



**CENTRAL TEXAS
Regional Mobility Authority**

**MAY 3, 2016
AUDIT COMMITTEE
AGENDA ITEM B**

Accept Letter of Engagement for
independent auditing services.

Department: Finance
Contact: Bill Chapman
Action Requested: Consider and act on draft resolution
Committee Action Required: Yes

Summary:

Each year the Mobility Authority engages an independent CPA firm to conduct the Authority's required annual audit and single audit. Padgett, Stratemann & Co., L.L.P. will be conducting the annual audit for Fiscal Year ending June 30, 2016 and will present those reports to the Audit Committee upon completion.

This item requests approval by the Audit Committee of the Chief Financial Officer's acceptance of a letter of engagement with Padgett, Stratemann & Co., L.L.P. to provide independent auditing services to the Mobility Authority.

Backup provided: Draft Resolution
Engagement Letter
Letter to Board of Directors

**MEETING OF THE AUDIT COMMITTEE
OF THE
CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY**

RESOLUTION NO. 16-0XX

**APPROVING A LETTER OF ENGAGEMENT FOR
INDEPENDENT AUDITING SERVICES**

WHEREAS, as authorized by the Board of Directors in Resolution No. 15-017, dated March 25, 2015, the Executive Director negotiated and executed a contract with Padgett, Stratemann & Co., L.L.P. to provide independent auditing services to the Mobility Authority; and

WHEREAS, the Mobility Authority is required to have an annual financial and compliance audit of its books and records in accordance with 43 *Texas Administrative Code* §26.61; and

WHEREAS, the Chief Financial Officer has accepted a letter of engagement from Padgett, Stratemann & Co., L.L.P. to provide an independent audit of the finances of the Mobility Authority for the fiscal year ending on June 30, 2016.

NOW THEREFORE, BE IT RESOLVED, that the Audit Committee approves the letter of engagement with Padgett, Stratemann & Co., L.L.P. which is attached hereto as Exhibit 1.

Adopted by the Audit Committee of the Board of Directors of the Central Texas Regional Mobility Authority on the 3rd day of May 2016.

Submitted and reviewed by:

Approved:

Geoffrey S. Petrov, General Counsel

Robert Bennett
Chairman, Audit Committee

EXHIBIT 1
ENGAGEMENT LETTER

April 21, 2016

Bill Chapman, CFO
Central Texas Regional Mobility Authority
3300 North IH-35, Suite 300
Austin, Texas 78704

Dear Mr. Chapman:

The Objective and Scope of the Audit of the Financial Statements

You have requested that Padgett, Stratemann & Co., L.L.P. ("PS&Co.") audit the financial statements of Central Texas Regional Mobility Authority (the "Mobility Authority") which comprise the business-type activities as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the basic financial statements. We are pleased to confirm 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.

We will also perform the audit of the Mobility Authority as of June 30, 2016 so as to satisfy the audit requirements imposed by the Single Audit Act and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"); *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Single Audit Act, Uniform Guidance, and the OMB Compliance Supplement. Those standards, supplements, or guidance 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.

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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 fraud or errors 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, as defined in *Government Auditing Standards*.

In making our risk assessments, we consider internal control relevant to the Mobility Authority'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 entity's internal control. However, we will communicate to you in writing 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 Board of Directors (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, (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential), (c) disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the Mobility Authority's accounting policies and financial statements.

The funds that you have told us are maintained by the Mobility Authority are comparable to those reported in the prior year's financial statements.

The federal financial assistance programs and awards that you have told us that the Mobility Authority participates in and that are to be included as part of the single audit are comparable to those reported in the prior year's financial statements (the Highway Planning and Construction Cluster).

Our report 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 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 guidance identified above.

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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, acknowledges and understands that it has a responsibility:

- For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- 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.
- For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.
- For identifying and ensuring that the Mobility Authority 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.
- For (a) making us aware of significant vendor relationships where the vendor is responsible for program compliance; (b) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan; and (c) report distribution, including submitting the reporting package.
- To provide us with:
 - 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
 - Additional information that we may request from management for the purpose of the audit

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Austin, Texas

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- Unrestricted access to persons within the Mobility Authority from whom we determine it necessary to obtain audit evidence
- When applicable, a summary schedule of prior audit findings for inclusion in the single audit reporting package
- If applicable, responses to any findings reported on the schedule of findings and questioned costs

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:

- That management has fulfilled its responsibilities as set out in the terms of this letter.
- That management 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 Mobility Authority 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 or abuse and for informing us about all known or suspected fraud or abuse affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the required supplementary information ("RSI") and the supplementary information presented in relation to the financial statements as a whole in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on RSI and the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such RSI and 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 the 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.

