



March 29, 2017

Bruce Sahli  
Director of Internal Audit  
Lexington, Kentucky Office of Internal Audit  
200 E. Main St.  
Lexington, KY 40507

Dear Bruce:

Honkamp Krueger & Co., P.C. (HK) is pleased to provide Lexington Kentucky (hereinafter "OIA", "you", "your", or "Company") with the professional services described below. This letter confirms our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

### **Engagement Objective**

The engagement's objectives are to provide an independent validation of OIA's self-assessment conducted by its internal audit department in accordance with the IIA's prescribed framework and focus on the internal audit activity's practices and processes within the 12-month period preceding the fieldwork. We will validate the IAD's conformity rating with respect to the IIA's *standards*.

### **Engagement Scope**

We will provide you the self-assessment documents, and, once returned, review and request clarification as needed. The fieldwork will be conducted at mutually agreed upon dates and will begin approximately two weeks after the self-assessment documents are provided to HK for review. We anticipate conducting one on-site visit to conduct a limited number of interviews with senior management and the Audit Committee chair, and review the documentation supporting the IAD's self-assessment. Interviews and workpaper review may be conducted off-site at your request and if technologically feasible. The amount of detail review and interviewing procedures performed depends on a variety of factors including the size of the internal audit department, number of internal audit reports produced annually, and number of senior management and director interviews to be conducted.

### **Engagement Approach**

Prior to commencing the engagement our team will meet with you to review the validation process, timeline, and logistics. HK intends to coordinate with OIA by following the approach below:

- Observe the efficiency and effectiveness of the internal audit activity based on IIA *Standards* and the International Professional Practices Framework as well as benchmarks and innovative practices using the Global Auditing Information Network (GAIN), as a starting point if prepared
- Identify and communicate ways to enhance internal audit policies, practices, quality monitoring processes, and sharing of other improvement opportunities and innovative practices

- Review self-assessment documentation, including but not limited to the following areas:
  - Review of management and staff interview and survey results
  - Adequacy of the audit committee charter and the IAD charters
  - Creation, maintenance, and risk assessment of the auditable universe
  - Process for developing and gaining approval of the annual audit plan
  - Organization structure and reporting relationships
  - Qualifications and proficiency of the staff
  - Established quality assurance and improvement program
  - Work paper methodologies
  - Internal policy and procedure documentation
  - All facets of the reporting and follow-up processes
- Interview two members of executive management, including the Audit Committee Chair
- Develop a conclusion as to the internal audit activity's conformity to the IIA's *Standards*

All of the work is expected to be completed at OIA's Lexington, Ky., office location or HK's offices. Throughout the engagement, HK's QAS team will be available to assist OIA in an advisory capacity to address any questions or concerns.

### **Deliverables**

We will issue an addendum covering the results of the Independent Validation to be included with the self-assessment documents. A draft of the deliverable will be provided to you for review and comment, prior to final delivery. The deliverable presented as part of this engagement is for the internal use of your management, Mayor, Council, and Audit Board. We acknowledge that our addendum pursuant to this agreement is subject to the Kentucky Open Records Laws, and may be subject to disclosure to the public. We disclaim any intention or obligation to update or revise the observations or conclusions reflected in our deliverable whether as a result of new information, future events or otherwise. Should additional documentation or other information become available which impacts upon the observations or conclusions reflected in our deliverable, we reserve the right to amend our deliverable accordingly. If for any reason we are unable to complete the engagement, we will not issue a deliverable.

### **Client Responsibilities**

OIA Support: We will require the support of your personnel to achieve timely completion of the project. Support includes, but is not limited to, the collection of all relevant documents (paper or electronic) and the scheduling of interviews and coordination of meetings. Failure to receive such support in a timely manner could negatively impact our ability to fulfill the scope requirements described above within the agreed-upon timeframe.

Project Management: You will designate a management level individual who possesses suitable skill, knowledge, and/or experience (the "Project Sponsor") to oversee the services and conduct of this project, including coordination of your resources needed and review of the draft deliverable. You authorize us to accept instructions from the Project Sponsor for this engagement. You agree that your personnel assigned to this project are responsible for reviewing any draft deliverables provided by our firm on a timely basis.

