MBM
08/24/00
#40

AN ORDINANCE 92385

AUTHORIZING THE EXTENSION OF THE AUDIT SERVICES CONTRACTS WITH KPMG LLP, GARZA/GONZALEZ & ASSOCIATES, AND ROBERT J. WILLIAMS FOR ONE ADDITIONAL TWO-YEAR PERIOD TO PROVIDE THE CITY WITH INDEPENDENT AUDIT SERVICES FOR FISCAL YEARS 2000 AND 2001 FOR AN ANNUAL AUDIT FEE OF $252,000 FOR FISCAL YEAR 2000, AND $263,000 FOR FISCAL YEAR 2001. (AMENDS ORD.87006, November 20, 1997)

* * * * *

WHEREAS, Ordinance No. 87006, passed and approved on November 20, 1997, authorized the execution of contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to conduct the City's independent audits for Fiscal Years 1997, 1998 and 1999; and

WHEREAS, the Contracts provided for an option to renew and extend for one additional two-year period; and

WHEREAS, the City wishes to renew said Contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to conduct the City's independent audits for Fiscal Years 2000 and 2001; **NOW THEREFORE:**

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

SECTION 1. Subject to the provisions herein, the City Manager, or his designee, is hereby authorized to execute a Renewal and Extension with each member of the audit team of KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA for one additional two-year period, commencing October 1, 2000 and ending September 30, 2002, for a total cost of $252,000 for FY 2000 and $263,000 for FY 2001, to provide the City with independent audit services. A copy of the Renewal and Extensions are attached hereto, in substantially final form, and incorporated herein as Attachments I, II and III, respectively. The terms and provisions of said Renewal and Extensions are hereby approved. In the event the parties cannot agree to the terms of the Renewal and Extension, in substantially the form as attached, within thirty (30) days of approval of this Ordinance, the City must obtain subsequent City Council approval to execute the Renewal and Extensions.

SECTION 2. Funds will be encumbered in FY 2001 in the amount of $252,000.00, in Fund 11-000 (General Fund-Non Departmental) Index Code 419226 (Professional Fees to Outside Auditors), and made payable to KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, in accordance with the Renewal and Extensions, Attachments I, II and III,

MBM
08/24/00
#40

respectively, for audit and related services provided to the City of San Antonio for FY 2000. A Renewal and Extension is authorized in the amount of $263,000.00, subject to and contingent upon annual appropriation in FY 2002 for audit and related services provided to the City of San Antonio for FY 2001.

SECTION 3. This ordinance shall take effect ten (10) days from the date of passage hereof.

PASSED AND APPROVED this 24th *day of* August, *2000.*

M A Y O R

Howard W. Peak

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

00-31

	ALAMODOME
	ASSET MANAGEMENT
	AVIATION
1	BUDGET & PERFORMANCE ASSESSMENT
	BUILDING INSPECTIONS
	BUILDING INSPECTIONS - HOUSE NUMBERING
	CITY ATTORNEY
	MUNICIPAL COURT PROSECUTORS
1	RISK MANAGEMENT
	CITY MANAGER
	CITY PUBLIC SERVICE - GENERAL MANAGER
	CITY PUBLIC SERVICE - MAPS & RECORDS
	CODE COMPLIANCE
	COMMERCIAL RECORDER (PUBLISH)
	COMMUNITY INITIATIVES
	COMMUNITY RELATIONS
	PUBLIC INFORMATION OFFICE
	CONVENTION & VISITORS BUREAU
	CONVENTION CENTER EXPANSION OFFICE
	CONVENTION FACILITIES
	COUNCIL OFFICES
	CULTURAL AFFAIRS
	ECONOMIC DEVELOPMENT
1	FINANCE DIRECTOR
	FINANCE (ASSESSOR)
1	FINANCE (CONTROLLER)
	FINANCE (GRANTS)
	FINANCE (TREASURY)
	FIRE DEPARTMENT
	HOUSING & COMMUNITY DEVELOPMENT
	HUMAN RESOURCES
	INFORMATION SERVICES
	INTERGOVERNMENTAL RELATIONS
	INTERNAL REVIEW
	INTERNATIONAL AFFAIRS
	LIBRARY
	METROPOLITAN HEALTH DISTRICT
	MUNICIPAL CODE CORPORATION (PUBLISH)
	MUNICIPALCOURTS
	NEIGHBORHOOD ACTION
	PARKS & RECREATION
	PLANNING DEPARTMENT
	DISABILITY ACCESS OFFICE
	LAND DEVELOPMENT SERVICES
	POLICE DEPARTMENT
	GROUND TRANSPORTATION OFFICE
	PUBLIC WORKS DIRECTOR
	CAPITAL PROJECTS
	CENTRAL MAPPING (W/ATTACHMENTS)
	ENGINEERING
	ENVIRONMENTAL SERVICES
	PARKING
	REAL ESTATE
	SOLID WASTE
	TRAFFIC ENGINEERING
	PURCHASING & GENERAL SERVICES
	SAN ANTONIO WATER SYSTEM

MEETING OF THE CITY COUNCIL

AGENDA ITEM NUMBER: 40.

DATE: AUG 2 4 2000

MOTION:

ORDINANCE NUMBER: 92385

RESOLUTION NUMBER:

ZONING CASE NUMBER:

TRAVEL AUTHORIZATION:

NAME	ROLL	AYE	NAY
BOBBY PEREZ District 1			
MARIO SALAS District 2			
DEBRA GUERRERO District 3			
RAUL PRADO District 4			
DAVID A. GARCIA District 5			
ENRIQUE BARRERA District 6			
ED GARZA District 7			
BONNIE CONNER District 8			
TIM BANNWOLF District 9			
DAVID CARPENTER District 10		—	
HOWARD W. PEAK Mayor			

(Amendment 87006, Nov. 20, 1997)

00-31

CONSENT AGENDA

H: Finance/Renewal - Audit KPMG
08.23.00

RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and KPMG LLP, acting by and through Michael W. O'Brien, Partner (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. 92385, on August 24, 2000, and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY's** records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this 14 day of September, 2000.

CITY
CITY OF SAN ANTONIO

Tony M. Brechtel
for **Alexander E. Briseño,**
City Manager

CONTRACTOR
KPMG LLP

Michael W. O'Brien
Michael W. O'Brien ,
Partner

APPROVED AS TO FORM:

Frank J. Garza,
City Attorney

SVB

H: Finance/Renewal-Audit Garza
08/23/00

RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and Garza/Gonzalez & Associates, acting by and through Gregory R. Garza, Partner (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. 92385, on August 24, 2000, and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY**'s records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this 14 day of January, 2000.

