



**AGENDA ITEM REQUEST FORM
CITY OF JOHNSON CITY, TEXAS
CITY COUNCIL**

ITEM NO. 3

MEETING DATE: June 17, 2021

AGENDA PLACEMENT:

- Ceremonial
- Consent
- Individual
- Closed Session

CAPTION:

Discussion of and action on an Engagement Letter dated June 3, 2021 from Atchley & Associates, LLP for the audit of City financial statements for fiscal years ending September 30, 2020 through 2024 and authorizing the Chief Administrative Officer to execute said Engagement Letter on behalf of the City. (Auditor)

STRATEGIC WORK PLAN:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Not Applicable | <input type="checkbox"/> Goal 5: Improve Fire Safety |
| <input type="checkbox"/> Goal 1: Increase Housing Diversity | <input type="checkbox"/> Goal 6: Improve Streets |
| <input type="checkbox"/> Goal 2: Expand Quality Lodging | <input type="checkbox"/> Goal 7: Increase Publicity & Promotion of the Community |
| <input type="checkbox"/> Goal 3: Improve Code Enforcement | <input type="checkbox"/> Goal 8: Increase Economic Development Activities |
| <input type="checkbox"/> Goal 4: Improve Streetscaping & Signage | |

EXECUTIVE SUMMARY:

On June 1, 2021, the City Council selected Atchley & Associates, LLP as the City Auditor for fiscal years ending September 30, 2020 through September 30, 2024. City Staff negotiated the terms of the proposed Engagement Letter, and the City Attorney has reviewed and approved the Letter.

FINANCIAL:

FYE 2020 - \$16 - \$18,000
FYE 2021 - \$16,480 - \$18,540
FYE 2022 - \$16,975 - \$19,100
FYE 2023 - \$17,483 - \$19,670
FYE 2024 - \$18 - \$20,000

ATTACHMENTS:

- Engagement Letter

SUGGESTED ACTION:

Motion to approve an Engagement Letter dated June 3, 2021 from Atchley & Associates, LLP for the audit of City financial statements for fiscal years ending September 30, 2020 through 2024 and authorizing the Chief Administrative Officer to execute said Engagement Letter on behalf of the City.

PREPARED BY: City Staff

DATE SUBMITTED: 6/14/2021



June 3, 2021

Rick Schroder
Chief Administrative Officer
303 E. Pecan Drive
Johnson City, Texas 78636

This letter is to explain our understanding of the arrangements for the services that Atchley & Associates, LLP (the Firm) is to perform for City of Johnson City, Texas for the years ending September 30, 2020 through 2024. We ask that you either confirm or amend this understanding.

The Objective and Scope of the Audit of the Financial Statements

You have requested that we audit the financial statements of the City of Johnson City, Texas (the City), which comprise governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information as of and for the years ending September 30, 2020 through 2024, which collectively comprise the basic financial statements, and the required supplementary information of the statement of revenue, expenditures, and changes in fund balances – budget and actual, related notes, the schedule of changes in the City’s net pension asset/liability and related ratios – last ten years (unaudited), and the Texas municipal retirement system – schedule of funding progress (unaudited). We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the City Council (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds that you have told us are maintained by the City and that are to be included as part of our audit are listed here.

- General Fund
- Parks & Recreation Fund
- Interest & Sinking Fund
- Hotel Occupancy Tax Fund
- Water & Wastewater Utility Fund
- Court Jury Fund
- Debt Service Fund
- Utility Enterprise Fund
- Capital Replacement Fund
- Vehicle Equipment & Replacement Fund
- Court Technology & Security Funds
- Local Truancy & Prevention Fund

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circulars identified above. Our report(s) on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement, or loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;

- b. To evaluate subsequent events through the date the financial statements are issued or available to be issued, and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees that it will not evaluate subsequent events earlier than the date of the management representation letter referred to below;
- c. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
- d. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

- a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
- b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the supplementary information in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The City Council is responsible for informing us of its views about the risks of fraud within the City, and its knowledge of any fraud or suspected fraud affecting the City.

The City agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the City agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

Our association with an official statement is a matter for which separate arrangements will be necessary. The City agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the City seeks such consent, we will be under no obligation to grant such consent or approval.

We agree that our association with any proposed offering is not necessary, providing the City agrees to clearly indicate that we are not associated with the contents of any such official statement or memorandum. The City agrees that the following disclosure will be prominently displayed in any such official statement or memorandum:

Atchley & Associates, LLP, our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Atchley & Associates, LLP, also has not performed any procedures relating to this official statement.