Management Functions: As a condition to our performing the services described above, you agree to (1) make all management decisions and perform all management functions, (2) evaluate the adequacy and results of the services performed, (3) accept responsibility for the results of the services, including decisions regarding the implementation of any recommendations noted; and (4) establish and maintain internal controls over the procedures and monitor ongoing activities.

You agree that your management and employees are responsible for the proper recording of transactions in the records, the safekeeping of assets, and the accuracy of the financial statements. We have no responsibility to identify and communicate deficiencies or material weaknesses in your internal controls as part of this engagement. You agree that you will not and are not entitled to rely on any advice unless it is provided in writing.

### **CPA Firm Responsibilities**

We will perform our services in accordance with the Statement on Standards for Consulting Services and the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. This engagement is limited to the professional services outlined above. HK, in its sole professional judgment, reserves the right to refuse to take any action that could be construed as making management decisions or performing management functions.

The above professional services will be performed based on information you provide to us. We will not verify or audit this information. You understand that we do not guarantee the results of any analysis that we may undertake, and agree that any report or analysis we provide represents our professional conclusion based on the data provided to us. We cannot guarantee its accuracy or completeness.

### **Fees and Billings**

Our fees for the services outlined above will be approximately \$8,000, including out-of-pocket travel expenses. Our fee is based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report production, typing, postage, etc. However, our charges also may include other appropriate factors, including the difficulty of the assignment, the degree of risk and responsibility the work entails, time limitations imposed on us by others, the experience and professional expertise of the personnel assigned, and the priority and importance of the work to you. Additionally, this fee is dependent on the timely delivery, availability, quality, and completeness of the information you provide to us.

Presented below is a summary of the estimated costs associated with this engagement.

Self-Assessment with Independent Validation	\$7,200
Estimated other out-of-pocket costs	\$800

If the information you provide is not submitted in a timely manner, or is incomplete or unusable, we reserve the right to charge additional fees and expenses for any additional services required to correct the problem. If this occurs, we will contact your representative to discuss the matter and the anticipated delay in performing our services.

Invoices 30 days past due will be considered late and will be assessed interest charges of one and one-half percent (1 ½%) per month on the unpaid balance. We reserve the right to suspend or terminate our work. If our work is suspended or terminated, you agree that we will not be responsible for your failure to meet government and other deadlines, for any penalties or interest that may be assessed against you resulting from your failure to meet such deadlines, and for any other damages (including, but not limited to consequential, indirect, lost profits, or punitive damages) incurred as a result of the suspension or termination of our service.

**Other Matters**

Our engagement will be conducted in accordance with the AICPA Statement on Standards for Consulting Services. Such services are not intended to represent an audit, examination, attestation, special report or agreed-upon procedures engagement as those services are defined in AICPA literature applicable to such engagements. Accordingly, these services will not result in the issuance of a written communication to third parties by HK regarding financial data or internal controls, or expressing a conclusion or any other form of assurance.

The above professional services will be performed based upon information you provide to us. We will not verify or audit this information. Our engagement cannot be relied upon to disclose errors, fraud, or theft.

We will not perform management functions or make management decisions on your behalf. However, we may provide advice and recommendations to assist management in performing its functions and making decisions.

You may request that we perform additional services not contemplated by this agreement. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we amend this letter or issue a separate agreement or addendum to this agreement to reflect the obligations of both parties. In the absence of any other written communications from us documenting additional services, our services will be limited to and governed by the terms of this agreement.

**Electronic Data Communication and Storage and Use of Third Party Service Provider**

In the interest of facilitating our services to your company, we may communicate by facsimile transmission, send data over the Internet, store electronic data via computer software applications hosted remotely on the Internet, or allow access to data through third-party vendors' secured portals or clouds. Electronic data that is confidential to your company may be transmitted or stored using these methods. We may use third-party service providers to store or transmit this data, such as providers of tax return preparation software.

In using these data communication and storage methods, our firm employs measures designed to maintain data security. We use reasonable efforts to keep such communications and data access secure in accordance with our obligations under applicable laws and professional standards. We also require all of our third-party vendors to do the same.

You recognize and accept that we have no control over the unauthorized interception or breach of any communications or data once it has been sent or has been subject to unauthorized access, notwithstanding all reasonable security measures employed by us or our third-party vendors. You consent to our use of these electronic devices and applications and submission of confidential client information to third-party service providers during this engagement.

