Antonio, Texas

Dear Nora:

KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, (collectively "CPA Contractors") are being engaged in accordance with the Audit Services Contract dated November 20, 1997 to report upon our audit of the general purpose financial statements of City of San Antonio (the City) as of and for the year ended September 30, 1997 and to also report in accordance with OMB Circular A-133. Furthermore, each **CPA Contractor** will execute an annual engagement letter with the **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's audit, the allocation of work to be performed as part of each audit by each **CPA Contractor**, and the portion of the total compensation for such audit that each **CPA Contractor** will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4 of the Audit Services Contract. This is KPMG's annual engagement letter to confirm our understanding of the engagement.

Financial Statement Audit

We will conduct our audit of the financial statements in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As part of our audit, we will consider the City's internal control and assess control risk, as required by generally accepted auditing standards for the purpose of establishing a basis for determining the nature, timing and extent of auditing procedures necessary for expressing our opinion concerning the financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the financial statement audit contributes to the evidence supporting our opinion on the financial statements; however, it does not provide a basis for opining on internal control. The limited purposes of this consideration may not meet the needs of some users who require additional information about internal control.

We will prepare a written report on our understanding of the City's internal control and the assessment of control risk made as part of the financial statement audit. Our report will include (1) the scope of our work in obtaining an understanding of the internal control structure and in assessing control risk, and (2) the reportable conditions, including the identification of material weaknesses, identified as a result of our work in understanding and assessing the control risk for the financial statement audit.

In planning and performing our audit, we will consider the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. Furthermore, our audit—including the limited inquiries we will make in connection with Year 2000 issues—is not designed to, and does not, provide any assurance that Year 2000 issues which may exist will be identified, on the adequacy of the City's Year 2000 remediation plans regarding operational or financial systems, or on whether the City is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management. However, we may

communicate matters that come to our attention relating to the Year 2000 issue which in our judgment may be of benefit to management.

An audit is designed to provide reasonable assurance about whether the financial statements are free of material misstatement. Our audit will include procedures, designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements; however, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitations that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of management. In performing our audit, we will be aware of the possibility that illegal acts or noncompliance may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts or noncompliance will be detected and only reasonable assurance that illegal acts or noncompliance having a direct and material effect on the determination of financial statement amounts will be detected. 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. However, our objective is not to provide an opinion on overall compliance with such provisions. We will prepare a written report on the results of our tests of compliance with applicable laws and regulations.

In summary, under these standards, we will issue reports addressed to the Mayor and Members of City Council for the year ended September 30, 1997 as follows:

- A report on the general purpose financial statements;

- A report on internal controls and compliance based on an audit of the general purpose financial statements performed in accordance with *Government Auditing Standards*;

OMB Circular A-133

We will also perform auditing procedures on the City's federal award programs in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* OMB Circular A-133 includes specific audit requirements, mainly in the

areas of internal control and compliance with laws and regulations, that exceed those required by *Government Auditing Standards*.

As part of our auditing procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the City 's major programs and report the results to you. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control. The limited purpose of these tests may not meet the needs of some users of audit reports who require additional information about internal control.

Compliance with laws, regulations, contracts and grants that govern federal award programs is the responsibility of management. We will perform the tests of the City's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's Compliance Supplement and report whether in our opinion the City complied, in all material respects, with the laws and regulations applicable to its major federal financial awards programs. The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In summary, in accordance with OMB Circular A-133, we will issue a report to the Mayor and Members of City Council which provides (1) our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major federal award program and (3) communicates our consideration of internal control over federal awards programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern federal award programs as discussed above, OMB Circular A-133 also 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.

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

Certain provisions of 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 cost of such a selection. The City agrees to notify KPMG Peat Marwick LLP of any such request by a granting agency and to work with KPMG Peat Marwick LLP to modify the terms of this letter as necessary to accommodate such requests.

Other Available Assurance Services

KPMG Peat Marwick LLP can provide other services to provide you with additional information on internal controls and compliance with laws and regulations. We would be happy to discuss these services.

Other Engagement Issues

The City 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 generally accepted auditing standards, we will make specific inquiries of management about the representations embodied in the financial statements, the effectiveness of the internal control structure and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG 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.

It is our responsibility to ensure that the Mayor and Members of City Council are informed of any significant illegal acts that we become aware of during our audit. If the illegal act involves funds from governmental entities, it is the City's responsibility to inform the governmental entities of these acts. If the City's management and City Council are involved in the illegal act or do not report it to the appropriate governmental entities on a timely basis, we, as auditors, will be obligated to report the illegal acts to these governmental entities.

For your information, we have attached a copy of KPMG's most recent Peer Review Report.

We understand that our reports on internal controls and on compliance with laws and regulations are intended for the information of the City Council, management, and others within the City.

It should be understood the work papers for the engagement are the property of KPMG and constitute confidential information. However, pursuant to *Government Auditing Standards*, we are required to make certain work papers available to federal regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of KPMG personnel. Costs incurred to comply with any such requests to review our work papers will not be reimbursed by the City. To the extent such workpapers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors require additional procedures beyond the requirements of the Single Audit Act, costs incurred to comply with any such requests will be discussed with the City, prior to being incurred and billed to you.

