



From the desk of Thomas W. Sellars, CPA

Hereford, Lynch, Sellars & Kirkham, P.C.

Certified Public Accountants • A Professional Corporation

Office 936-756-8127

To: Patricia Allen
Date: July 17, 2015
Re: Annual Audit

RECEIVED

JUL 21 2015

Walker County Auditor

Patricia,

Enclosed is the engagement letter for 2015. The 2015 audit fee \$25,000 is based on the proposal we completed for the five year years ranging from 2011-2015. During the past four years we have incurred a significant amount of hours over the estimated hours used in the 2011 proposal. Our firm prides itself in helping our clients achieve excellence in its accounting and reporting areas. In doing so, we have absorbed the cost of the additional hours which were well beyond our fee estimates. Items that have caused increased hours in the past and referred to as non-audit services are as follows:

- Reconciliation of Federal and State Awards from the reports filed with the granting agencies to the general ledger
- Incomplete reconciliations of other payable accounts and accrued liabilities accounts
- Consistency of coding within capital assets between the capital asset subledger and the general ledger
- Restructuring the CAFR for changes in the County's financial software and account coding system

The above items have been absorbed in the fee in past years. During the current year, I did not include a cost for non-audit services in the estimate above. Those items may include the following:

- Capital Asset Reconciliations between the Subledger and General Ledger – HLSK has incurred cost associated with reconciling the subledger to the general ledger in order to produce GASB 34 entries which create the government-wide financial statements, reconciliations, and related footnotes as required by GFOA. Such cost estimate could range from \$200 to \$1,000 depending on the activity during the year.
- Report writing – HLSK recreated the CAFR due to the change in accounting software and account codes. If further organizational changes have occurred then our grouping reports would need to be relinked to the new account structure. Such cost estimate could range from \$100 - \$1,000 depending on the changes in the current year.
- GASB 68 Pension Implementation – HLSK may provide assistance to counties to implement GASB 68. We have set up templates for counties and believe we can provide an easy cost-efficient approach to implement the new standard. Said standard changes the presentation of the government-wide financial statements and adds several new pages of data in the notes and the required supplementary information. Such cost estimate could range from \$1,000 to \$2,000.

Please contact me with any questions you might have.

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Walker County Auditor

HLSK

Hereford, Lynch, Sellars & Kirkham

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Texas Society of Certified Public Accountants
Private Companies Practice Section
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Cleveland
111 East Boothe
Cleveland, Texas 77327
Tel 281-592-6443
Fax 281-592-7706

July 16, 2015

To The Honorable County Judge
and County Commissioners and Management of
Walker County
1301 University Avenue, Suite 206
Huntsville, Texas 77340

We are pleased to confirm our understanding of the services we are to provide Walker County for the year ended September 30, 2015. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of Walker County as of and for the year ended September 30, 2015. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Walker County's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Walker County's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Budgetary Comparison Schedules, as applicable.
- 3) Schedule of Funding Progress for Pensions, as applicable.
- 4) Schedule of Funding Progress for Other Post Employment Benefit Plans, as applicable.

We have also been engaged to report on supplementary information other than RSI that accompanies Walker County's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of Expenditures of Federal and State Awards, as applicable.
- 2) Supplementary Information, as applicable.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information. Our responsibility for other information included in documents containing the government's audited financial statements and auditor's report does not extend beyond the

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- 1) Schedule of Expenditures of Federal and State Awards, as applicable.
- 2) Supplementary Information, as applicable.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information. Our responsibility for other information included in documents containing the government's audited financial statements and auditor's report does not extend beyond the

financial information identified in the report. We have no responsibility for determining whether such other information contained in these documents is properly stated.

- 1) Introductory Section, as applicable.
- 2) Statistical Section, as applicable.

Audit Objectives

The objective of our audit is the expression of opinions as to whether the County's financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*, as applicable.
- 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 Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Texas Uniform Grant Management Standards, as applicable.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters, as applicable, will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The OMB Circular A-133 and Texas Uniform Grant Management Standards report on internal control over compliance, as applicable, will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Texas Uniform Grant Management Standards. Both reports will state that the report is not suitable for any other purpose.

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; the provisions of OMB Circular A-133 and Texas Uniform Grant Management Standards, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133 and Texas Uniform Grant Management Standards, and other procedures, as applicable, we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit, as applicable. Our reports will be addressed to management and the governing board of Walker County. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions, as applicable, are other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

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. 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. 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 (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements

or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. 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 the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit, as applicable. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may, as applicable, include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from the County's attorneys as part of the engagement, and they may bill the County for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management, as applicable, about management's responsibilities for the financial statements; schedule of expenditures of federal and state awards; federal and state award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. 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. 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 issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133 and Texas Uniform Grant Management Standards, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal and state award program, as applicable. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133 and Texas Uniform Grant Management Standards.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, OMB Circular A-133 and Texas Uniform Grant Management Standards, as applicable.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Walker County's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements, as applicable. 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 and Texas Uniform Grant Management Standards 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 tests of transactions and other applicable procedures described in the OMB Circular A-133 Compliance Supplement and Texas Uniform Grant Management Standards for the types of compliance requirements that could have a direct and material effect on each of Walker County's major programs, as applicable. The purpose of these procedures will be to express an opinion on Walker County's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133 and Texas Uniform Grant Management Standards, as applicable.