CITY
City of San Antonio

for Terry M. Brechtel
Alexander E. Briseño,
City Manager

CONTRACTOR
Garza/Gonzalez & Associates

Gregory R. Garza,
Partner

APPROVED AS TO FORM:

Frank J. Garza,
City Attorney

H: Finance/Renewal-Audit Williams
08/23/00

RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and Robert J. Williams, Certified Public Accountant (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. 92385, on August 24, 2000 and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY's** records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this 14th day of September, 2000.

CITY
City of San Antonio

Alexander E. Briseño,
City Manager

CONTRACTOR
Robert J. Williams, CPA

Robert J. Williams,
Certified Public Accountant

APPROVED AS TO FORM:

Frank J. Garza,
City Attorney

CITY OF SAN ANTONIO
Finance Department
Interdepartmental Memorandum

TO: Terry Brechtel, Executive Director of Administrative and Financial Services
FROM: Octavio Peña, CPA, Director, Finance Department
COPIES: Ben Gorzell Jr., CPA, Assistant Director, Finance Department; Milo Nitschke, Assistant Director, Finance Department; Troy Elliott, CPA, Controller, file
SUBJECT: Renewal and Extension of Independent Audit and Related Services Contracts

DATE: November 6, 2000

Please find enclosed for your signature, renewals and extensions of the Audit Services Contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA. City Council passed and approved ordinance 92385 on August 24, 2000, authorizing the extension of the audit services contracts with the above mentioned firms for one additional two-year period to provide the City with independent audit services for fiscal years 2000 and 2001 for an annual audit fee of $252,000 and $263,000, respectively.

Ordinance 87006, passed and approved on November 20, 1997, authorized the execution of contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to provide independent audit and related services for fiscal years 1997, 1998 and 1999, with an option to extend the contract, with City Council approval, for one (1) additional two (2) year period. The City's financial audit and federal single audit was provided at a cost of $203,000 in year one, $209,000 in year two, and $215,000 in year three.

This renewal and extension also amends and increases the scope of services of the original contract to include the newly issued audit requirements of the State of Texas Single Audit Circular, which was previously covered under the contingent additional services provisions of the Audit Services Contract. This Circular sets standards for obtaining consistency and uniformity among state agencies for the coordinated audit of local governments expending any state awards. The issuance of the new circular was effective October 1, 1997, and resulted in contingent additional services under the Audit Services Contract, and additional fees for fiscal years 1998 and 1999 in the amounts of $27,475 and $26,075, respectively. This resulted in total audit fees of $236,475 for fiscal year 1998 and $241,075 for fiscal year 1999.

Historically, the participation rates between the auditors, with respect to the financial audit and federal single audit, have been 55% for KPMG LLP, 40% for Garza/Gonzalez & Associates, and 5% for Robert J. Williams, CPA. However, in order to provide Robert J. Williams, CPA a higher level of participation in the financial and federal single audit, the participation rates have been amended to reflect the following: 54% for KPMG LLP, 39% for Garza/Gonzales & Associates, and 7% for Robert J. Williams.

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 the renewal and extension of this contract, 1,500 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.

Annual audit fees for fiscal year 2000 and fiscal year 2001 will be $252,000 and $263,000, respectively. Fees include assistance from the Office of Internal Review, and are subject to annual appropriation. Audit fees for the fiscal year 2000 audit will be paid from the Fiscal Year 2001 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 written estimates and hourly rates on a case by case basis, and are subject to annual appropriation.

If you have any questions or require any additional information, please call me at ext. 7013 or Troy Elliott at ext. 8604.

Octavio Peña, CPA
Director
Finance Department

MBM
08/24/00
#40

AN ORDINANCE

AUTHORIZING THE EXTENSION OF THE AUDIT SERVICES CONTRACTS WITH KPMG LLP, GARZA/GONZALEZ & ASSOCIATES, AND ROBERT J. WILLIAMS FOR ONE ADDITIONAL TWO-YEAR PERIOD TO PROVIDE THE CITY WITH INDEPENDENT AUDIT SERVICES FOR FISCAL YEARS 2000 AND 2001 FOR AN ANNUAL AUDIT FEE OF $252,000 FOR FISCAL YEAR 2000, AND $263,000 FOR FISCAL YEAR 2001.

* * * * *

WHEREAS, Ordinance No. 87006, passed and approved on November 20, 1997, authorized the execution of contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to conduct the City's independent audits for Fiscal Years 1997, 1998 and 1999; and

WHEREAS, the Contracts provided for an option to renew and extend for one additional two-year period; and

WHEREAS, the City wishes to renew said Contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to conduct the City's independent audits for Fiscal Years 2000 and 2001; **NOW THEREFORE:**

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

SECTION 1. Subject to the provisions herein, the City Manager, or his designee, is hereby authorized to execute a Renewal and Extension with each member of the audit team of KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA for one additional two-year period, commencing October 1, 2000 and ending September 30, 2002, for a total cost of $252,000 for FY 2000 and $263,000 for FY 2001, to provide the City with independent audit services. A copy of the Renewal and Extensions are attached hereto, in substantially final form, and incorporated herein as Attachments I, II and III, respectively. The terms and provisions of said Renewal and Extensions are hereby approved. In the event the parties cannot agree to the terms of the Renewal and Extension, in substantially the form as attached, within thirty (30) days of approval of this Ordinance, the City must obtain subsequent City Council approval to execute the Renewal and Extensions.

SECTION 2. Funds will be encumbered in FY 2001 in the amount of $252,000.00, in Fund 11-000 (General Fund-Non Departmental) Index Code 419226 (Professional Fees to Outside Auditors), and made payable to KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, in accordance with the Renewal and Extensions, Attachments I, II and III,

MBM
08/24/00
#40

respectively, for audit and related services provided to the City of San Antonio for FY 2000. A Renewal and Extension is authorized in the amount of $263,000.00, subject to and contingent upon annual appropriation in FY 2002 for audit and related services provided to the City of San Antonio for FY 2001.

SECTION 3. This ordinance shall take effect ten (10) days from the date of passage hereof.

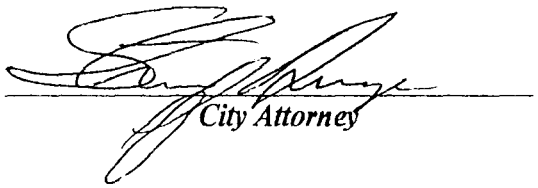
PASSED AND APPROVED this ___ day of _____, 2000.