Our fees for audits are based on the amount of time required to perform the agreed scope of work, plus reimbursement for expenses (report reproduction, postage, computer charges, overhead charges, supplies, travel, etc.). This estimate is based on the assumption that workpapers requested by us will be prepared on a timely basis by your personnel. Should unexpected problems arise which will cause the time to materially exceed our estimate, we will discuss such matters with you and obtain your approval before incurring additional time. Based upon this, we estimate that the total fee for the above described services will be $203,000, including expenses, of which 55% will be paid to KPMG Peat Marwick LLP, 40% will be paid to the firm of Garza & Gonzalez & Associates, and 5% will be paid to the firm of Robert J. Williams, CPA. Additionally, the attached Exhibit A includes the hours and the related audit activities allocated to each firm.

KPMG will normally invoice you biweekly for services performed and expenses incurred since the last invoice. All invoices are due and payable upon presentation, but the payment date should not be beyond thirty days after the date of the invoice. Upon approval of this engagement, we will work with City personnel to establish specific timetables for our work, progress billings and payments.

We would 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.

We are looking forward to working with you on this engagement.

Very truly yours,

KPMG Peat Marwick LLP

Santos Fraga
Partner

ACCEPTED

City of San Antonio

Authorized Signature	Title	Date

300 Atlantic Street
P.O. Box 9316
Stamford, CT 06904

Telephone 203 358 0001

Price Waterhouse LLP

November 8, 1996

To the Partners of KPMG Peat Marwick LLP:

We have reviewed the system of quality control for the accounting and auditing practice of KPMG Peat Marwick LLP (the Firm) in effect for the year ended March 31, 1996. Our review was conducted in conformity with standards for peer reviews promulgated by the peer review committee of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). We tested compliance with the Firm's quality control policies and procedures at the Firm's national office and at selected practice units in the United States and with the membership requirements of the Section to the extent we considered appropriate. These tests included the application of the Firm's policies and procedures on selected accounting and auditing engagements. We also tested the supervision and control of portions of engagements performed outside the United States.

In performing our review, we have given consideration to the general characteristics of a system of quality control as described in quality control standards issued by the AICPA. Such a system should be appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice. Variance in individual performance can affect the degree of compliance with a firm's prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible. As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. None of these matters were considered to be of sufficient significance to affect the opinion expressed in this report.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG Peat Marwick LLP in effect for the year ended March 31, 1996, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the Firm with reasonable assurance of conforming with professional standards. Also, in our opinion, the Firm was in conformity with the membership requirements of the Section in all material respects.

Price Waterhouse LLP

CITY OF SAN ANTONIO
SEPTEMBER 30, 1997
DIVISION OF LABOR BY AUDIT FIRM

	KPMG budget	GG budget	Bob Williams budget	Internal Audit budget	TOTAL budget
EXTERNAL REPORTING SECTION	320	82	14	74	490
FINANCIAL AUDIT SECTION **INCLUDING INSURANCE SPECIALIST PROVIDED BY KPMG**	402	490	64	690	1646
SINGLE AUDIT SECTION	127	310	0	350	787
INTERNAL CONTROL SECTION **INCLUDING EDP SPECIALIST PROVIDED BY KPMG**	123	88	42	162	415
Contingency/Other matters	48	28	0	24	100
Additional Partner Time to sign-off report		24	38	0	62
TOTAL HOURS	1020	1022	158	1300	3500

"Providing .gh-Quality Professional Service with rsonal Care"

RJW

Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, Texas 78265
(210) 366-8733

November 20, 1997

Nora W. Chávez-Barrera
Director of Finance
City of San Antonio
San Antonio, Texas

Dear Nora:

KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J Williams, CPA, (collectively "CPA Contractors") are being engaged in accordance with the Audit Services Contract dated November 20, 1997 to report upon our audit of the general purpose financial statements of City of San Antonio (the City) as of and for the year ended September 30, 1997 and to also report in accordance with OMB Circular A-133. Furthermore, each **CPA Contractor** will execute an annual engagement letter with the **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's audit, the allocation of work to be performed as part of each audit by each **CPA Contractor**, and the portion of the total compensation for such audit that each CPA Contractor will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4 of the Audit Services Contract. This is Robert J. Williams, CPA's (RJW) annual engagement letter to confirm our understanding of the engagement.

Financial Statement Audit

We will conduct our audit of the financial statements in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As part of our audit, we will consider the City's internal control and assess control risk, as required by generally accepted auditing standards for the purpose of establishing a basis for determining the nature, timing and extent of auditing procedures necessary for expressing our opinion concerning the financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the financial statement audit contributes to the evidence supporting our opinion on the financial statements; however, it does not provide a basis for opining on internal control. The limited purposes of this consideration may not meet the needs of some users who require additional information about internal control.

We will prepare a written report on our understanding of the City's internal control and the assessment of control risk made as part of the financial statement audit. Our report will include (1) the scope of our work in obtaining an understanding of the internal control structure and in assessing control risk, and (2) the reportable conditions, including the identification of material weaknesses, identified as a result of our work in understanding and assessing the control risk for the financial statement audit.

In planning and performing our audit, we will consider the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. Furthermore, our audit—including the limited inquiries we will make in connection with Year 2000 issues—is not designed to, and does not, provide any assurance that Year 2000 issues which may exist will be identified, on the adequacy of the City's Year 2000 remediation plans regarding operational or financial systems, or on whether the City is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management. However, we may

communicate matters that come to our attention relating to the Year 2000 issue which in our judgment may be of benefit to management.

An audit is designed to provide reasonable assurance about whether the financial statements are free of material misstatement. Our audit will include procedures, designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements; however, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitations that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of management. In performing our audit, we will be aware of the possibility that illegal acts or noncompliance may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts or noncompliance will be detected and only reasonable assurance that illegal acts or noncompliance having a direct and material effect on the determination of financial statement amounts will be detected. 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. However, our objective is not to provide an opinion on overall compliance with such provisions. We will prepare a written report on the results of our tests of compliance with applicable laws and regulations.