### **Electronic Signatures**

This engagement letter and any attachments hereto reflect the entire agreement between us relating to the services covered by this letter. You agree that signature on this agreement and any attachments delivered in an electronic format such as electronic facsimile, email transmission including a scanned electronic copy in Portable Document Format ("PDF"), or by using other medium such as DocuSign, an e-sign service shall be considered original signatures for purposes of effectiveness of this agreement and its attachments. No certification or other third party verification is necessary to validate such digital signatures and the lack of such validation will not affect the enforceability of digital signatures on this agreement or the terms of this agreement in any way. You further understand and agree that no hard copy document of this agreement shall be retained to prove the terms of this agreement.

### **Non-Solicitation of Our Employees**

You agree that you will not, without our prior written consent, at any time during our engagement with you or for a period of two (2) years from the date of termination of our engagement with you, however caused, directly or indirectly solicit for employment, or attempt to employ or to retain as an independent contractor, or agent, any person who is an employee of ours as of the date of termination of our engagement or who was an employee of ours at any time during the two (2) year period prior to the termination of our engagement.

You further agree that, should you be approached by a person who is or has been an employee of ours during the period described above, you will not offer to employ or accept employment of or to employ or retain as an independent contractor or agent any such employee of ours for a period of two (2) years following termination of our engagement. If any such employee leaves our employ, directly or indirectly, due to solicitation from you or acceptance of employment by you in breach of this contract, you shall be responsible to us for a lump sum payment of fifty percent (50%) of the annual salary of such employee of ours as of his or her last day of employment with us. You shall make such payment to us within thirty (30) days of such termination of employment by the employee with us. You agree that this is reasonable compensation to us in such circumstance.

### **Termination and Other Terms**

If a dispute arises out of or relates to this contract or agreement, or the breach thereof, and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under the Dispute Resolution Rules for Professional Accounting and Related Services Disputes before resorting to arbitration, litigation, or some other dispute resolution procedure. The costs of any mediation proceedings shall be shared equally by all parties.

Client and consultant both agree that any dispute over fees charged by the consultant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the consultant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

The OIA agrees to indemnify, defend and hold HK and any of its partners, principals, shareholders, officers, directors, members, employees, agents or assigns harmless with respect to any and all claims arising from this engagement to the extent such claims are caused solely by the negligence or intentional acts of the OIA. Nothing contained herein is intended to be, nor shall it be, a waiver of any defense, including that of sovereign immunity, that the OIA may have as to any third party.

Any claim arising out of this Agreement shall be commenced within five years of the delivery of the work product to you, regardless of any longer period of time for commencing such claim as may be set by law. Honkamp Krueger & Co., P.C's liability for all claims, damages, and costs of OIA arising from this engagement is limited to two times the total amount of fees paid by OIA to HK for services rendered under this agreement for any injury caused directly to the OIA as a result of services provided, not to any third party.

We reserve the right to withdraw from this engagement without completing our services, for any reason, including, but not limited to, if you fail to comply with the terms of this agreement or as we determine professional standards require.

If any portion of this agreement is deemed invalid or unenforceable, said finding shall not invalidate the remainder of the terms set forth in this agreement.

At the completion of our engagement, any original source documents will be returned to you. Workpapers and other documents created by us are our property. Such original workpapers will remain in our control, and copies are not to be distributed without our prior written consent.

#### **Timing of Engagement**

We are prepared to begin work upon receipt of a signed copy of this agreement and at a time mutually determined by OIA and HK. Our services will conclude with the delivery of our report to you or upon termination of the engagement, if earlier.

#### **Entire Agreement**

This agreement, including any attachments, encompasses the entire agreement of the parties and supersedes all previous understandings and agreements between the parties, whether oral or written. Any modification to the terms of this agreement must be made in writing and signed by both parties.

Sincerely,

**HONKAMP KRUEGER & CO., P.C.**



Heather D. Vetter, CPA, CFE, CIA®, CICA  
Partner

**AGREED TO AND ACCEPTED BY:**

This engagement letter for Self-Assessment with Independent Validation services correctly sets forth the understanding of the Lexington, Kentucky Office of Internal Audit.

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date