M A Y O R

ATTEST:

_____
City Clerk

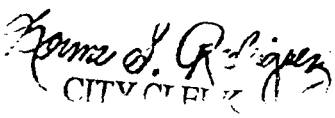
APPROVED AS TO FORM:



City Attorney

ORD. NO. 92385

AUG 24 2000



RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and KPMG LLP, acting by and through Michael W. O'Brien, Partner (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. _____, on August 24, 2000, and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY's** records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this _____ day of _____, 2000.

CITY **CITY OF SAN ANTONIO**	**CONTRACTOR** **KPMG LLP**
_____ **Alexander E. Briseño,** **City Manager**	_____ **Michael W. O'Brien ,** **Partner**

APPROVED AS TO FORM:

_____

Frank J. Garza,
City Attorney

RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and Garza/Gonzalez & Associates, acting by and through Gregory R. Garza, Partner (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. _____, on August 24, 2000, and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY's** records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this _____ day of _____, 2000.

CITY
City of San Antonio

_____
Alexander E. Briseño,
City Manager

CONTRACTOR
Garza/Gonzalez & Associates

_____
Gregory R. Garza,
Partner

APPROVED AS TO FORM:

_____
Frank J. Garza,
City Attorney

RENEWAL AND EXTENSION

This Renewal and Extension is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation, acting by and through its City Manager, Alexander E. Briseño, or his designee, pursuant to subsection 6.3 of the Audit Services Contract, approved through Ordinance No. 87006 (hereinafter referred to as "**Contract**"), and Robert J. Williams, Certified Public Accountant (hereinafter referred to as "**CONTRACTOR**"), such Renewal and Extension being approved and authorized pursuant to Ordinance No. _____, on August 24, 2000 and is as follows:

I. RENEWAL AND EXTENSION

CITY hereby exercises its option to renew and extend the term of the Audit Services Contract ("**Contract**"), subject to the approval of the City of San Antonio City Council, to be evidenced by the passage of an ordinance, such option having been granted by **CITY** in Article VI. TERM AND COMMENCEMENT OF WORK, subsection 6.3, of said **Contract**, having been approved by Ordinance No. 87006 passed on November 20, 1997.

The parties hereby agree that the term of said **Contract**, as originally stated in Article VI. TERM AND COMMENCEMENT OF WORK, is hereby extended for two (2) years. In accordance therewith, subsection 6.1 is hereby revised as follows:

6.1 The term of this Contract shall be from October 1, 2000 through September 30, 2002 and shall include the audits of **CITY's** records and accounts for the fiscal years ending September 30, 2000 and 2001, unless earlier termination shall occur pursuant to any of the provisions of this Contract. However, the parties acknowledge and agree that continuation of this Contract beyond September 30, 2001 is subject to and contingent upon an annual appropriation of funds by City Council.

II. STATE OF TEXAS SINGLE AUDIT

Pursuant to subsection 18.3, which provides that any change to local, state and federal rules, regulations or laws applicable to the **Contract** are automatically incorporated in the **Contract**, the parties acknowledge and agree that subsection 3.2 is hereby revised as follows:

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, Office of Management and Budget (OMB)

Circular A-133, the State of Texas Single Audit Circular, 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 Accounts 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 Standards 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**.

In accordance with subsection 18.3, any other change to local, state and federal rules, regulations or laws applicable to the **Contract** are hereby incorporated in the **Contract**, including but not limited to the provisions of Article XIV. COMPLIANCE, without further amendment.

III. CONTRACT PRICING AND BILLING

Pursuant to the provisions of subsection 6.3 which provides for the renewal and extension of the **Contract** for one additional two-year period, under the same terms and conditions, save and except compensation and fees, Article VII. CONTRACT PRICING AND BILLING, is hereby revised as follows:

7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsections 3.1 through 3.7, for fiscal year 2000 shall not exceed the amount of $252,000, and for fiscal year 2001 shall not exceed the amount of $263,000. Such fees are predicated on the expectation that the Finance Department of **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 1,500 hours of assistance to the annual audit process.

7.2 It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2000 shall not exceed $225,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $121,500
Garza/Gonzalez & Associates	--	an amount not to exceed $ 87,750
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 15,750

It is understood and agreed by the parties hereto that the total fee to be paid by **CITY** for services rendered by **CONTRACTOR**, as required by Article III, subsections 3.1 through 3.7, save and except for the fees paid in connection with the State of Texas Single Audit Circular, for the audit of fiscal year 2001 shall not exceed $235,000. It is further understood that this total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $126,900
Garza/Gonzalez & Associates	--	an amount not to exceed $ 91,650
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 16,450

7.3 The total of all payments and other obligations made and incurred by **CITY**, in consideration for services rendered by **CONTRACTOR** as required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, for fiscal year 2000 shall not exceed the amount of $27,000, and for fiscal year 2001 shall not exceed the amount of $28,000.

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $27,000 for fiscal year 2000, and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 7,975
Garza/Gonzalez & Associates	--	an amount not to exceed $ 17,975
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,050

It is understood and agreed by the parties hereto that the total fee for the services required by Article III, subsection 3.2, in connection with the State of Texas Single Audit Circular, shall not exceed $28,000 for fiscal year 2001,and that said total fee will be paid as follows:

KPMG LLP	--	an amount not to exceed $ 8,285
Garza/Gonzalez & Associates	--	an amount not to exceed $ 18,640
Robert J. Williams, C.P.A.	--	an amount not to exceed $ 1,075

7.4 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, and all other **CONTRACTOR** expenses necessary to complete the services stated in this **Contract** shall be borne at **CONTRACTOR**'s sole cost and expense.

7.5 Progress billings for the annual fee established herein, in subsections 7.1 through 7.3, will be rendered by the **CONTRACTOR** to **CITY** and detailed as to the amount due each of the **CPA CONTRACTORS**. Upon receipt of such billing statements, the amount due will be paid by **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, Federal Single Audit Report, the State Single Audit Report, and Management Letter have been completed.

7.6 In the event that **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 established in subsections 7.1 and 7.3 without formal written revision of this **Contract** and related City Council approval.

7.7 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. 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.

IV. INSURANCE AND INDEMNITY

CONTRACTOR agrees to comply with the insurance requirements as stated in Article XV. INSURANCE of the **Contract** and to retain the required coverages during the term of this Renewal and Extension. **CONTRACTOR** further agrees to indemnify **CITY** in accordance with the terms of Article XVI. INDEMNITY of the **Contract**.