In summary, under these standards, we will issue reports addressed to the Mayor and Members of City Council for the year ended September 30, 1997 as follows:

- A report on the general purpose financial statements;

- A report on internal controls and compliance based on an audit of the general purpose financial statements performed in accordance with *Government Auditing Standards*;

OMB Circular A-133

We will also perform auditing procedures on the City's federal award programs in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. OMB Circular A-133 includes specific audit requirements, mainly in the

areas of internal control and compliance with laws and regulations, that exceed those required by *Government Auditing Standards*.

As part of our auditing procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the City 's major programs and report the results to you. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control. The limited purpose of these tests may not meet the needs of some users of audit reports who require additional information about internal control.

Compliance with laws, regulations, contracts and grants that govern federal award programs is the responsibility of management. We will perform the tests of the City's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's Compliance Supplement and report whether in our opinion the City complied, in all material respects, with the laws and regulations applicable to its major federal financial awards programs. The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In summary, in accordance with OMB Circular A-133, we will issue a report to the Mayor and Members of City Council which provides (1) our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major federal award program and (3) communicates our consideration of internal control over federal awards programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern federal award programs as discussed above, OMB Circular A-133 also 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.

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

Certain provisions of 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 cost of such a selection. The City agrees to notify 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 requests.

Other Available Assurance Services

RJW can provide other services to provide you with additional information on internal controls and compliance with laws and regulations. We would be happy to discuss these services with you.

Other Engagement Issues

The City 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 generally accepted auditing standards, we will make specific inquiries of management about the representations embodied in the financial statements, the effectiveness of the internal control structure and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. 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.

It is our responsibility to ensure that the Mayor and Members of City Council are informed of any significant illegal acts that we become aware of during our audit. If the illegal act involves funds from governmental entities, it is the City's responsibility to inform the governmental entities of these acts. If the City's management and City Council are involved in the illegal act or do not report it to the appropriate governmental entities on a timely basis, we, as auditors, will be obligated to report the illegal acts to these governmental entities.

For your information, we have attached a copy of RJW's most recent Peer Review Report.

We understand that our reports on internal controls and on compliance with laws and regulations are intended for the information of the City Council, management, and others within the City.

It should be understood the work papers for the engagement are the property of RJW and constitute confidential information. However, pursuant to *Government Auditing Standards*, we are required to make certain work papers available to federal regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of RJW personnel. Costs incurred to comply with any such requests to review our work papers will not be reimbursed by the City. To the extent such workpapers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors require additional procedures beyond the requirements of the Single Audit Act, costs incurred to comply with any such requests will be discussed with the City, prior to being incurred and billed to you.

Our fees for audits are based on the amount of time required to perform the agreed scope of work, plus reimbursement for expenses (report reproduction, postage, computer charges, overhead charges, supplies, travel, etc.). This estimate is based on the assumption that workpapers requested by us will be prepared on a timely basis by your personnel. Should unexpected problems arise which will cause the time to materially exceed our estimate, we will discuss such matters with you and obtain your approval before incurring additional time. Based upon this, we estimate that the total fee for the above described services will be $203,000, including expenses, of which 55% will be paid to KPMG Peat Marwick LLP, 40% will be paid to the firm of Garza & Gonzalez & Associates, and 5% will be paid to the firm of Robert J. Williams, CPA. Additionally, the attached Exhibit A includes the hours and the related audit activities allocated to each firm.

RJW will normally invoice you biweekly for services performed and expenses incurred since the last invoice. All invoices are due and payable upon presentation, but the payment date should not be beyond thirty days after the date of the invoice. Upon approval of this engagement, we will work with City personnel to establish specific timetables for our work, progress billings and payments.

We would 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.

We are looking forward to working with you on this engagement.

Very truly yours,

Robert J Williams, CPA

Robert J Williams
Principal

ACCEPTED

Authorized Signature Title Date

Randle R. Ross, P.C.

CERTIFIED PUBLIC ACCOUNTANT

2426 Cee Gee. Suite 225 • San Antonio, Texas 78217 • 210-824-3931 • FAX 210-824-0648

February 9, 1996

To Robert J. Williams, CPA

I have performed an off-site peer review with respect to the accounting practice of Robert J. Williams, CPA, for the year ended November 30, 1995, in accordance with standards established by the American Institute of Certified Public Accountants. Robert J. Williams, CPA, has represented to me that it performed no audits or reviews of historical or prospective financial statements during the year ended November 30, 1995.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and I express no opinion or any form of assurance on them.

In connection with my off-site peer review, nothing came to my attention that caused me to believe that the compilation reports submitted for review by Robert J. Williams, CPA, and issued in the conduct of its accounting practice during the year ended November 30, 1995, did not conform with the requirements of professional standards in all material respects.

Randle R. Ross, P.C.

Randle R. Ross, P.C.

AICPA
Peer
Review
Program

American
Institute
of Certified
Public
Accountants

Administered in Texas and Utah by the
Texas Society of
Certified Public Accountants
1421 W. Mockingbird Lane, #100
Dallas, TX 75247-4957
(214) 689-6000
Facsimile: (214)689-6075

May 20, 1996

Robert J. Williams, CPA
Robert J. Williams, CPA
1100 N W Loop 410 #700
San Antonio, TX 78213-2269

Dear Mr. Williams:

It is my pleasure to notify you that on May 16, 1996, the Texas Society of CPAs 1995-96 Peer Review Committee accepted the report on the most recent peer review of your firm. The due date for your next review is May 31, 1999. This is the date by which all review documents should be completed and submitted to the administering entity.

