



March 23, 2022

Lexington-Fayette Urban County Government  
Bruce Sahli  
200 E Main St  
Lexington, KY 40507

Dear Bruce:

Honkamp Krueger & Co., P.C. (HK, "firm," "we," "us," or "our") is pleased to provide Lexington-Fayette Urban County Government ("you" or "your") with the professional services described below. This letter, and the attached Terms and Conditions Addendum and any other attachments incorporated herein, (collectively, "Agreement"), confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide. The engagement between you and our firm will be governed by the terms of this Agreement.

### **Engagement Objectives and Scope**

The objectives of this engagement are to provide an independent validation of your self-assessment conducted by your internal audit department (IAD) in accordance with the Institute of Internal Auditors' (IIA) prescribed framework. Our assessment will 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*.

At the beginning of the engagement, we will provide you with the self-assessment documents and, once returned, review and request clarification as needed. We anticipate conducting one (1) on-site visit to review the QAS process, timeline and logistics, conducting a limited number of interviews\* with senior management and the audit committee chair, and reviewing the documentation supporting the IAD's self-assessment. (Interviews and workpaper review may be conducted off-site at your request, if technologically feasible.) Our approach will be to:

- 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 (2) 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*

*\*IAD Staff and Senior Management Interviews (Optional)*

HK will conduct interviews with key senior leadership, clients, and IAD team members and gather feedback on how the internal audit activity is perceived. We will work with you to determine the most appropriate candidates and will rely on you to schedule the interviews. Every effort will be made to conduct interviews in person; however, some interviews may be conducted by phone. HK will maintain interview anonymity by compiling the results and providing summary information to you.

*\*\*Surveys (Optional)*

Surveys can be conducted for IAD clients, senior management and/or IAD staff members. With HK's assistance, your self-assessment team leader will select and email a link to an online survey to the appropriate individuals. HK will maintain survey anonymity by compiling and analyzing the results and provide you with an exhibit displaying the summary information.

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.

Our recommendations regarding procedures to be performed and the results of the procedures performed are dependent upon the accuracy and completeness of the representations and information that we receive from you. Accordingly, inaccurate or incomplete representations could result in inaccurate findings or inappropriate recommendations, and critical recommendations may not be identified.

***CPA Firm Responsibilities***

We will perform our services in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). Such services do not constitute an audit, review, or any other attestation service 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, expressing an opinion or conclusion or obtaining or providing any form of assurance.

Our engagement does not include procedures designed to detect errors, fraud or theft. Therefore, our engagement cannot be relied upon to disclose such matters. In addition, we are not responsible for identifying or communicating deficiencies in your internal controls, unless otherwise specified in the scope of this Agreement. You are responsible for developing and implementing internal controls applicable to your operations.

***Engagement Deliverables***

We anticipate issuing the following deliverables in connection with our services:

- An addendum covering the results of the Independent Validation to be included with the self-assessment documents, and per our observations, a conformity rating per IIA *Standards*.

We will provide draft deliverables to you for review and comment, prior to final delivery.

The deliverable(s) presented as part of this engagement are solely for the internal use of your management, the Mayor, Council, and Audit Board.

After we provide you with the deliverables, we shall have no obligation to update or revise the observations or conclusions reflected in our deliverable(s), if new information, future events or changes in applicable laws and regulations affect the observations or conclusions reflected in those deliverables.

You understand and agree that our services may include advice and recommendations based upon our knowledge, training and experience, but at all times, the decisions related to implementation of the advice and recommendations are solely your responsibility. We encourage you to consider our recommendations and advice and implement what you believe is best for your company. If you ask us to assist you in implementing any advice or recommendation, we will confirm this representation in a separate engagement letter.

If, for any reason, we are unable to complete the engagement, we will not issue a deliverable(s).

***Client Responsibilities***

Your Support:

We require the support of your personnel in order to achieve timely completion of the engagement. 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 provide such support in a timely manner may negatively affect our ability to fulfill the requirements in the *Engagement Objectives and Scope* and *Engagement Deliverables* within the agreed-upon timeframe.

Project Management:

You will designate a member of your management who possesses suitable skill, knowledge, or experience (the "Project Sponsor") to oversee the services and conduct of this engagement, including coordination of your resources needed and review of draft deliverables. You authorize us to accept instructions from the Project Sponsor for this engagement.

The Project Sponsor is responsible for reporting the results of our services within your reporting structure, including the board of directors or other governing body.

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:

You agree that your management and employees are responsible for the accuracy and reliability of information provided to us, including but not limited to, the proper recording of transactions, the safekeeping of assets and the accuracy of the financial statements.