Because the Firm will rely on the City and its management and City Council to discharge the foregoing responsibilities, the City holds harmless and releases the Firm, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the City's management which has caused, in any respect, the Firm's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

The City's Records and Assistance

If circumstances arise relating to the condition of the City's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the City's books and records. The City will determine that all such data, if necessary, will be so reflected. Accordingly, the City will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by City personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Rick Schroder, Chief Administrative Officer. The

timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

If, in connection with our audit, you request us to perform accounting services necessary for the preparation of the financial statements (such as maintaining depreciation schedules, drafting the financial statements, etc.), you agree to designate an appropriate individual to oversee the services, make all management decisions involved in those services, evaluate the adequacy and results of the services, and accept responsibility for the results of the services.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate and completion of our work is based upon the following criteria:

- a. Anticipated cooperation from City personnel
- b. Timely responses to our inquiries
- c. Timely completion and delivery of client assistance requests
- d. Timely communication of all significant accounting and financial reporting matters
- e. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. We will notify you immediately of any circumstances we encounter which could significantly affect our initial estimate of fees, excluding direct out-of-pocket expenses, estimated to be for the audit services for the following fiscal years:

September 30, 2020 – \$16,000 to \$18,000
September 30, 2021 – \$16,480 to \$18,540
September 30, 2022 – \$16,975 to \$19,100
September 30, 2023 – \$17,483 to \$19,670
September 30, 2024 – \$18,000 to \$20,000

All other provisions of this letter will survive any fee adjustment. In accordance with our firm policies, work may be suspended if your account becomes sixty or more days overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If there is a change in scope of the audit or additional fees that will be incurred to complete the audit, we will communicate that separately with the City and negotiate those fees separately.

You may terminate the arrangement at any time by written notice to us. Termination for any reason will not affect your obligation to pay us for fees and expenses incurred prior to termination or in transferring files to and otherwise cooperating with any successor auditor. All provisions of this arrangement will survive termination or cancellation, except that (a) we will not have any obligation to

provide services after termination and (b) you will not have any obligation to pay us for any services that we perform after termination, except for costs incurred to cooperate with a successor auditor or regulatory agency subpoena or inquiry.

This agreement may be amended by the City or the Firm in writing during the term of the agreement.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the City agrees it will compensate the Firm for any additional costs incurred as a result of the City's employment of a partner or professional employee of the Firm.

In the event we are requested or authorized by the City or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the City, the City will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests. Any public request for documents, records or reports shall be forwarded to the City for proper response pursuant to the Texas Public Information Act.

In a legal action in which the Firm or its partners are not the defendants, we shall also be entitled to fees at \$400.00 per hour and reimbursements for testimony if we are subpoenaed as a witness in a subsequent litigation by third parties and such testimony involves the work we performed pursuant to this agreement. If we are ordered by a state or federal judge to permit the subsequent inspection and/or reproduction of files, records, and other documents relating to work performed by us pursuant to this agreement, then you agree that we may comply with these orders without prior notice to you.

Claim Resolution

The City and the Firm agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by the Firm or the date of this arrangement letter if no report has been issued. The City waives any claim for punitive damages. The Firm's liability for all claims, damages and costs of the City arising from this engagement is limited to the amount of fees paid by the City to the Firm for the services rendered under this arrangement letter.

Indemnification is intended to protect the Firm and its principals and employees against being named in any lawsuit arising from this engagement as a result of having completed this engagement. You shall indemnify, to the extent permitted by state law, the Firm and its principals and employees and hold us harmless from all claims, liabilities, losses, counsel fees and expenses for actions as a result of the City's negligence, and unless it shall have been determined by a court of competent jurisdiction that we have acted negligently in the performance of the work covered by our engagement. In no event shall the Firm and its principals and employees be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.) even if we have been advised of their possible existence.

If a dispute arises out of or relates to this contract or engagement letter, or the obligations of the parties therein, and if the dispute cannot be settled through negotiation, the parties agree first to try in good

faith to settle the dispute by mediation using the Commercial Mediation Rules of the American Arbitration Association (AAA) before resorting to arbitration, litigation, or some other dispute resolution procedure. Thereafter, any unresolved controversy or claim arising from or relating to this contract or the obligations of the parties hereunder shall be settled by arbitration administered using the American Arbitration Association or another mutually agreeable arbitration service using the AAA Arbitration Rules for Professional Accounting and Related Services Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Each party shall be responsible for their own expenses, fees and costs arising from arbitration, litigation or other dispute resolution procedure.

Reporting

We will issue a written report upon completion of our audit of the City's financial statements. Our report will be addressed to the Mayor and Members of the City Council of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. Prior to issuance of a written report, the Firm shall review and discuss the report and the management audit letter (if applicable) with the Chief Administrative Officer.

This letter constitutes the complete and exclusive statement of agreement between the Firm and the City, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

Please sign and return a copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.



Atchley & Associates, LLP

Confirmed on behalf of City of Johnson City, Texas:

Rick Schroder
Chief Administrative Officer

Date