The Committee asked me to convey its congratulations to the firm on the results of your review.

Sincerely,

Jerry W. Crisp

Jerry W. Crisp, CPA
Director
Professional Activities Center

cc: Randle Russell Ross, CPA

Firm Number: 70004807 Review Number: 92758

CITY OF SAN ANTONIO
SEPTEMBER 30, 1997
DIVISION OF LABOR BY AUDIT FIRM

	KPMG budget	GG budget	Bob Williams budget	Internal Audit budget	TOTAL budget
EXTERNAL REPORTING SECTION	320	82	14	74	490
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Additional Partner Time to sign-off report		24	38	0	62
TOTAL HOURS	1020	1022	158	1300	3500

212 STUMBERG, SUITE 208 ☐ SAN ONIO, TEXAS 78204 ☐ (210) 227-1389

November 20, 1997

RECEIVED
FEB 10 1998

Ms. Nora W. Chavez-Barrera
Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Tx 78283-3966

GARZA/GONZALEZ
& associates

Dear Chavez-Barrera:

KPMG Peat Marwick LLP, Garza/Gonzalez & Associates (G/G&A), and Robert J. Williams, CPA, (collectively "CPA Contractors) are being engaged in accordance with he Audit Services Contract dated November 20, 1997 to report upon our audit of the general purpose financial statements of City of San Antonio (the City) as of and for the year ended September 30, 1997 and to also report in accordance with OMB Circular A-133. Furthermore, each CPA Contractor will execute an annual engagement letter with the CITY establishing the scope of the CPA Contractors' responsibility for each year's audit, the allocation of work to be performed as part of each audit by each CPA Contractor, and the portion of the total compensation for such audit that each CPA Contractor will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4 of the Audit Services Contract. This is G/G&A's annual engagement letter to confirm our understanding of the engagement.

Financial Statement Audit

We will conduct our audit of the financial statements in accordance with generally accepted auditing standards and the standards for financial audits contained in **Government Auditing Standards**, issued by the Comptroller Generally of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As part of our audit, we will consider the City's internal control and assess control risk, as required by generally accepted auditing standards for the purpose of establishing a basis for determining the nature, timing and extent of auditing procedures necessary for expressing our opinion concerning the financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the financial statements; however, it does not provide a basis for opining on internal control. The limited purposes of this consideration may not meet the needs of some users who require additional information about internal control.

We will prepare a written report on our understanding of the City's internal control and the assessment of control risk made as part of the financial statement audit. Our report will include (1) the scope of our work in obtaining an understanding of the internal control structure and in assessing control risk, and (2) the reportable conditions, including the identification of material weaknesses, identified as a result of our work in understanding and assessing the control risk for the financial statement audit.

In planning and performing our audit, we will consider the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. Furthermore, our audit--including the limited inquiries we will make in connection with Year 2000 issues-- is not designed to, and does not, provide any assurance that Year 2000 issues which may exist will be identified, on the adequacy of the City's Year 2000 remediation plans regarding operational or financial systems, or on whether the City is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management. However, we may communicate matters that come to our attention relating to the Year 2000 issue which in our judgment may be of benefit to management.

An audit is designed to provide reasonable assurance about whether the financial statements are free of material misstatement. Our audit will include procedures, designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements; however, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitations that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of management. In performing our audit, we will be aware of the possibility that illegal acts or noncompliance may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts or noncompliance will be detected and only reasonable assurance that illegal acts or noncompliance having a direct and material effect on the determination of financial statement amounts will be detected. 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. However, our objective is not to provide an opinion on overall compliance with such provisions. We will prepare a written report on the results of our tests of compliance with applicable laws and regulations.

In summary, under these standards, we will issue reports addressed to the Mayor and Members of City Council for the year ended September 30, 1997 as follows:

- A report on the general purpose financial statements;
- A report on internal controls and compliance based on an audit of the general purpose financial statements performed in accordance with **Government Auditing Standards**;

OMB Circular A-133

We will also perform auditing procedures on the City's federal award programs in accordance with the provisions of OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."* OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws and regulations, that exceed those required by **Government Auditing Standards**.

As part of our auditing procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the City's major programs and report the results to you. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope that would be necessary to render an opinion on internal control. The limited purpose of these tests may not meet the needs of some users of audit reports who require additional information about internal control.

Compliance with laws, regulations, contracts and grants that govern federal award programs is the responsibility of management. We will perform the tests of the City's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's Compliance Supplement and report whether in our opinion the City complied, in all material respects, with the laws and regulations applicable to its major federal financial awards programs. The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In summary, in accordance with OMB Circular A-133, we will issue a report to the Mayor and Members of City Council which provides (1) our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major federal award program and (3) communicates our consideration of internal control over federal awards programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern federal award programs as discussed above, OMB Circular A-133 also required the City to prepare a:

- Schedule of expenditures of federal awards,
- Summary schedule of prior audit findings,
- Corrective action plan, and
- Data collection form.

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

Certain provisions of 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 cost of such a selection. The City agrees to notify Garza/Gonzalez & Associates of any such request by a granting agency and to work with Garza/Gonzalez & Associates to modify the terms of this letter as necessary to accommodate such requests.

Other Available Assurance Services

Garza/Gonzalez & Associates can provide other services to provide you with additional information on internals controls and compliance with laws and regulations. We would be happy to discuss these services.

Other Engagement Issues

The City 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 generally accepted auditing standards, we will make specific inquiries of management about the representations embodied in the financial statements, the effectiveness of the internal control structure and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Because of the importance of management's representations to the effective performance of our services, the City will release Garza/Gonzalez & Associates 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.