V. SIGNATURES AND AUTHORIZED PERSONNEL

The parties acknowledge and agree that the name of KPMG Peat Marwick LLP has been changed to KPMG LLP. As such, all references to "KPMG Peat Marwick LLP" in the **Contract** are hereby revised to reflect said name change to "KPMG LLP".

In addition, the parties acknowledge and agree that from time-to-time **CITY** revises its list of **CITY** personnel authorized to execute documents, receive notice and perform certain functions under the provisions of the **Contract**. As such, all references to "Nora W. Chávez-Barrera" in the **Contract**, are hereby revised to reflect said change in personnel and function to "Octavio Peña".

VI. SAME TERMS AND CONDITIONS

All other terms, conditions, covenants and provisions of the Audit Services Contract ("**Contract**") approved by Ordinance No. 87006 on November 20, 1997 are hereby renewed and extended, save and except for the Articles and subsections provided for herein, which the undersigned parties agree are hereby modified.

EXECUTED AND AGREED TO this _____ day of _____, 2000.

CITY
City of San Antonio

_____
Alexander E. Briseño,
City Manager

CONTRACTOR
Robert J. Williams, CPA

_____
Robert J. Williams,
Certified Public Accountant

APPROVED AS TO FORM:

_____
Frank J. Garza,
City Attorney

CITY OF SAN ANTONIO
Finance Department
Interdepartmental Memorandum

CONSENT AGENDA
ITEM NO. 40

TO: Mayor and City Council
FROM: Octavio Peña, CPA, Director, Finance Department
COPIES: Alexander E. Briseño, City Manager; Terry Brechtel, Executive Director of Administrative and Financial Services; Frank Garza, City Attorney; David Griffith, Director, Office of Internal Review; file
SUBJECT: Renewal and Extension of Independent Audit and Related Services Contract

DATE: August 11, 2000

SUMMARY AND RECOMMENDATION

This ordinance renews and extends the Audit Services Contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA. The Council Audit Committee convened on Monday, August 7, 2000 and concurred with staff recommendation to renew and extend, for one additional two year period, the Audit Services Contracts with the Firms KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to provide the City with independent audit services for the fiscal years 2000 and 2001. Staff recommends approval of this ordinance.

BACKGROUND

The City Charter and Texas Local Government Code require that an annual audit of the City's financial records be performed by independent certified public accountants. Additionally, independent single audits are required by the State of Texas Single Audit Circular, Federal Single Audit Act and related OMB Circular A-133.

Ordinance 87006, passed and approved on November 20, 1997, authorized the execution of contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA to provide independent audit and related services for fiscal years 1997, 1998 and 1999, with an option to extend the contract, with City Council approval, for one (1) additional two (2) year period. The City's financial audit and federal single audit was provided at a cost of $203,000 in year one, $209,000 in year two, and $215,000 in year three. It is important to note that the City has received the Certificate of Achievement for Excellence in Financial reporting, the highest form of recognition for financial reporting, for the last (23) twenty-three years.

This renewal and extension also amends and increases the scope of services of the original contract to include the newly issued audit requirements of the State of Texas Single Audit Circular, which was previously covered under the contingent additional services provisions of the Audit Services Contract. This Circular sets standards for obtaining consistency and uniformity among state agencies for the coordinated audit of local governments expending any state awards. The issuance of the new circular was effective October 1, 1997, and resulted in contingent additional services under the Audit Services Contract, and additional fees for fiscal years 1998 and 1999 in the amounts of $27,475 and $26,075, respectively. This resulted in total audit fees of $236,475 for fiscal year 1998 and $241,075 for fiscal year 1999.

Historically, the participation rates between the auditors, with respect to the financial audit and federal single audit, have been 55% for KPMG LLP, 40% for Garza/Gonzalez & Associates, and 5% for Robert J. Williams, CPA. However, in order to provide Robert J. Williams, CPA a higher level of participation in the financial and federal single audit, the participation rates have been amended to reflect the following: 54% for KPMG LLP, 39% for Garza/Gonzales & Associates, and 7% for Robert J. Williams.

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 the renewal and extension of this contract, 1,500 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 for fiscal year 2000 and fiscal year 2001 will be $252,000 and $263,000, respectively. Fees include assistance from the Office of Internal Review, and are subject to annual appropriation. Audit fees for the fiscal year 2000 audit will be paid from the Fiscal Year 2001 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 written estimates and hourly rates on a case by case basis, and are subject to annual appropriation.

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 and the City Attorney's Office.

SUPPLEMENTAL COMMENTS

The required ethics disclosure forms required by this Ordinance are attached.

Octavio Peña, CPA
Director
Finance Department

APPROVED:

Terry Brechtel
Executive Director of Administrative
and Financial Services

Alexander E. Briseño
City Manager

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosure of Parties, Owners, and Closely Related Persons
For the purpose of assisting the city in the enforcement of provisions contained in the City Charter and the code of ethics, an individual or business entity seeking a discretionary contract from the city is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any individual who would be a party to the discretionary contract;

NONE

(2) the identity of any business entity that would be a party to the discretionary contract:
KPMG LLP and the name of:

(A) any individual or business entity that would be a subcontractor on the discretionary contract;

NONE

(B) any individual or business entity that is known to be a partner, or a parent or subsidiary business entity, of any individual or business entity who would be a party to the discretionary contract;

Michael W. O'Brien will be the KPMG engagement partner for the audit of the City. Park Pearson is the managing partner of KPMG's San Antonio office. Other KPMG partners in the San Antonio office are: Walter Belt, Warren Zaccaro, Fred Bartz, Jorge Del Alamo, Mark Frye, Paul Nadeau and Dan Slattery. KPMG LLP also has over 1000 other partners in various offices throughout the United States.

The audit services subject to this contract will be jointly performed with Garza/Gonzalez and Associates and Robert J. Williams, CPA.

(3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

NONE

Political Contributions
Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars ($100) or more within the past twenty-four (24) months made directly or indirectly to any member of City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
Tim Bannwolf	**$250**	**March 21, 2000**
Tim Bannwolf	**$250**	**September 29, 1999**
Tim Bannwolf	**$250**	**March 22, 1999**
Tim Bannwolf	**$150**	**November 12, 1998**
Howard Peak	**$150**	**November 12, 1998**

AUG-11-2000 16:47 KPMG LLP P 512 3200621 P.02/04

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Robert Marbut	**$100**	**April 21, 1999**
Robert Marbut	**$100**	**August 15, 1998**

AUG-11-2000 16:47 KPMG LLP P 512 3200621 P.03/04

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question[1] as to whether any city official would violate Section 1 of Part B by participating in official action relating to the discretionary contract.

