

Engagement Letter

August 13, 2010

Honorable County Judge and Members of Commissioners Court
Fort Bend County, Texas

We are pleased to confirm our understanding of the services we are to provide for Fort Bend County, Texas (the County) for the year ended September 30, 2010, and the subsequent four years.

We will audit the financial statements of the County as of and for the year ended September 30, 2010, through 2014. We will audit the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Fort Bend County as of and for the years ended September 30, 2010 through 2014. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany Fort Bend County's basic financial statements. As part of our engagement, we will apply certain limited procedures to Fort Bend County's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's discussion and analysis.
- Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.
- Notes to Required Supplementary Information.
- Schedule of Funding Progress - Texas County and District Retirement System
- Schedule of Funding Progress – Fort Bend County Employee Benefit Plan.

Supplementary information other than RSI, also accompanies Fort Bend County's basic financial statements. We will subject the following supplementary information to the

auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

- Combining Balance Sheet – Non Major Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non Major Governmental Funds
- Other OSI under the scope indicated in the prior year table of contents.

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion:

- Introductory Section.
- Statistical Section.

We understand that County personnel will prepare the comprehensive annual financial report (CAFR) and therefore preparation of that document has not been factored into our fee estimate. We will offer comments on the document under applicable items contained in Government Financial Officers Association checklists for financial reporting.

Our audit scope and the time estimate has been prepared without contemplation of any additional required procedures relating to reliance on the work of other auditors and audit time schedules will be prepared with the understanding that there will be no external time and calendar considerations relating thereto.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on-

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contract or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management,

specific legislative or regulatory bodies, federal awarding agencies, and pass-through entities.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the general purpose financial statements or the Single Audit compliance opinion is other than unqualified, we will fully 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 an opinion, we may decline to express an opinion or to issue a report as a result of this engagement. Our responsibility as auditors will conclude and the engagement will be considered complete upon issuance of such reports.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. In this regard, management is responsible for providing complete trial balances for all funds as of the later of the date of management's execution or this engagement letter or one hundred twenty (120) days from the contemplated date of completion of this engagement. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that 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 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 government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of

your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles; and that federal and state award programs are managed in compliance with applicable laws and regulations and the provisions of contract and grant agreements.

Management is responsible for making all financial and related information available to us to include that information maintained in house by the County Auditor and that maintained by third parties such as grant administrators. We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that 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 general purpose financial statements taken as a whole. As referred to above and as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings (if any) and a corrective action plan. The summary schedule of prior audit findings should be available for our review by the conclusion of audit fieldwork.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent reporting, and misappropriation of assets or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to federal award programs for compliance with applicable laws and regulations and the provisions of contract and grant agreements. Because an audit is designed to provide reasonable assurance, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors. We have advised you of the limitations of our audit regarding the detection of fraud and the possible effect on the financial statements (including misappropriation of cash or other assets). We have offered to perform, as a separate engagement, extended procedures specifically designed to detect fraud and you have declined to engage us to do so at this time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

Audit Procedures-Internal Controls

In planning and performing our audit we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on the County's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls, to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements that are applicable to each of your major federal award programs. Our tests will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform you of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the 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 financial statements. We will also inform you of any non-reportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedures-Compliance

Our Audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the County's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect of each of the County's major programs. The purpose of those

procedures will be to express an opinion on the County's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any invoices selected by us for testing. We will provide management with a clear and concise listing of schedules and work papers for completion by management during the planning phase of the engagement or the first week of field work, whichever occurs later.

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

Alan K. Sandersen is the engagement partner and is responsible for supervising the engagement and signing the report. We will provide copies of our reports to the County; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the County; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The workpapers for this engagement are the property of Sandersen Knox & Company, LLP and constitute confidential information. However, we may be requested to make certain

workpapers available to your cognizant or grantor agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Sandersen Knox & Company, LLP personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to your cognizant or grantor agency. Your cognizant or grantor agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of five years after the date the auditors' report is issued or for any additional period requested by your Cognizant Agency, Oversight Agency for Audit, or Pass-through Entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers. It is your responsibility to make us aware of any such circumstances.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. A copy of our most recent report is included with this letter.

Fees for our services are based on the actual time spent at our standard hourly rates, as well as travel and other out-of-pocket costs such as report production, typing, postage, etc. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Should, we be legally compelled by subpoena or by a similar request by a grantor agency to expend additional time and incur other expenses to handle matters arising from this engagement, such costs would be also be billed at our standard hourly rates and actual costs incurred, including legal consultations. Should we require the use of third party consultants such as data extraction services or other related needs, those costs would be billed to you as well.

Our invoices for these fees and other related costs will be rendered semi-monthly as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes thirty days or more overdue and may not be resumed until your account is paid in full. Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service. If however 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 costs through the date of termination.

The time estimates used to estimate our fees is based on anticipated cooperation from your personnel and the County's preparation of reasonably accurate financial information and closing schedules prior to the beginning of field work. Our time budget for this engagement does not include an allowance for substantial modifications to the County's financial information and reporting considerations and additional procedures related to

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alleged noncompliance with laws and regulations and similar improprieties. As customary in the industry the price quoted is an estimate. In accordance with rules of the State Board of Public Accountancy we cannot be bound to provide the audit for the amount estimated. Our fee estimates for the audit of Fort Bend County (including single audit) and Fort Bend County Drainage District financial statements for the year ended September 30, 2010 are \$107,500 and \$12,500, respectively. Subsequent year fee estimates will be prepared and submitted prior to the beginning of field work for the fiscal years ending September 30, 2011 through 2014.

We appreciate the opportunity to be of service to the County and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

Ch. K. Sanders

Alan K Sandersen, CPA
For the Firm

RESPONSE:

This letter correctly sets forth the understanding of the County of Fort Bend, Texas.

Robert E. Hebert, County Judge _____ Date _____

ATTEST: _____
Dianne Wilson, County Clerk Date _____

Auditor's Certificate

I hereby certify that funds are available in the amount of _____ to pay the obligation of Fort Bend County under and within the foregoing agreement.

Ed Sturdivant, County Auditor

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

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B. BUMGARDNER, CPA
(1911-2002)
JACK R. MORRISON, SR., CPA
(1922-1997)

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

October 31, 2007

JACK R. MORRISON, JR., CPA
CHRISTOPHER E. KNECH, CPA
JEROME G. KOTZUR, CPA
G. DENNIS SHAY, CPA, CFP®
PAULA G. LESKE, CPA
MICHAEL E. WENSKE, CPA
JACK C. FITZGERALD, CPA

System Peer Review Report

Sandersen, Knox & Belt, LLP
Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Sandersen, Knox & Belt, LLP, Certified Public Accountants, (the firm) in effect for the year ended May 31, 2007. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming 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 firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans, and engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instance of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 Sandersen, Knox & Belt, LLP, Certified Public Accountants, in effect for the year ended May 31, 2007, 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 conforming with professional standards.

Bumgardner, Morrison & Company, LLP

1501 E. MOCKINGBIRD, SUITE 300

P.O. BOX 3750

VICTORIA, TEXAS 77903-3750

(361) 575-0271

FAX (361) 575-0880