It is our responsibility to ensure that the Mayor and Members of City Council are informed of any significant illegal acts that we become aware of during our audit. If the illegal act involves funds from governmental entities, it is the City responsibility to inform the governmental entities of these acts. If the City's management and City Council are involved in the illegal act or do not report it to the appropriate governmental entities on timely basis, we, as auditors, will be obligated to report the illegal acts to these governmental entities.

For your information, we have attached a copy of G/G&A's most recent Peer Review Report.

We understand that our reports on internal controls and on compliance with laws and regulations are intended for the information of the City Council, management, and others within the City.

It should be understood the work papers for the engagement are the property of G/G&A and constitute confidential information. However, pursuant to **Government Auditing Standards**, we are required to make certain work papers available to federal regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of G/G&A personnel. Costs incurred to comply with any such requests to review our work papers will not be reimbursed by the City. To the extent such workpapers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors require additional procedures beyond the requirements of the Single Audit Act, costs incurred to comply with any such requests will be discussed with the City, prior to being incurred and billed to you.

Our fees for audits are based on the amount of time required to perform the agreed scope of work, plus reimbursement for expenses (report reproduction, postage, computer charges, overhead charges, supplies, travel, etc.). This estimate is based on the assumption that workpapers requested by us will be prepared on a timely basis by your personnel. Should unexpected problems arise which will cause the time to materially exceed our estimate, we will discuss such matters with you and obtain your approval before incurring additional time. Based upon this, we estimate that the total fee for the above described services will be $203,000, including expenses, of which 55% will be paid to ~~G/G&A~~ Peat Marwick LLP, 40% will be paid to the firm of Garza/Gonzalez & Associates, and 5% will be paid to the firm of Robert J. Williams, CPA. Additionally, the attached Exhibit A includes the hours and the related audit activities allocated to each firm.

G/G&A will normally invoice you biweekly for services performed and expenses incurred since the last invoice. All invoices are due and payable upon presentation, but the payment date should not be beyond thirty days after the date of the invoice. Upon approval of this engagement, we will work City personnel to establish specific timetables for our work, progress billings and payments.

We would 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.

We are looking forward to working with you on this engagement.

Very truly yours,

Gregory R. Garza, CPA
Senior Partner

GRG:myh

Enclosure

APPROVED:

By _____

Date _____

BUMGARDNER, MORRISON & COMPANY, L.L.P.

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B. BUMGARDNER CPA
EMERITUS

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA PRIVATE COMPANIES PRACTICE SECTION
AICPA TAX DIVISION

JACK C. FITZGERALD CPA
JACK R. MORRISON JR. CPA
CHRISTOPHER E. KREUZ CPA
JEROME G. KOTZUR CPA
G. DENNIS SHAY CPA
PAULA G. LESKE CPA
MICHAEL E. WENSKE CPA

July 26, 1994

Garza/Gonzalez & Associates
Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Garza/Gonzalez & Associates (the firm) in effect for the year ended May 31, 1994. Our review was conducted in conformity with standards for on-site quality reviews established by the American Institute of Certified Public Accountants. We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operation policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of Garza/Gonzalez & Associates in effect for the year ended May 31, 1994, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

Bumgardner, Morrison + Company, L.L.P.

CITY OF SAN ANTONIO
SEPTEMBER 30, 1997
DIVISION OF LABOR BY AUDIT FIRM

	KPMG budget	GG budget	Bob Williams budget	Internal Audit budget	TOTAL budget
EXTERNAL REPORTING SECTION	320	82	14	74	490
FINANCIAL AUDIT SECTION **INCLUDING INSURANCE SPECIALIST PROVIDED BY KPMG**	402	490	64	690	1646
SINGLE AUDIT SECTION	127	310	0	350	787
INTERNAL CONTROL SECTION **INCLUDING EDP SPECIALIST PROVIDED BY KPMG**	123	88	42	162	415
Contingency/Other matters	48	28	0	24	100
Additional Partner Time to sign-off report		24	38	0	62
TOTAL HOURS	1020	1022	158	1300	3500

KPMG Peat Marwick LLP

1897·1997

112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

Telephone 210 227 9272

Telefax 210 224 0126
210 227 4707

November 20, 1997

Nora W. Chávez-Barrera
Director of Finance
City of San Antonio
San Antonio, Texas

Dear Nora:

KPMG Peat Marwick LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, (collectively "CPA Contractors") are being engaged in accordance with the Audit Services Contract dated November 20, 1997 to report upon our audit of the general purpose financial statements of City of San Antonio (the City) as of and for the year ended September 30, 1997 and to also report in accordance with OMB Circular A-133. Furthermore, each **CPA Contractor** will execute an annual engagement letter with the **CITY** establishing the scope of the **CPA Contractors'** responsibility for each year's audit, the allocation of work to be performed as part of each audit by each **CPA Contractor**, and the portion of the total compensation for such audit that each **CPA Contractor** will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4 of the Audit Services Contract. This is KPMG's annual engagement letter to confirm our understanding of the engagement.

Financial Statement Audit

We will conduct our audit of the financial statements in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As part of our audit, we will consider the City's internal control and assess control risk, as required by generally accepted auditing standards for the purpose of establishing a basis for determining the nature, timing and extent of auditing procedures necessary for expressing our opinion concerning the financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the financial statement audit contributes to the evidence supporting our opinion on the financial statements; however, it does not provide a basis for opining on internal control. The limited purposes of this consideration may not meet the needs of some users who require additional information about internal control.