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The Board of Directors is responsible for informing us of its views about the risks of fraud or abuse within the entity and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the entity.

You have informed us that you may issue debt securities in the future and that you may include (or incorporate by reference) our report on your financial statements in the offering statement or similar document used in the public or private sale of such securities. You have further informed us that you do not intend that we be associated with the proposed offering.

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

Padgett Stratemann & Co., 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. Padgett Stratemann & Co. also has not performed any procedures relating to this official statement.

The Mobility Authority may post our reports to its website after we have issued our reports, provided that the Mobility Authority's financial statements (the complete financial statements and related notes thereto for all periods to which our report relates) and our report thereon are reproduced in their entirety and that the Mobility Authority understands and agrees that PS&Co. will not be associated with any other information contained on such website.

In addition, Mobility Authority may submit, in electronic form, its financial statements and our report thereon to the Municipal Securities Rulemaking Board ("MSRB") and the Municipal Advisory Council of Texas in compliance with the continuing disclosure agreements entered into by the Mobility Authority pursuant to U.S. Securities and Exchange Commission Rule 15c2-12 (the "Rule"), including any other information repository as may hereafter be required by the Rule. PS&Co. agrees to provide the Mobility Authority with an electronic copy of the financial statements of Mobility Authority and our reports thereon prepared pursuant to this letter in an electronic format that satisfies the requirements of the Rule. Such document must be in .pdf format and word-searchable (without regard to diagrams, images and other non-textual elements), or in such other form or format as may hereafter be required by the Rule or the MSRB.

PS&Co. recognizes that Mobility Authority must comply with the requirements of the Texas Public Information Act with respect to requests received in accordance with such Act.

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Because PS&Co. will rely on the Mobility Authority and its management and Board of Directors to discharge the foregoing responsibilities, the Mobility Authority, to the extent permitted by law, holds harmless and releases PS&Co., 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 Mobility Authority's management which has caused, in any respect, PS&Co.'s breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

The Mobility Authority's Records and Assistance

If circumstances arise relating to the condition of the Mobility Authority'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, declining to issue a report, or withdrawing from the engagement. Time and effort incurred through this stage of the audit will be billed accordingly.

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

The assistance to be supplied by Mobility Authority personnel will be described in a client participation list, which will outline the specific schedules and analyses that should be completed by Mobility Authority personnel, including the dates when the information should be available to us. The participation list will be provided and agreed to by Mary Temple. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including drafting the financial statements, footnotes, RSI and supplementary information. The independence standards of the *Government Auditing Standards*, issued by the Comptroller General of the United States, require that the auditor maintain independence so that opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the Mobility Authority, we determine whether providing such a service would create a significant threat to our independence for *Government Auditing Standards* audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit

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service to be performed. The Mobility Authority has agreed that Mary Temple, Controller, possesses suitable skill, knowledge, and experience and that she will be responsible for the Mobility Authority's technical review of the financial statements, footnotes, RSI and supplementary information and will coordinate any other requests for non-audit services to be performed.

Fees, Costs, and Access to Workpapers

Our fees for the audit 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 the completion of our work are based upon the following criteria:

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

If any of the aforementioned criteria is not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. Bills for services are due when provided, payable in Austin, Texas. Our fee for the services and expenses incurred, including printing 40 copies of the financial statements, described in this letter will not exceed \$65,500, exclusive of the fees and for any out of town travel requested by the Mobility Authority, any required State of Texas Single Audit report (as further described below) and time incurred for the initial implementation of new accounting standards (as further described below), unless the scope of the engagement is changed, the assistance in which the Mobility Authority has agreed to furnish is not provided, or unexpected conditions are encountered, in which case, we will discuss the situation with you before proceeding and issue a change order for any change in the scope of services.

The fee above is for a standard routine audit services engagement based on current facts and circumstances and the assumption the books and records of the Mobility Authority will be balanced and reconciled to appropriate supporting documentation. The above fee estimates assume the absence of significant changes in the Mobility Authority's organization (e.g., turnover of key personnel) or its accounting systems and reporting requirements. In addition, our fee estimates assume there will not be a large number of journal entries posted as a result of audit procedures

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performed and at least 90% of the client participation list will be available at the beginning of our fieldwork, along with the working trial balance. We also assume the same number of major federal financial assistance programs (as described in the prior year audit report) will be required to be audited in accordance with the Single Audit Act. If we determine the existence of any of these matters, we will discuss the situation with management and issue a change order. In addition, should a State Single Audit report be required for the 2016 fiscal year, the additional cost for our work associated with this deliverable will be \$6,500.