Other Services

We will also assist in preparing the financial statements, schedule of expenditures of federal and state awards, if applicable, and related notes of Walker County in conformity with U.S. generally accepted accounting principles and OMB Circular A-133 and Texas Uniform Grant Management Standards based on information provided by management. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

Management Responsibilities

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, if applicable, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management's responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the 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 could have a material effect on the financial statements. Management's responsibilities include informing us of management's 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, management is responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by OMB Circular A-133 and Texas Uniform Grant Management Standards, 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 and a corrective action plan, as applicable. The summary schedule of prior audit findings should be available for our review on August 31, 2015.

Management is responsible for identifying all federal and state awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal and state awards (including notes and noncash assistance received) in conformity with OMB Circular A-133 and Texas Uniform Grant Management Standards, as applicable. Management agrees to include our report on the schedule of expenditures of federal and state awards, as applicable, in any document that contains and indicates that we have reported on the schedule of expenditures of federal and state awards. Management also agrees to include the audited financial statements with any presentation of the schedule of expenditures of federal and state awards that includes our report thereon OR make the audited financial statements readily available to intended users of the schedule of expenditures of federal and state awards no later than the date the schedule of expenditures of federal awards and state is issued with our report thereon, as applicable. Management's responsibilities include acknowledging to us in the written representation letter that (1) Management is responsible for presentation of the schedule of expenditures of federal and state awards in accordance with OMB Circular A-133 and Texas Uniform

Grant Management Standards; (2) Management believes the schedule of expenditures of federal and state awards, including its form and content, is fairly presented in accordance with OMB Circular A-133 and Texas Uniform Grant Management Standards; as applicable (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal and state awards, as applicable.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon OR make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) management is responsible for presentation of the supplementary information in accordance with GAAP; (2) management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other 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, attestation engagements, performance audits, or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

Management agrees to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, as applicable, related notes, and any other nonaudit services we provide. Management will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal and state awards, as applicable, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal and state awards, as applicable, and related notes prior to their issuance and have accepted responsibility for them. Further, Management agrees to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We understand that the County's employees will prepare all cash, accounts receivable, or other confirmations and schedules we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, as applicable, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. 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 corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with management the electronic submission and certification, as applicable. If applicable, we will provide copies of our report for the County to include with the reporting package management will submit 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.

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.

The audit documentation for this engagement is the property of Hereford, Lynch, Sellars & Kirkham, P.C. and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the Cognizant or Oversight Agency for Audit or its designee, a federal or state agency providing direct or indirect funding, or the U.S.

Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify the County of any such request. If requested, access to such audit documentation will be provided under the supervision of Hereford, Lynch, Sellars & Kirkham, P.C. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Cognizant Agency, Oversight Agency for Audit, or Pass-through Entity. If we are aware that a federal or state 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 audit documentation.

We expect to begin our audit on approximately August 2015 and to issue our reports no later than March 2016. Thomas W. Sellars is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. To ensure that Hereford, Lynch, Sellars & Kirkham, P.C.'s independence is not impaired under the AICPA Code of Professional Conduct, the County agrees to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

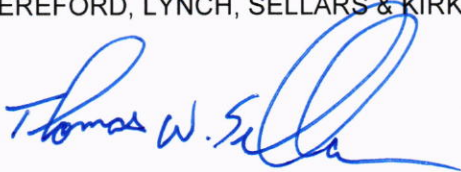
Our fees for these services will be based on the actual time spent at our standard hourly rates. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to the County's audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. Amounts billed and remaining unpaid sixty (60) days will be carried at 1-1/2 percent per month. Based on our preliminary estimates, the fee should approximate \$25,000 for the audit. This estimate is based on anticipated cooperation from the County's personnel and the assumption that unexpected circumstances will not be encountered during the audit. The estimate does not include restructuring of the financial statements for the change in software account codes and implementing GASB 68.

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

Management has requested that we provide the County with a copy of our most recent external peer review report and any subsequent reports received during the contract period. Accordingly, our 2012 peer review report accompanies this letter.

Sincerely,

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.



Thomas W. Sellars, CPA
Principal

Conroe, Texas

RESPONSE:

This letter correctly sets forth the understanding of Walker County.

Management Signature: _____

Title: _____

Governance Signature: _____

Title: _____

System Review Report

June 19, 2013

To the Shareholders

Hereford, Lynch, Sellars & Kirkham, P.C.

and the Peer Review Committee of the Texas Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of **Hereford, Lynch, Sellars & Kirkham, P.C.** (the firm) in effect for the year ended December 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable 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 therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of **Hereford, Lynch, Sellars & Kirkham, P.C.** in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **Hereford, Lynch, Sellars & Kirkham, P.C.** has received a peer review rating of *pass*.

Davis Kinard & Co, PC
Certified Public Accountants