We will prepare a written report on our understanding of the City's internal control and the assessment of control risk made as part of the financial statement audit. Our report will include (1) the scope of our work in obtaining an understanding of the internal control structure and in assessing control risk, and (2) the reportable conditions, including the identification of material weaknesses, identified as a result of our work in understanding and assessing the control risk for the financial statement audit.

In planning and performing our audit, we will consider the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. Furthermore, our audit—including the limited inquiries we will make in connection with Year 2000 issues—is not designed to, and does not, provide any assurance that Year 2000 issues which may exist will be identified, on the adequacy of the City's Year 2000 remediation plans regarding operational or financial systems, or on whether the City is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management. However, we may

communicate matters that come to our attention relating to the Year 2000 issue which in our judgment may be of benefit to management.

An audit is designed to provide reasonable assurance about whether the financial statements are free of material misstatement. Our audit will include procedures, designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements; however, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitations that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of management. In performing our audit, we will be aware of the possibility that illegal acts or noncompliance may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts or noncompliance will be detected and only reasonable assurance that illegal acts or noncompliance having a direct and material effect on the determination of financial statement amounts will be detected. 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. However, our objective is not to provide an opinion on overall compliance with such provisions. We will prepare a written report on the results of our tests of compliance with applicable laws and regulations.

In summary, under these standards, we will issue reports addressed to the Mayor and Members of City Council for the year ended September 30, 1997 as follows:

- A report on the general purpose financial statements;

- A report on internal controls and compliance based on an audit of the general purpose financial statements performed in accordance with *Government Auditing Standards*;

OMB Circular A-133

We will also perform auditing procedures on the City's federal award programs in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* OMB Circular A-133 includes specific audit requirements, mainly in the

areas of internal control and compliance with laws and regulations, that exceed those required by *Government Auditing Standards*.

As part of our auditing procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the City 's major programs and report the results to you. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control. The limited purpose of these tests may not meet the needs of some users of audit reports who require additional information about internal control.

Compliance with laws, regulations, contracts and grants that govern federal award programs is the responsibility of management. We will perform the tests of the City's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's Compliance Supplement and report whether in our opinion the City complied, in all material respects, with the laws and regulations applicable to its major federal financial awards programs. The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In summary, in accordance with OMB Circular A-133, we will issue a report to the Mayor and Members of City Council which provides (1) our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major federal award program and (3) communicates our consideration of internal control over federal awards programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern federal award programs as discussed above, OMB Circular A-133 also 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.

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

Certain provisions of 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 cost of such a selection. The City agrees to notify KPMG Peat Marwick LLP of any such request by a granting agency and to work with KPMG Peat Marwick LLP to modify the terms of this letter as necessary to accommodate such requests.

Other Available Assurance Services

KPMG Peat Marwick LLP can provide other services to provide you with additional information on internal controls and compliance with laws and regulations. We would be happy to discuss these services.

Other Engagement Issues

The City 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 generally accepted auditing standards, we will make specific inquiries of management about the representations embodied in the financial statements, the effectiveness of the internal control structure and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG 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.

It is our responsibility to ensure that the Mayor and Members of City Council are informed of any significant illegal acts that we become aware of during our audit. If the illegal act involves funds from governmental entities, it is the City's responsibility to inform the governmental entities of these acts. If the City's management and City Council are involved in the illegal act or do not report it to the appropriate governmental entities on a timely basis, we, as auditors, will be obligated to report the illegal acts to these governmental entities.

For your information, we have attached a copy of KPMG's most recent Peer Review Report.

We understand that our reports on internal controls and on compliance with laws and regulations are intended for the information of the City Council, management, and others within the City.

It should be understood the work papers for the engagement are the property of KPMG and constitute confidential information. However, pursuant to *Government Auditing Standards*, we are required to make certain work papers available to federal regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of KPMG personnel. Costs incurred to comply with any such requests to review our work papers will not be reimbursed by the City. To the extent such workpapers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors require additional procedures beyond the requirements of the Single Audit Act, costs incurred to comply with any such requests will be discussed with the City, prior to being incurred and billed to you.

Our fees for audits are based on the amount of time required to perform the agreed scope of work, plus reimbursement for expenses (report reproduction, postage, computer charges, overhead charges, supplies, travel, etc.). This estimate is based on the assumption that workpapers requested by us will be prepared on a timely basis by your personnel. Should unexpected problems arise which will cause the time to materially exceed our estimate, we will discuss such matters with you and obtain your approval before incurring additional time. Based upon this, we estimate that the total fee for the above described services will be $203,000, including expenses, of which 55% will be paid to KPMG Peat Marwick LLP, 40% will be paid to the firm of Garza & Gonzalez & Associates, and 5% will be paid to the firm of Robert J. Williams, CPA. Additionally, the attached Exhibit A includes the hours and the related audit activities allocated to each firm.

KPMG will normally invoice you biweekly for services performed and expenses incurred since the last invoice. All invoices are due and payable upon presentation, but the payment date should not be beyond thirty days after the date of the invoice. Upon approval of this engagement, we will work with City personnel to establish specific timetables for our work, progress billings and payments.

We would 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.

We are looking forward to working with you on this engagement.

