

# MEMORANDUM

**DATE:** September

**TO:** Mayor Lankford & City Council

**VIA:** Mercy Rushing, City Manager

**FROM:** Cindy Karch, City Secretary *CK*

**SUBJECT:** Discuss and consider action on a Letter of Engagement to retain BrooksWatson & Co. for audit services for fiscal years 2022, 2023 & 2024.

## Council Meeting Agenda Item for September 19, 2022

### Background Information:

The city did an RFQ for auditor in 2016 and engaged BrooksWatson & Co, PLLC (formerly BrooksCardiel PLLC) for three years at the following rates:

| Fiscal Year | Contract Amount | Percent Inc |
|-------------|-----------------|-------------|
| 2016        | \$20,950        |             |
| 2017        | \$21,550        | 3%          |
| 2018        | \$22,125        | 3%          |

At the end of that term, the city entered into another agreement:

| Fiscal Year | Contract Amount | Percent Inc |
|-------------|-----------------|-------------|
| 2019        | \$22,500        | 2%          |
| 2020        | \$23,250        | 3%          |
| 2021        | \$24,000        | 3%          |

This contract the amounts will be:

| Fiscal Year | Contract Amount | Percent Inc |
|-------------|-----------------|-------------|
| 2022        | \$25,000        | 4%          |
| 2023        | \$25,750        | 3%          |
| 2024        | \$26,500        | 3%          |

When the city initially did the RFQ, the intention was to submit an RFQ every three to five years and change audit forms. However, we have been so pleased with BrooksWatson that I did not think about doing an RFQ this year. They are based out of Houston Texas, but work primarily remotely. We are able to submit all of their requested documentation via a secure online portal

in a time frame that fits our schedules. We visit with them regularly with questions or ask their opinions/recommendations at no extra charge. They are very thorough and write our CAFR each year, ensuring that we are in compliance with GAAB and other laws/regulations. And most importantly, they present their findings to the council in an open meeting. If you'll remember, the previous auditors' annual fee was above \$40,000 and they charged per hour for any additional assistance outside of the annual audit.

**Recommendation:**

I recommend the council retain BrooksWatson LLC for another three years, then before the end of that period issue an RFQ for audit services and consider retaining a new auditor.

**Final Disposition:**



September 8, 2022

The City of Mineola  
300 Greenville Highway  
Mineola, TX 75773

The following represents our understanding of the services we will provide the City of Mineola, Texas, (the "City").

You have requested that we audit the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Mineola, Texas as of September 30, 2022 through 2024, and for the years then ended and the related notes, which collectively comprise City of Mineola, Texas' basic financial statements as listed in the table of contents. 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 each opinion unit applicable to those basic financial statements.

Accounting principles generally accepted in the United States of America require that supplementary information, such as management's discussion, and analysis, pension information, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI.

The following RSI is required by accounting principles generally accepted in the United States of America. This RSI will be subjected to certain limited procedures but will not be audited:

- 1) Management's discussion and analysis
- 2) Budgetary Comparison Schedules
- 3) Pension and OPEB schedules

Supplementary information other than RSI will accompany the City of Mineola, Texas' basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

- 1) Combining statements

### **Auditor Responsibilities**

We will conduct our audit in accordance with GAAS. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 entity'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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent

the underlying transactions and events in a manner that achieves fair presentation.

- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

### **Compliance with Laws and Regulations**

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

### **Management Responsibilities**

Our audit will be conducted on the basis that management and, when appropriate, City Council, acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
3. To provide us with:
  - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
  - ii. Additional information that we may request from management for the purpose of the audit;
  - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

4. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by us;
5. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
6. For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
7. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
8. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
9. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
10. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management and, when appropriate, City Council, written confirmation concerning representations made to us in connection with the audit.

Additional terms and conditions with respect to the audit engagement are as follows:

- a. The books are maintained, and financial statements are prepared using the GAAP (accrual and modified accrual) basis of accounting as appropriate depending on the type of fund.
- b. All questionnaires and schedules need are provided within the timeline indicated.
- c. All bank accounts have been reconciled to the bank statements and general ledger.
- d. The accounts receivable aging schedules are completed and reconciled to the general ledger as of fiscal year end and reflects only the specific uncollected amounts.

- e. The capital assets and depreciation schedule(s) are completed and reconciled to the general ledger as of fiscal year end.
- f. The accounts payable aging schedules are completed and reconciled to the general ledger as of fiscal year end.
- g. The beginning fund balances agrees to the prior year report.

These are the minimum items we must have at least one week prior to the beginning of the fieldwork for our audit. Should this not be the case, we will request that your personnel complete all schedules and bring the necessary accounts into such order. Alternatively, we may agree with you, to provide the personnel to perform such tasks; however, since these tasks are beyond the scope of our audit, we will bill you for such additional work at our standard hourly rates.

### **Nonattest Services**

With respect to any nonattest services we perform, such as preparation of the annual financial report and supporting schedules:

We will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist management of the City in performing its responsibilities.

The City's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the nonattest services are as follows:

- We will perform the services in accordance with applicable professional standards, including those standards issued by the AICPA.
- The nonattest services are limited to the preparation of the annual financial report and supporting schedules previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

### **Reporting**

We will issue a written report upon completion of our audit of the City's basic financial statements. Our report will be addressed to the mayor and City Council of the City of Mineola, Texas. Circumstances may arise in which our report may differ from its expected form and

content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Other**

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.

### **Provisions of Engagement Administration, Timing and Fees**

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.



The timing of our audit will be scheduled for performance and completion as follows:

|   | <i>Begin</i> | <i>Complete</i> |
|---|--------------|-----------------|
| Document internal control and preliminary tests | August       | September       |
| Mail confirmations                              | October      | October         |
| Perform year-end audit procedures               | February     | March           |
| Issue audit report                              |              | April           |

Jon Watson is the engagement partner for the audit services specified in this letter. His responsibilities include supervising BrooksWatson & Company, PLLC’s services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. Invoices will be rendered every month and are payable upon presentation. We estimate that our fee for the audit of the current and subsequent years will be:

| <b>Fiscal Year</b> | <b>Financial Statement Audits</b> |
|--------------------|-----------------------------------|
| 2022               | \$ 25,000                         |
| 2023               | \$ 25,750                         |
| 2024               | \$ 26,500                         |

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. We are not responsible for bank, attorney, or confirmation fees billed as part of the completion of the audit. Invoices will be rendered every two weeks and are payable upon presentation. We estimate that our fee for the audit will be as noted above and \$6,000 for the single audit of one major program, if required. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the City of Mineola’s personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least five years from the date of our report.

At the conclusion of our audit engagement, we will communicate to City Council the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to City Council regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of BrooksWatson & Co., PLLC, and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulators pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of BrooksWatson & Co., PLLC's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to said regulators. The regulators may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

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

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,



BrooksWatson & Co., PLLC  
14950 Mineolarow Forest Pkwy | Ste 530  
Houston, TX 77032

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RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of the City of Mineola by:

City Manager

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Mayor

Signature: \_\_\_\_\_

Date: \_\_\_\_\_