NONE		
Signature: Mike O'Brien	**Title: PARTNER** **Company: KPMG LLP**	**Date: August 11, 2000**

[1] For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosure of Parties, Owners, and Closely Related Persons

For the purpose of assisting the city in the enforcement of provisions contained in the City Charter and the code of ethics, an individual or business entity seeking a discretionary contract from the city is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any individual who would be a party to the discretionary contract;

Robert J Williams

(2) the identity of any business entity that would be a party to the discretionary contract:
Robert J Williams CPA and the name of:

(A) any individual or business entity that would be a subcontractor on the discretionary contract;

None

(B) any individual or business entity that is known to be a partner, or a parent or subsidiary business entity, of any individual or business entity who would be a party to the discretionary contract;

None

(3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

None

Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars ($100) or more within the past twenty-four (24) months made directly or indirectly to any member of City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
None	—	N/A

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question[1] as to whether any city official would violate Section 1 of Part B by participating in official action relating to the discretionary contract.

None		
Signature: Robert J Williams	**Title:** Principal **Company:** Robert J Williams CPA	**Date:** August 10, 2000

[1] For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosure of Parties, Owners, and Closely Related Persons

For the purpose of assisting the city in the enforcement of provisions contained in the City Charter and the code of ethics, an individual or business entity seeking a discretionary contract from the city is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any individual who would be a party to the discretionary contract;

N/A

(2) the identity of any business entity that would be a party to the discretionary contract: _____ and the name of:

(A) any individual or business entity that would be a subcontractor on the discretionary contract;

None

(B) any individual or business entity that is known to be a partner, or a parent or subsidiary business entity, of any individual or business entity who would be a party to the discretionary contract;

Gregory R. Garza
Rene E. Gonzalez
Dora Ann Verde
Eleazar Mendoza

(3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

None

Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars ($100) or more within the past twenty-four (24) months made directly or indirectly to any member of City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:

City of San Antonio
Discretionary Contracts Disclosure

For use of this form, see City of San Antonio Ethics Code, Part D, Section 1&2
Attach additional sheets if space provided is not sufficient

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question[1] as to whether any city official would violate Section 1 of Part B by participating in official action relating to the discretionary contract.

None		
Signature: Gregory R. Garza, CPA	**Title:** Partner **Company:** Garza/Gonzalez & Associates Certified Public Accountants	**Date:** 8/11/00

To Whom Made	Amount	Date of Contribution
Debra Guerrero	$ 100.00	July 1998
Jose Menendez	150.00	September 1998
Raul Prado	200.00	September 1998
Mario Salas	200.00	October 1998
Debra Guerrero	200.00	February 1999
Raul Prado	250.00	September 1999
	$ 1,100.00	

[1] For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

DO NOT TYPE IN THIS SPACE

CITY OF SAN ANTONIO

Request For Ordinance/Resolution

Date: Friday, August 11, 2000	Department: Finance Department	Contact Person/Phone #: Troy Elliott 207-8604
Date Council Consideration Requested: Thursday, August 24, 2000	Deadline for Action: August 31, 2000	Dept. Head Signature

SUMMARY OF ORDINANCE

This ordinance renews and extends the Audit Services Contracts with KPMG LLP, Garza/Gonzalez & Associates, and Robert J. Williams, CPA, for one additional two year period to provide the City with independent audit services for the fiscal years 2000 and 2001. Annual audit fees for fiscal year 2000 and fiscal year 2001 will be $252,000 and $263,000, respectfully.

Council Memorandum Must be Attached To Original

Other Depts., Boards, Committees Involved (please specify):
City Council Audit Committee City Attorney's Office, Office of Internal Review

Contract signed by other party
Yes ☐ No ☒

FISCAL DATA (If Applicable)

Fund No.	11	Amt. Expended	252,000	Funds/Staffing Budgeted	Yes ☐ No ☐
Activity No.	80-02-06	SID No.		Positions Currently Authorized	
Index Code	419226	Project No.		Impact of future O & M	
Object Code	**02-160**				

Comments:

If positions added, specify class and no.

Coordinator - White
Legal - Green
Budget - Canary
Finance - Pink
Originator - Gold

KPMG

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

Telephone 210 227 9272
Fax 210 224 0126
210 227 4707

September 11, 2001

92385
9-20-01

Mr. Milo Nitschke
Acting Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

Dear Milo:

KPMG 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, as amended by ordinance 92385 dated August 24, 2000, 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, 2001, to report in accordance with OMB Circular A-133 and also to report in accordance with the provisions of the State of Texas Single Audit Circular. 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 general purpose financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the general purpose financial statements.

KPMG LLP KPMG LLP a U.S. limited liability partnership, is a member of KPMG International a Swiss association

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

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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.

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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.

In accordance with *Government Auditing Standards*, will prepare a written report on our consideration of internal control and tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB Circular A-133

We will also perform auditing procedures on the City's major 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 audit 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. 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.

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 the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and 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) provides 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 major federal 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 (Part I).

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 OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the Federal granting agency is willing to pay the incremental cost of such a selection. The City agrees to notify KPMG LLP of any such request by a granting agency and to work with KPMG LLP to modify the terms of this letter as necessary to accommodate such requests.

State of Texas Single Audit Circular - State Grant Programs Single Audit

We will perform audit procedures with respect to the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular which is part of the *Uniform Grant Management Standards* (UGMS). The UGMS includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the UGMS, 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, regulations, contracts and grants applicable to each of the City's major state award programs. The tests of internal control performed in accordance with the UGMS are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to state award programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the provisions of the UGMS and the state grant award programs selected for our test work.

As required by the UGMS, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of state awards in relation to the City's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the UGMS requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to state programs as discussed above, the UGMS also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective action plan

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

Certain provisions of the UGMS allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP ("KPMG") of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such requests.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls 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.

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

It should be understood the workpapers 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 and state 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, except for the fees in connection with the State of Texas Single Audit Circular, we estimate that the total fee for the above described services will be $235,000, including expenses, of which 54% ($126,900) will be paid to KPMG LLP, 39% ($91,650) will be paid to the firm of Garza/Gonzalez & Associates, and 7% ($16,450) will be paid to the firm of Robert J. Williams, CPA. We estimate that the total fees associated with the State of Texas Single Audit Circular will be $28,000, including expenses, of which $8,285 will be paid to the firm of KPMG LLP, $18,640 will be paid to the firm of Garza/Gonzalez & Associates, and $1,075 will be paid to the firm of Robert J. Williams, CPA.