Very truly yours,

KPMG Peat Marwick LLP

Santos Fraga
Partner

ACCEPTED

City of San Antonio

Authorized Signature	Title	Date

300 Atlantic Street
P.O. Box 9316
Stamford, CT 06904

Telephone 203 358 0001

Price Waterhouse LLP

November 8, 1996

To the Partners of KPMG Peat Marwick LLP:

We have reviewed the system of quality control for the accounting and auditing practice of KPMG Peat Marwick LLP (the Firm) in effect for the year ended March 31, 1996. Our review was conducted in conformity with standards for peer reviews promulgated by the peer review committee of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). We tested compliance with the Firm's quality control policies and procedures at the Firm's national office and at selected practice units in the United States and with the membership requirements of the Section to the extent we considered appropriate. These tests included the application of the Firm's policies and procedures on selected accounting and auditing engagements. We also tested the supervision and control of portions of engagements performed outside the United States.

In performing our review, we have given consideration to the general characteristics of a system of quality control as described in quality control standards issued by the AICPA. Such a system should be appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice. Variance in individual performance can affect the degree of compliance with a firm's prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible. As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. None of these matters were considered to be of sufficient significance to affect the opinion expressed in this report.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG Peat Marwick LLP in effect for the year ended March 31, 1996, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the Firm with reasonable assurance of conforming with professional standards. Also, in our opinion, the Firm was in conformity with the membership requirements of the Section in all material respects.

Price Waterhouse LLP

CITY OF SAN ANTONIO
SEPTEMBER 30, 1997
DIVISION OF LABOR BY AUDIT FIRM

	KPMG budget	GG budget	Bob Williams budget	Internal Audit budget	TOTAL budget
EXTERNAL REPORTING SECTION	320	82	14	74	490
FINANCIAL AUDIT SECTION **INCLUDING INSURANCE SPECIALIST PROVIDED BY KPMG**	402	490	64	690	1646
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Contingency/Other matters	48	28	0	24	100
Additional Partner Time to sign-off report		24	38	0	62
TOTAL HOURS	1020	1022	158	1300	3500

212 STUMBERG, SUITE 208 ☐ S ,NTONIO, TEXAS 78204 ☐ (210) 227-1389

November 20, 1997

RECEIVED
FEB 10 1998

Ms. Nora W. Chavez-Barrera
Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Tx 78283-3966

GARZA/GONZALEZ
& associates

Dear Chavez-Barrera:

KPMG Peat Marwick LLP, Garza/Gonzalez & Associates (G/G&A), and Robert J. Williams, CPA, (collectively "CPA Contractors) are being engaged in accordance with he Audit Services Contract dated November 20, 1997 to report upon our audit of the general purpose financial statements of City of San Antonio (the City) as of and for the year ended September 30, 1997 and to also report in accordance with OMB Circular A-133. Furthermore, each CPA Contractor will execute an annual engagement letter with the CITY establishing the scope of the CPA Contractors' responsibility for each year's audit, the allocation of work to be performed as part of each audit by each CPA Contractor, and the portion of the total compensation for such audit that each CPA Contractor will be paid, consistent with the provisions contained in Article VII, subsections 7.1 through 7.4 of the Audit Services Contract. This is G/G&A's annual engagement letter to confirm our understanding of the engagement.

Financial Statement Audit

We will conduct our audit of the financial statements in accordance with generally accepted auditing standards and the standards for financial audits contained in **Government Auditing Standards**, issued by the Comptroller Generally of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City has responsibility for the financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping to maintain the reliability of the financial statements. 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 general purpose financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The management of the City is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As part of our audit, we will consider the City's internal control and assess control risk, as required by generally accepted auditing standards for the purpose of establishing a basis for determining the nature, timing and extent of auditing procedures necessary for expressing our opinion concerning the financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the financial statements; however, it does not provide a basis for opining on internal control. The limited purposes of this consideration may not meet the needs of some users who require additional information about internal control.

We will prepare a written report on our understanding of the City's internal control and the assessment of control risk made as part of the financial statement audit. Our report will include (1) the scope of our work in obtaining an understanding of the internal control structure and in assessing control risk, and (2) the reportable conditions, including the identification of material weaknesses, identified as a result of our work in understanding and assessing the control risk for the financial statement audit.

In planning and performing our audit, we will consider the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on the internal control. Furthermore, our audit--including the limited inquiries we will make in connection with Year 2000 issues-- is not designed to, and does not, provide any assurance that Year 2000 issues which may exist will be identified, on the adequacy of the City's Year 2000 remediation plans regarding operational or financial systems, or on whether the City is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management. However, we may communicate matters that come to our attention relating to the Year 2000 issue which in our judgment may be of benefit to management.

An audit is designed to provide reasonable assurance about whether the financial statements are free of material misstatement. Our audit will include procedures, designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements; however, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitations that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of management. In performing our audit, we will be aware of the possibility that illegal acts or noncompliance may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts or noncompliance will be detected and only reasonable assurance that illegal acts or noncompliance having a direct and material effect on the determination of financial statement amounts will be detected. 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. However, our objective is not to provide an opinion on overall compliance with such provisions. We will prepare a written report on the results of our tests of compliance with applicable laws and regulations.

In summary, under these standards, we will issue reports addressed to the Mayor and Members of City Council for the year ended September 30, 1997 as follows:

- A report on the general purpose financial statements;
- A report on internal controls and compliance based on an audit of the general purpose financial statements performed in accordance with **Government Auditing Standards**;

OMB Circular A-133

We will also perform auditing procedures on the City's federal award programs in accordance with the provisions of OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."* OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws and regulations, that exceed those required by **Government Auditing Standards**.

As part of our auditing procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal control that we consider relevant to preventing or detecting material noncompliance with laws and regulations applicable to each of the City's major programs and report the results to you. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope that would be necessary to render an opinion on internal control. The limited purpose of these tests may not meet the needs of some users of audit reports who require additional information about internal control.