***Timing of the Engagement***

We expect to begin our services upon receipt of this executed Agreement and the information requested, at a time mutually determined by you and HK. Our services will conclude upon the earliest occurrence of one (1) of the following events:

- issuance of the deliverable(s) outlined in this engagement letter to you;
- as of the date of our closure letter;
- written notification by either party that the engagement is terminated; or
- one (1) year from the execution date of this Agreement.

***Professional Fee***

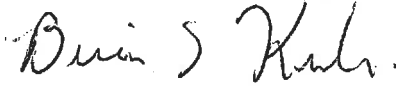
Our professional fee for the services outlined above is estimated to be \$9,800. This fee is based upon the complexity of the work to be performed, and our professional time, as well as out-of-pocket expenses. In addition, this fee depends upon the timely delivery, availability, quality, and completeness of the information you provide to us. You agree that you will deliver all records requested and respond to all inquiries made by our staff to complete this engagement on a timely basis.

\*\*\*\*\*

We appreciate the opportunity to be of service to Lexington-Fayette Urban County Government (LFUCG). Please date and sign this Agreement and return it to us to acknowledge your acceptance. We will not initiate services until we receive the executed Agreement.

Sincerely,

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



Brian E. Kruk, CIA, CCSA, CGAP  
Senior Director Quality Assessment Services

**Accepted by:**

Name \_\_\_\_\_ Title \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

On behalf of: Lexington-Fayette Urban County Government

## Honkamp Krueger & Co., P.C.'s Terms and Conditions Addendum

### Overview

This addendum to the engagement letter describes our standard terms and conditions ("Terms and Conditions") related to our provision of services to you. This addendum, and the accompanying engagement letter, comprise your agreement with us ("Agreement"). If there is any inconsistency between the engagement letter and this Terms and Conditions Addendum, the engagement letter will prevail to the extent of the inconsistency.

For the purposes of this Terms and Conditions Addendum, any reference to "HK," "firm," "we," "us," or "our" is a reference to Honkamp Krueger & Co., P.C., and any reference to "you" or "your" is a reference to the party or parties that have engaged us to provide services. References to "Agreement" mean the engagement letter or other written document describing the scope of services, any other attachments incorporated therein, and this Terms and Conditions Addendum.

This engagement is subject to our continuance and acceptance procedures required under professional standards. We will notify you if we become aware of anything that results in us not being able to continue this engagement.

### Billing and payment terms

We will bill you for our professional fees based on our standard hourly rates, and out-of-pocket costs as work is performed. 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.

Fees are due when billing invoices are issued. If payment is not received within thirty (30) days of the invoice date, you will be assessed interest charges of one and one-half percent (1.5%) per month on the unpaid balance, equivalent to eighteen percent (18%) per year. You have thirty (30) days from the invoice date to review the invoice and to communicate to us in writing any disagreement with the charges, after which you waive the right to contest the invoice.

All outstanding invoices must be paid prior to the release of the deliverable(s) specified in the Agreement. We do not release incomplete deliverables.

We reserve the right to suspend or terminate our work for non-payment of fees. In the event that work is discontinued, either temporarily or permanently, as a result of delinquent payment, we shall not be liable for any damages you may incur as a result of the work stoppage.

Notwithstanding any agreement with other parties regarding the payment of fees owed to HK for service performed herein, you agree and acknowledge that HK maintains the right to pursue collection of such fees from you in the event your default on all or any portion of its payments owed to HK hereunder, and HK shall have all remedies available to HK at law or in equity to recover such payments, with interest as described in this engagement letter.

### Third-party service providers or subcontractors

To enhance our availability to meet your professional service needs while maintaining service quality and timeliness, we may use a third-party service provider to assist us. This may include provision of your confidential information to the third-party service provider. We require our third-party service providers to have established procedures and controls designed to protect client confidentiality and maintain data security. As the paid provider of professional services, our firm remains responsible for exercising reasonable care in providing such services, and our work product will be subjected to our firm's customary quality control procedures.

By accepting the terms and conditions of our engagement, you are providing your consent and authorization to disclose your confidential information to a third-party service provider, if such disclosure is necessary to deliver professional services or provide support services to our firm.

### Independent contractor

When providing services to you, we will be functioning as an independent contractor and in no event will we or any of our employees be an officer of you, nor will our relationship be that of joint venturers, partners, employer and employee, principal and agent, or any similar relationship giving rise to a fiduciary duty to you.

Our obligations under this agreement are solely obligations of HK, and no partner, principal, employee or agent of HK shall be subjected to any personal liability whatsoever to you or any person or entity.