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, except for the additional granting agency's requirements noted above.

* * * * *

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.

Sincerely,

KPMG LLP

Mike O'Brien

Michael W. O'Brien
Partner

MWO:bh
Enclosure

ACCEPTED

City of San Antonio

Milo Nitschke

Authorized Signature

Finance Director

Title

9-13-02

Date

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

January 22, 2002

Mr. Milo Nitschke
Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

GARZA/GONZALEZ
& associates

Dear Mr. Nitschke:

KPMG LLP, Garza/Gonzalez & Associates (G/G&A), and Robert J. Williams, CPA (collectively "CPA Contractors") are being engaged in accordance with the Audit Services Contract dated November 20, 1997, as amended by ordinance 92385 dated August 24, 2000 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, 2001, to report in accordance with OMB Circular A-133 and also to report in accordance with the provisions of the State of Texas Single Audit Circular. 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 auditing service 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 general purpose financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the general purpose financial statements.

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

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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,

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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.

In accordance with *Government Auditing Standards,* will prepare a written report on our consideration of internal control and tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB Circular A-133

We, will also perform auditing procedures on the City's major 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 audit procedures performed in accordance with the provisions of 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. 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.

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 the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and 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) provides 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 major federal 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 (Part 1).

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

State of Texas Single Audit Circular – State Grant Programs Single Audit

We will perform auditing procedures with respect to the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular which is a part of the *Uniform Grant Management Standards (UGMS)*. UGMS includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants that exceed those required by *Government Auditing Standards.*

As part of our audit procedures performed in accordance with the provisions of the UGMS, 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, regulations, contracts and grants applicable to each of the City's major State programs. The tests of internal control performed in accordance with the UGMS are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to state award programs is the responsibility of management. We will perform the tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the provisions of the UGMS and the state grant award programs selected for our test work.

As required by the UGMS, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of state awards in relation to the City's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the UGMS requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to state programs as discussed above, the UGMS also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective action plan.

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

Certain provisions of the UGMS allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify G/G&A of any such request by a granting agency and to work with G/G&A to modify the terms of this letter as necessary to accommodate such requests.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls 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 G/G&A 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.

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

It should be understood the workpapers 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 workpapers available to federal and state regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested workpapers 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, except for the fees in connection with the State of Texas Single Audit Circular, we estimate that the total fee for the above described services will be $235,000, including expenses, of which 54% ($126,900) will be paid to KPMG LLP, 39% ($91,650) will be paid to the firm of Garza/Gonzalez & Associates, and 7% ($16,450) will be paid to the firm of Robert J. Williams, CPA. We estimate that the total fees associated with the State of Texas Single Audit will be $28,000, including expenses, of which $8,285 will be paid to the firm of KPMG LLP, $18,640 will be paid to the firm of Garza/Gonzalez & Associates, and $1,075 will be paid to the firm of Robert J. Williams, CPA.

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 with City personnel to establish specific timetables for our work, progress billings and payments, except for the additional granting agency's requirements noted above.

* * * * *

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.

Sincerely,

Gregory R. Garza, CPA
Senior Partner

GRG:myh

ACCEPTED:

Milo Nitschke
Authorized Signature

Finance Director
Title

2-13-02
Date

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

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B. BUMGARDNER, CPA
PARTNER EMERITUS
JACK C. FITZGERALD, CPA

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

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

August 25, 2000

Peer Review Report

Garza, Gonzalez & Associates
Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Garza, Gonzalez & Associates, Certified Public Accountants, (the firm) in effect for the year ended May 31, 2000. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

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

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

In our opinion, the system of quality control for the accounting and auditing practice of Garza, Gonzalez & Associates, Certified Public Accountants, in effect for the year ended May 31, 2000, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Bumgardner, Morrison + Company, LLP

"Providing High-Quality Professional Service with Personal Care"

RJW

COPY

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

February 12, 2002

Mr. Milo Nitschke
Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

Dear Milo:

KPMG 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, as amended by ordinance 92385 dated August 24, 2000, 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, 2001, to report in accordance with OMB Circular A-133 and also to report in accordance with the provisions of the State of Texas Single Audit Circular. 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 general purpose financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the general purpose financial statements.
An audit is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit performed in accordance with generally accepted auditing standards. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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.

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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.

In accordance with *Government Auditing Standards*, will prepare a written report on our consideration of internal control and tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB Circular A-133

We will also perform auditing procedures on the City's major 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 audit 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. 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.

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 the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and 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) provides 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 major federal 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 (Part I).

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

State of Texas Single Audit Circular - State Grant Programs Single Audit

We will perform audit procedures with respect to the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular which is part of the *Uniform Grant Management Standards* (UGMS). The UGMS includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the UGMS, 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, regulations, contracts and grants applicable to each of the City's major state award programs. The tests of internal control performed in accordance with the UGMS are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to state award programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the provisions of the UGMS and the state grant award programs selected for our test work.

As required by the UGMS, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of state awards in relation to the City's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the UGMS requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to state programs as discussed above, the UGMS also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective action plan

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

Certain provisions of the UGMS allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from such 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 Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls 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.

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

It should be understood the workpapers 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 and state 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, except for the fees in connection with the State of Texas Single Audit Circular, we estimate that the total fee for the above described services will be $235,000, including expenses, of which 54% ($126,900) will be paid to KPMG LLP, 39% ($91,650) will be paid to the firm of Garza/Gonzalez & Associates, and 7% ($16,450) will be paid to the firm of Robert J. Williams, CPA. We estimate that the total fees associated with the State of Texas Single Audit Circular will be $28,000, including expenses, of which $8,285 will be paid to the firm of KPMG LLP, $18,640 will be paid to the firm of Garza/Gonzalez & Associates, and $1,075 will be paid to the firm of Robert J. Williams CPA.

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, except for the additional granting agency's requirements noted above.

* * * * *

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.