Compliance with laws, regulations, contracts and grants that govern federal award programs is the responsibility of management. We will perform the tests of the City's compliance with certain specific provisions of laws, regulations, contracts and grants we determine to be necessary based on OMB's Compliance Supplement and report whether in our opinion the City complied, in all material respects, with the laws and regulations applicable to its major federal financial awards programs. The procedures outlined in the Compliance Supplement are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In summary, in accordance with OMB Circular A-133, we will issue a report to the Mayor and Members of City Council which provides (1) our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major federal award program and (3) communicates our consideration of internal control over federal awards programs.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern federal award programs as discussed above, OMB Circular A-133 also required the City to prepare a:

- Schedule of expenditures of federal awards,
- Summary schedule of prior audit findings,
- Corrective action plan, and
- Data collection form.

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

Certain provisions of 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 cost of such a selection. The City agrees to notify Garza/Gonzalez & Associates of any such request by a granting agency and to work with Garza/Gonzalez & Associates to modify the terms of this letter as necessary to accommodate such requests.

Other Available Assurance Services

Garza/Gonzalez & Associates can provide other services to provide you with additional information on internals controls and compliance with laws and regulations. We would be happy to discuss these services.

Other Engagement Issues

The City 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 generally accepted auditing standards, we will make specific inquiries of management about the representations embodied in the financial statements, the effectiveness of the internal control structure and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Because of the importance of management's representations to the effective performance of our services, the City will release Garza/Gonzalez & Associates 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.

It is our responsibility to ensure that the Mayor and Members of City Council are informed of any significant illegal acts that we become aware of during our audit. If the illegal act involves funds from governmental entities, it is the City responsibility to inform the governmental entities of these acts. If the City's management and City Council are involved in the illegal act or do not report it to the appropriate governmental entities on timely basis, we, as auditors, will be obligated to report the illegal acts to these governmental entities.

For your information, we have attached a copy of G/G&A's most recent Peer Review Report.

We understand that our reports on internal controls and on compliance with laws and regulations are intended for the information of the City Council, management, and others within the City.

It should be understood the work papers for the engagement are the property of G/G&A and constitute confidential information. However, pursuant to **Government Auditing Standards**, we are required to make certain work papers available to federal regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of G/G&A personnel. Costs incurred to comply with any such requests to review our work papers will not be reimbursed by the City. To the extent such workpapers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors require additional procedures beyond the requirements of the Single Audit Act, costs incurred to comply with any such requests will be discussed with the City, prior to being incurred and billed to you.

Our fees for audits are based on the amount of time required to perform the agreed scope of work, plus reimbursement for expenses (report reproduction, postage, computer charges, overhead charges, supplies, travel, etc.). This estimate is based on the assumption that workpapers requested by us will be prepared on a timely basis by your personnel. Should unexpected problems arise which will cause the time to materially exceed our estimate, we will discuss such matters with you and obtain your approval before incurring additional time. Based upon this, we estimate that the total fee for the above described services will be $203,000, including expenses, of which 55% will be paid to ~~G/G&A~~ Peat Marwick LLP, 40% will be paid to the firm of Garza/Gonzalez & Associates, and 5% will be paid to the firm of Robert J. Williams, CPA. Additionally, the attached Exhibit A includes the hours and the related audit activities allocated to each firm.

G/G&A will normally invoice you biweekly for services performed and expenses incurred since the last invoice. All invoices are due and payable upon presentation, but the payment date should not be beyond thirty days after the date of the invoice. Upon approval of this engagement, we will work City personnel to establish specific timetables for our work, progress billings and payments.

We would 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.

We are looking forward to working with you on this engagement.

Very truly yours,

Gregory R. Garza, CPA
Senior Partner

GRG:myh

Enclosure

APPROVED:

By_____

Date_____

BUMGARDNER, MORRISON & COMPANY, L.L.P.

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B BUMGARDNER CPA
EMERITUS

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA PRIVATE COMPANIES PRACTICE SECTION
AICPA TAX DIVISION

JACK C FITZGERALD CPA
JACK R MORRISON JR CPA
CHRISTOPHER E KREJCI CPA
JEROME G KOTZUR CPA
G DENNIS SHAY CPA
PAULA G LESKE CPA
MICHAEL E WENSKE CPA

July 26, 1994

Garza/Gonzalez & Associates
Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Garza/Gonzalez & Associates (the firm) in effect for the year ended May 31, 1994. Our review was conducted in conformity with standards for on-site quality reviews established by the American Institute of Certified Public Accountants. We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operation policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of Garza/Gonzalez & Associates in effect for the year ended May 31, 1994, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

Bumgardner, Morrison + Company, L.L.P.

1501 E MOCKINGBIRD SUITE 300 P O BOX 3750 VICTORIA TEXAS 77903

CITY OF SAN ANTONIO
SEPTEMBER 30, 1997
DIVISION OF LABOR BY AUDIT FIRM

	KPMG budget	GG budget	Bob Williams budget	Internal Audit budget	TOTAL budget
EXTERNAL REPORTING SECTION	320	82	14	74	490
FINANCIAL AUDIT SECTION **INCLUDING INSURANCE SPECIALIST PROVIDED BY KPMG**	402	490	64	690	1646
SINGLE AUDIT SECTION	127	310	0	350	787
INTERNAL CONTROL SECTION **INCLUDING EDP SPECIALIST PROVIDED BY KPMG**	123	88	42	162	415
Contingency/Other matters	48	28	0	24	100
Additional Partner Time to sign-off report		24	38	0	62
TOTAL HOURS	1020	1022	158	1300	3500