During the term of our audit, new audit/accounting pronouncements may be issued and/or nonroutine transactions could occur which are not contemplated at this time. These sorts of events will affect the Mobility Authority for the year ended June 30, 2016. The Mobility Authority will be required to adopt the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, in fiscal year 2016. The adoption of this change in accounting standards should not require a restatement of prior year's financial statements; however, additional time will be spent by us and the Mobility Authority staff in preparing, reviewing, and assessing the additional disclosure required. The additional 2016 cost for the work associated with the initial adoption of GASB Statement No. 72 will be \$1,500-\$2,000. We will separately track the time we spend on this effort and bill you separately for this from the aforementioned audit fee. We will also discuss with the Mobility Authority any other new audit/accounting pronouncements and/or nonroutine transactions that may apply to the Mobility Authority and determine applicability and effect on the Mobility Authority. Time and effort and any additional fees for the implementation of any other new audit/accounting pronouncements and/or efforts to account for nonroutine transactions will be discussed and billed separately.

Our professional standards require us to 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. Accordingly, the Mobility Authority agrees it will compensate PS&Co. for any additional costs incurred as a result of Mobility Authority's employment of a partner or professional employee of PS&Co during the term of the audit engagement.

In the event we are requested or authorized by the Mobility Authority or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the Mobility Authority, the Mobility Authority 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.

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The documentation for this engagement is the property of PS&Co. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the United States Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of PS&Co. audit personnel and at a location designated by our firm. The time spent in providing such access and for review will be billed to you separately.

You have informed us that you may want to prepare a comprehensive annual financial report (“CAFR”) and submit it for evaluation by the Government Finance Officers Association’s Certificate of Achievement for Excellence in Financial Reporting program. If the Mobility Authority decides to produce a CAFR, we will discuss with you our association with the CAFR and related fees and issue a written change order for the additional scope of work.

Reporting

We will issue a written report upon completion of our audit of the Mobility Authority’s financial statements. Our report will be addressed to the Board of Directors of the Mobility Authority. 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.

In addition to our report on the Mobility Authority’s financial statements, we will also issue the following types of reports:

- A report on the fairness of the presentation of the Mobility Authority’s schedule of expenditures of federal awards for the year ended June 30, 2016.
- Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.
- Reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a material effect on each major program.
- A schedule of findings and questioned costs.

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Consulting Services

At the request of the Mobility Authority, PS&Co., as the Mobility Authority's independent auditors, may provide assistance during the year with consulting services or projects. Consulting services include, but are not limited to:

- Assistance and consultation on interpretation of accounting standards applicable to the Mobility Authority
- Assistance and consultation regarding accounting, operational, and/or financial matters
- Tax planning and transaction structuring

To maintain our independence required for the Mobility Authority's attest services, it is important we define both our roles as to consulting services.

Our role as a consultant is to provide assistance and professional expertise in defining the questions, identifying options, and analyzing the effects of specific courses of action and decisions. Our role cannot include any functions or actions that would put us in a management role for the Mobility Authority. Your role as management is to make the final decision as to all transactions and other actions for which we have provided the Mobility Authority with consulting assistance.

Our professional standards require the Mobility Authority to designate a qualified person in the Mobility Authority to make these final management decisions for general consulting services/projects. You designate Bill Chapman, CFO, as this person.

Other Matters

In the unlikely event differences concerning our services or fees should arise that are not resolved by mutual agreement, to facilitate judicial resolution and save time and expense of both parties, the Mobility Authority agrees to participate in mediation, under the Commercial Mediation Rules of the American Arbitration Association, before any claim is asserted.

This letter shall serve as the Mobility Authority's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between PS&Co. and the Mobility Authority and between PS&Co. and outside specialists or other entities engaged by either PS&Co. or the Mobility Authority. The Mobility Authority acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus,

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confidentiality of the transmitted information could be compromised through no fault of PS&Co. PS&Co. will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed for your information.

This letter constitutes the complete and exclusive statement of agreement between Padgett, Stratemann & Co., L.L.P. and Central Texas Regional Mobility Authority, superseding all proposals oral or written and all other communications, with respect to the terms of the engagement between the parties.

If this letter defines the arrangements as you understand them, please sign and date the enclosed copy and return it to us.

We look forward to establishing a long-term and excellent relationship with Central Texas Regional Mobility Authority.

Sincerely,



Mike O'Brien, CPA
Partner

MWO:ckp

Enclosure

Bill Chapman, CFO
Central Texas Regional Mobility Authority
Austin, Texas

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The foregoing letter fully describes the Mobility Authority's understanding and is accepted.

CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY



Bill Chapman, CFO



Date