Sincerely,

Robert J Williams CPA

Robert J Williams
Principal

Enclosure

ACCEPTED

City of San Antonio

Authorized Signature

Finance Director
Title

2-13-02
Date

ADKF

AKIN DOHERTY KLEIN & FEUGE
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
8610 NORTH NEW BRAUNFELS, SUITE 101
SAN ANTONIO, TEXAS 78217
TELEPHONE: 210 829-1300
FAX: 210 829-4080

THOMAS A. AKIN
DAVID J. DOHERTY
HOWARD H. KLEIN, JR.
JOSEPH V. FEUGE, II

Peer Review Report

November 15, 1999

To the Owner
Robert J. Williams, Certified Public Accountant

We have reviewed the system of quality control for the accounting and auditing practice of Robert J. Williams, Certified Public Accountant (the firm) in effect for the year ended November 30, 1998. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

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

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

In our opinion, the system of quality control for the accounting and auditing practice of Robert J. Williams, Certified Public Accountant in effect for the year ended November 30, 1998, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Akin, Doherty, Klein & Feuge

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

Peer Review Program
American Institute of Certified Public Accountants
Administered by the
Texas Society of CPAs

AICPA

FINAL ACCEPTANCE LETTER

January 28, 2000

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

Dear Mr. Williams:

It is my pleasure to notify you that on January 24, 2000 the Texas Society of CPAs 1999-00 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, 2002. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Jerry L. Cross, CPA
Director,
Peer Review

cc: Thomas Allen Akin, CPA

Firm Number: 10108962 Review Number: 133546

14860 Montfort Drive, Suite 150, Dallas, TX 75240-6718 • (972) 687-8500 • (800) 428-0272 • fax (972) 687-8575

The CPA. Never Underestimate The Value.

111 Congress Avenue
Suite 1100
Austin, TX 78701

Telephone 512 320 5200
Fax 512 320 5100

January 8, 2001

Mr. Ben Gorzell, CPA
Assistant Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

Dear Ben:

KPMG 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, as amended by ordinance 92385 dated August 24, 2000, 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, 2000, to report in accordance with OMB Circular A-133 and also to report in accordance with the provisions of the State of Texas Single Audit Circular. 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 general purpose financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of our opinion concerning whether the general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We can not provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the general purpose financial statements.

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

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

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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.

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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.

In accordance with *Government Auditing Standards*, will prepare a written report on our consideration of internal control and tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB Circular A-133

We will also perform auditing procedures on the City's major 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 audit 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. 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.

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 the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and 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) provides 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 major federal 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 (Part I).

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 OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the Federal granting agency is willing to pay the incremental cost of such a selection. The City agrees to notify KPMG LLP of any such request by a granting agency and to work with KPMG LLP to modify the terms of this letter as necessary to accommodate such requests.

State of Texas Single Audit Circular - State Grant Programs Single Audit

We will perform audit procedures with respect to the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular which is part of the *Uniform Grant Management Standards* (UGMS). The UGMS includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the UGMS, 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, regulations, contracts and grants applicable to each of the City's major state award programs. The tests of internal control performed in accordance with the UGMS are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to state award programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the provisions of the UGMS and the state grant award programs selected for our test work.

As required by the UGMS, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of state awards in relation to the City's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the UGMS requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to state programs as discussed above, the UGMS also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective action plan

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

Certain provisions of the UGMS allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP ("KPMG") of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such requests.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls 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.

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

It should be understood the workpapers 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 and state 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, except for the fees in connection with the State of Texas Single Audit Circular, we estimate that the total fee for the above described services will be $225,000, including expenses, of which 54% ($121,500) will be paid to KPMG LLP, 39% ($87,750) will be paid to the firm of Garza/Gonzalez & Associates, and 7% ($15,750) will be paid to the firm of Robert J. Williams, CPA. We estimate that the total fees associated with the State of Texas Single Audit Circular will be $27,000, including expenses, of which $7,975 will be paid to the firm of KPMG LLP, $17,975 will be paid to the firm of Garza/Gonzalez & Associates, and $1,050 will be paid to the firm of Robert J. Williams, CPA.

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, except for the additional granting agency's requirements noted above.

* * * * *

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.

Sincerely,

KPMG LLP

Mike O'Brien

Michael W. O'Brien
Partner

MWO:rd
Enclosure

ACCEPTED

City of San Antonio

Mike Mitchell
Authorized Signature

Acting Dir of Fin
Title

3/15/01
Date

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

February 1, 2001

Mr. Ben Gorzell
Assistant Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

GARZA/GONZALEZ
& associates

Dear Mr. Gorzell:

KPMG LLP, Garza/Gonzalez & Associates (G/G&A), and Robert J. 'Williams, CPA. (collectively "CPA Contractors") are being engaged in accordance with the Audit Services Contract dated November 20, 1997 and Renewal and Extension dated August 24, 2000 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, 2000 and to also report in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular. 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 III, subsections 7.1 through 7.3 of the Renewal and Extension. 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 general purpose 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 general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We can not provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or, withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable, assurance against the possibility of misstatements that are material to the general purpose financial statements.

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

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgement causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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,

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. 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.

In accordance with *Government Auditing Standards,* will prepare a written report on our consideration of internal control and tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB **Circular** A-133

We, will also perform auditing procedures on the City's major 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 audit procedures performed in accordance with the provisions of OMB Circular A133, 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. 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.

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 the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and 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) provides 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 major federal 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 (Part 1).

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

State of Texas Single Audit Circular

We will also perform auditing procedures on the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular which is a part of the Uniform Grant Management Standards. The State of Texas Single Audit Circular 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 audit procedures performed in accordance with the provisions of the State of Texas Single Audit Circular, 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 State programs. The tests of internal control performed in accordance with the State of Texas Single Audit Circular are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants that govern state 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 the State of Texas Single Audit Circular and the state grant programs selected for our test work.

As required by the State of Texas Single Audit Circular, we will prepare a written report to the Mayor and City Council which provides (1) our opinion on the schedule of expenditures of state awards in relation to the financial statements taken as a whole, (2) provides our opinion on the City's compliance with laws, regulations, contracts and grant agreements that have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the State of Texas Single Audit Circular requirements to maintain internal control and comply with laws, regulations, contracts and grants that govern state award programs as discussed above, the State of Texas Single Audit Circular also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective Action Plan.

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 the State of Texas Single Audit Circular allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify G/G&A of any such request by a granting agency and to work with G/G&A to modify the terms of this letter as necessary to accommodate such requests.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts arid grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls 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 G/G&A 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.

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

It should be understood the workpapers 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 workpapers available to federal and state regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested workpapers 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, except for the additional compliance requirements noted above, we estimate that the total fee for the above described services will be $252,000, including expenses, of which $129,475 will be paid to KPMG LLP, $105,725 will be paid to the firm of Garza/Gonzalez & Associates, and $16,800 will be paid to the firm of Robert J. Williams, CPA.