### Records management

#### Record retention and ownership

We will return any original records and documents you provide to us by the conclusion of the engagement. Our copies of your records and documents are solely for our documentation purposes and are not a substitute for your own records and do not mitigate your record retention obligations under any applicable laws or regulations. You are responsible for maintaining complete and accurate books and records, which may include financial statements, schedules, tax returns and other deliverables provided to you by us. If we provide deliverables or other records to you via an information portal, you must download this information within 14 days. Professional standards preclude us from being the sole repository of your original data, records or information.

Workpapers and other documents created by us are our property and will remain in our control. Copies are not to be distributed without your written request and our prior written consent. Our workpapers will be maintained by us in accordance with our firm's record retention policy and any applicable legal and regulatory requirements.

Our firm destroys workpaper files after a period of seven years. Catastrophic events or physical deterioration may result in damage to or destruction of our firm's records, causing the records to be unavailable before the expiration of the retention period, as stated in our record retention policy.

#### Working paper access requests by regulators and others

State, federal and foreign regulators may request access to or copies of certain workpapers pursuant to applicable legal or regulatory requirements. Requests also may arise with respect to peer review, an ethics investigation, the sale of your organization or the sale of our accounting practice. If requested, access to such workpapers will be provided under the supervision of firm personnel. Regulators may request copies of selected workpapers to distribute the copies or information contained therein to others, including other governmental agencies.

If we receive a request for copies of selected workpapers, provided we are not prohibited from doing so by applicable laws or regulations, we agree to inform you of such request as soon as practicable. You may, within the time permitted for our firm to respond to any request, initiate such legal action as you deem appropriate, at your sole expense, to attempt to limit the disclosure of information. If you take no action within the time permitted for us to respond, or if your action does not result in a judicial order protecting us from supplying requested information, we may construe your inaction or failure as consent to comply with the request.

#### Summons or subpoenas

All information you provide to us in connection with this engagement will be maintained by us on a strictly confidential basis.

If we receive a summons or subpoena which our legal counsel determines requires us to produce documents from this engagement or testify about this engagement, provided that we are not prohibited from doing so by applicable laws or regulations, we agree to inform you of such summons or subpoena as soon as practicable. You may, within the time permitted for our firm to respond to any request, initiate such legal action as you deem appropriate, at your sole expense, to attempt to limit discovery. If you take no action within the time permitted for us to respond, or if your action does not result in a judicial order protecting us from supplying requested information, we may construe your inaction or failure as consent to comply with the request.

#### Newsletters and similar communications

We may send newsletters, emails, explanations of technical developments or similar communications to you. These communications are of a general nature and should not be construed as professional advice. We may not send all such communications to you. These

communications do not constitute a client relationship with you, nor do they constitute advice or an undertaking on our part to monitor issues for you.

#### **Disclaimer of legal and investment advice**

Our services under this Agreement do not constitute legal or investment advice unless specifically engaged to provide investment advice in the Engagement Objective and Scope section of this Agreement. We recommend that you retain legal counsel and investment advisors to provide such advice.

#### **Referrals**

In the course of providing services to you, you may request referrals to products or professionals such as attorneys, brokers or investment advisors. We may identify professional(s) or products for your consideration. However, you are responsible for evaluating, selecting and retaining any professional or product and determining if the professional or product meets your needs. You agree that we will not oversee the activities of and have no responsibility for the work product of any professional or the suitability of any product we refer to you or that you separately retain. Further, we are not responsible for any services we perform that fail to meet the intended outcomes as a result of relying on the services of other professionals or products you may retain.

#### **Limitations on oral and email communications**

We may discuss with you our views regarding the treatment of certain items or decisions you may encounter. We may also provide you with information in an email. Any advice or information delivered orally or in an email (rather than through a memorandum delivered as an email attachment) will be based upon limited research and a limited discussion and analysis of the underlying facts. Additional research or a more complete review of the facts may affect our analysis and conclusions.

Due to these limitations and the related risks, it may or may not be appropriate to proceed with a decision solely on the basis of any oral or email communication from us. You accept all responsibility, except to the extent caused by our gross negligence or willful misconduct, for any liability including but not limited to additional tax, penalties or interest resulting from your decision (i) not to have us perform the research and analysis necessary to reach a more definitive conclusion and (ii) to instead rely on an oral or email communication. The limitation in this paragraph will not apply to an item of written advice that is a deliverable of a separate engagement. If you wish to engage us to provide formal advice on a matter on which we have communicated orally or by email, we will confirm this service in a separate engagement letter.

#### **Electronic signatures and counterparts**

Each party hereto agrees that any electronic signature is intended to authenticate a written signature shall be valid and shall have the same force and effect as a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, a scanned copy of a manual signature, an electronic copy of a manual signature affixed to a document, a signature incorporated into a document utilizing touchscreen capabilities or a digital signature. Documents may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement.