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 with City personnel to establish specific timetables for our work, progress billings and payments, except for the additional granting agency's requirements noted above.

* * * * *

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.

Sincerely,

Gregory R. Garza, CPA
Senior Partner

GRG:myh

ACCEPTED:

Authorized Signature

Acting Dir of Fin
Title

3/15/01
Date

"Providing High-Quality Professional Service with Personal Care"

RJW

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

January 4, 2001

Mr. Ben Gorzell, CPA
Assistant Director of Finance
City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966

Dear Ben:

KPMG 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, as amended by ordinance 92385 dated August 24, 2000, 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, 2000, to report in accordance with OMB Circular A-133, and to also report in accordance with the provisions of the State of Texas Single Audit Circular. 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 the 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 general purpose 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 general purpose financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the Mayor and City Council of the City. We can not provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the Mayor and City Council.

Should the City wish to include these financial statements in a document offering securities and request that we agree to include our report on these financial statements in the offering document, we would consider agreeing to the inclusion of our report at that time.

The management of the City has responsibility for the general purpose financial statements and all representations contained therein. Management also has responsibility for the adoption of sound accounting policies and the implementation of record keeping and internal control to maintain the reliability of the general purpose financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the general purpose financial statements.

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

To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Mayor and City Council about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the City, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Mayor and City Council.

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 general purpose financial statements and not to provide assurance on internal control. Our consideration of internal control performed as part of the general purpose 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.

Management is responsible for compliance with laws, regulations, contracts and grants applicable to the City. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, 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.

In accordance with *Government Auditing Standards*, we will prepare a written report on our consideration of internal control tests of compliance made as part of the general purpose financial statement audit. This report will include any reportable conditions that come to our attention. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

OMB Circular A-133

We will also perform auditing procedures on the City's major 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 audit 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 the laws and regulations applicable to each of the City's major programs. 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.

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 determined to be necessary based on the OMB Circular A-133 Compliance Supplement (Compliance Supplement). 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.

As required by OMB Circular A-133, we will prepare a written report to the Mayor and City Council which (1) provides our opinion on the schedule of expenditures of federal awards in relation to the financial statements taken as a whole, (2) provides 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 major federal 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 program 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 (Part I).

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

State of Texas Single Audit Circular – State Grant Programs Single Audit

We will perform audit procedures with respect to the City's major state award programs in accordance with the provisions of the State of Texas Single Audit Circular, which is part of the *Uniform Grant Management Standards* (UGMS). The UGMS includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grants that exceed those required by *Government Auditing Standards.*

As part of our audit procedures performed in accordance with the provisions of the UGMS, 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, regulations, contracts and grants applicable to each of the City's major state award programs. The tests of internal control performed in accordance with UGMS are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts and grants applicable to state award programs is the responsibility of management. We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grants we determine to be necessary based on the provisions of the UGMS and the state grant award programs selected for our test work.

As required by the UGMS, we will prepare a written report which (1) provides our opinion on the schedule of expenditures of state awards in relation to the City's financial statements taken as a whole, (2) provides our opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major state award program and (3) communicates our consideration of internal control over major state award programs.

In addition to the UGMS requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to state programs as discussed above, the UGMS also requires the City to prepare a:

- Schedule of expenditures of state awards,
- Summary schedule of prior audit findings, and
- Corrective action plan

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

Certain provisions of the UGMS allow a granting agency to request that a specific program be selected as a major program provided that the granting agency is willing to pay the incremental audit cost arising from the selection. The City agrees to notify RJW of any such request made by a granting agency and to work with RJW to modify the terms of this letter as necessary to accommodate such requests.

Other Engagement Issues

Our reports on internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Mayor and City Council, management of the City and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

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 internal controls and the City's compliance with certain laws and regulations, and obtain a representation letter from management about these matters.

The response 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.

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

It should be understood that workpapers 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 and state 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 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 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, with the exception of fees in connection with the State of Texas Single Audit Circular, we estimate that the total fee for the above described services will be $225,000, including expenses, of which 54% ($121,500) will be paid to KPMG LLP, 39% ($87,750) will be paid to the firm of Garza/Gonzalez & Associates, and 7% ($15,750) will be paid to the firm of Robert J. Williams CPA.

We estimate that the total fee associated with the State of Texas Single Audit Circular will be $27,000, including expenses, of which $7,975 will be paid to the firm of KPMG LLP, $17,975 will be paid to the firm of Garza/Gonzalez & Associates, and $1,050 will be paid to the firm of Robert J. Williams CPA.

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, except for the additional granting agency's requirements noted above.

* * * * *

We would be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclosed a copy of this letter. Please sign and return it to us. We are looking forward to working with you on this engagement.

Sincerely,

Robert J. Williams CPA

Robert J. Williams
Principal

RJW:ccw
Enclosure

ACCEPTED

City of San Antonio

Authorized Signature

Acting Dir of Fin
Title

3/15/01
Date

ADKF

AKIN DOHERTY KLEIN & FEUGE
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
8610 NORTH NEW BRAUNFELS, SUITE 101
SAN ANTONIO, TEXAS 78217
TELEPHONE: 210 829-1300
FAX: 210 829-4080

THOMAS A. AKIN
DAVID J. DOHERTY
HOWARD H. KLEIN, JR.
JOSEPH V FEUGE, II

Peer Review Report

November 15, 1999

To the Owner
Robert J. Williams, Certified Public Accountant

We have reviewed the system of quality control for the accounting and auditing practice of Robert J. Williams, Certified Public Accountant (the firm) in effect for the year ended November 30, 1998. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

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

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

In our opinion, the system of quality control for the accounting and auditing practice of Robert J. Williams, Certified Public Accountant in effect for the year ended November 30, 1998, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Akin, Doherty, Klein & Feuge

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

Peer Review Program
American Institute of Certified Public Accountants
Administered by the
Texas Society of CPAs

AICPA

FINAL ACCEPTANCE LETTER

January 28, 2000

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

Dear Mr. Williams:

It is my pleasure to notify you that on January 24, 2000 the Texas Society of CPAs 1999-00 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, 2002. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Jerry Cross

Jerry L. Cross, CPA
Director,
Peer Review

cc: Thomas Allen Akin, CPA

Firm Number: 10108962 Review Number: 133546

14860 Montfort Drive, Suite 150, Dallas, TX 75240-6718 • (972) 687-8500 • (800) 428-0272 • fax (972) 687-8575

The CPA. Never Underestimate The Value.