#### **Your responsibilities**

While HK can provide assistance and recommendations, you are responsible for decisions and having suitable skill, knowledge and experience to oversee any services that HK provides. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are ultimately responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

#### **Conflicts of interest**

If we, in our sole discretion, believe a conflict has arisen affecting our ability to deliver services to you in accordance with either the ethical standards of our firm or the ethical standards of our profession, we may be required to suspend or terminate our services without issuing our work product.

#### **Mediation**

If a dispute, other than for collection of fees, arises out of or relates to the Agreement including the scope of services contained herein, or the breach thereof, and if the dispute cannot be settled through negotiation,

Lexington-Fayette Urban County Government (15229)

the parties agree first to try to settle the dispute by mediation administered by the American Arbitration Association (AAA) under the *AAA Accounting and Related Services Arbitration Rules and Mediation Procedures* before resorting to arbitration, litigation or some other dispute resolution procedure. The mediator will be selected by mutual agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the AAA. The mediation will be conducted in Iowa.

The mediation will be treated as a settlement discussion and, therefore, all discussions during the mediation will be confidential. The mediator may not testify for either party in any later proceeding related to the dispute. No recording or transcript shall be made of the mediation proceedings. The costs of any mediation proceedings shall be shared equally by all parties. Any costs of legal representation shall be borne by the hiring party.

#### **Limitation of liability**

HK's liability for all claims, damages and costs arising from this engagement is limited to two (2) times the total amount of fees paid by you to HK for services rendered under this agreement. Notwithstanding anything to the contrary in this Agreement, HK shall not be liable for any lost profits, indirect, special, incidental, punitive or consequential damages of any nature even if we have been advised by you of the possibility of such damages.

#### **Indemnification**

You agree to indemnify, defend and hold harmless HK and any of its partners, principals, shareholders, officers, directors, members, employees, agents or assigns with respect to any and all claims made by third parties arising from this engagement, regardless of the nature of the claim and including the negligence of any party, excepting claims arising from the negligence or intentional acts of HK. Nothing contained herein is intended to be, nor shall be, a waiver of any defense, including that of sovereign immunity, that LFUCG may have as to any third party.

#### **Designation of venue and jurisdiction**

In the event of a dispute, the courts of the state of Iowa shall have jurisdiction, and all disputes will be submitted to the Dubuque County Courthouse, which is the proper and most convenient venue for resolution. We also agree that the law of the state of Iowa shall govern all such disputes.

#### **Proprietary information**

You acknowledge that proprietary information, documents, materials, management techniques and other intellectual property are a material source of the services we perform and were developed prior to our association with you. Any new forms, software, documents or intellectual property we develop during this engagement for your use shall belong to us, and you shall have the limited right to use them solely within your business. All reports, templates, manuals, forms, checklists, questionnaires, letters, agreements and other documents which we make available to you are confidential and proprietary to us. Neither you nor any of your agents will copy, electronically store, reproduce or make available to anyone other than your personnel any such documents. This provision will apply to all materials whether in digital, hard copy format or other medium.

#### **Statute of limitations**

You agree that any claim arising out of this Agreement shall be commenced within one (1) year 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. A claim is understood to be a demand for money or services, the service of a suit or the institution of arbitration proceedings against HK.

#### **Termination and withdrawal**

We reserve the right to withdraw from the engagement without completing services for any reason including, but not limited to, non-payment of fees, your failure to comply with the terms of this Agreement or as we determine professional standards require. If our work is suspended or terminated, you agree that we will not be responsible for your failure to meet governmental and other deadlines, or for any liability, including but not limited to, penalties or interest that may be assessed against you resulting from your failure to meet such deadlines.

If this Agreement is terminated before services are completed, you agree to compensate us for the services performed and expenses incurred through the effective date of termination.

**Force majeure**

Neither party shall be held liable for any delays resulting from circumstances or causes beyond our reasonable control, including, without limitation, fire or other casualty, act of God, strike or labor dispute, war or other violence, epidemics or pandemics as defined by The Centers for Disease Control and Prevention, or any law, order or requirement of any governmental agency or authority. However, no Force Majeure event shall excuse you of any obligation to pay any outstanding invoice or fee or from any indemnification obligation under this Agreement.

**Assignment**

All parties acknowledge and agree that the terms and conditions of this Agreement shall be binding upon and inure to the parties' successors and assigns, subject to applicable laws and regulations.

**Severability**

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

**Entire agreement**

The engagement letter, including this Terms and Conditions Addendum and any other attachments, encompass 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. This Agreement has been entered into solely between you and HK, and no third-party beneficiaries are created hereby.