

ORDER #2016-08


WHEREAS, the Commissioners' Court of Panola County desires to employ independent auditors to handle the independent audit for financial matters of Panola County for Fiscal Year 2016; and


WHEREAS, Article 262.024 V.T.C.A. grants an exemption from competitive bidding and competitive proposal requirements for professional services;


NOW, THEREFORE, the Panola County Commissioners' Court does hereby claim that exemption in the employment of Richard P. Loughlin, CPA for matters pertaining to the independent audit for financial matters of Panola County for Fiscal Year 2016.

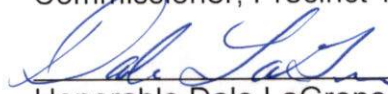
PASSED, APPROVED, and ADOPTED in Open Court this 27th day of June, 2016.


County Judge Lee Ann Jones


Honorable Ronnie LaGrone
Commissioner, Precinct One


Honorable Frank R. Langley, Jr.
Commissioner, Precinct Three


Honorable John Gradberg
Commissioner, Precinct Two


Honorable Dale LaGrone
Commissioner, Precinct Four

ATTEST:


County Clerk Bobbie Davis





Richard P Loughlin
Certified Public Accountant

Telephone: 903.657.0240
Fax: 903.655.1324

116 S Marshall
P O Box 1716
Henderson TX 75653

June 27, 2016

Honorable County Judge and Commissioners' Court
Panola County, Texas

We are pleased to confirm our understanding of the services we are to provide Panola County, Texas ("County") for the year ended December 31, 2016. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the County as of and for the year ended December 31, 2016. The document we submit to you will be a Comprehensive Annual Financial Report (CAFR). 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 the 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 the 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:

- Management's Discussion and Analysis.
- Schedule of Funding Progress for the Retirement Plan for the Employees of Panola County.
- Schedule of Funding Progress – Other Post Employment Benefits (OPEB) Plan.
- Schedule of Changes in Net Pension Liability
- Schedule of Contributions
- Budgetary Comparison Schedules for the General Fund and any major Special Revenue Funds.

We have also been engaged to report on supplementary information other than RSI that accompanies the 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 will provide an opinion on it in relation to the financial statements as a whole in a separate written report accompanying our auditor's report on the financial statements.

MEMBER

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- Combining and Individual Fund Financial Statements and Schedules.
- Schedule of Expenditures of Federal and State Awards.
- Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund.

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 for which our auditor's report will not provide an opinion or any assurance:

- Introductory Section.
- Statistical Section.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic 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 taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government auditing standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Panola County, Texas and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the County's financial statements. Our report will be addressed to the County Judge and Commissioner's Court of Panola 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 are other than unmodified, we will 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 opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) 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 as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters 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 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 paragraph will also state that the report is not suitable for any other purposes. If during our audit we become aware that Panola County is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

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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 County or to acts by management or employees acting on behalf of the County. 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 and the County Judge and Commissioners' Court 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, and of any material abuse that comes to our attention. We will include such matters in the reports required for a State Single Audit. 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 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 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 require certain written representations from you about the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures – Internal Controls

Our audit will include obtaining an understanding of the County 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

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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 the State of Texas Single Audit Circular, 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 state award program. 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 the State of Texas Single Audit Circular.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. 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*, and the State of Texas Single Audit Circular.

Audit Procedures – Compliance

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*.

The State of Texas Single Audit Circular 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 test of transactions and other applicable procedures described in the State of Texas Single Audit Circular for the types of compliance requirements that could have a direct and material effect on 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 each of its major programs in our report on compliance issued pursuant to the State of Texas Single Audit Circular.

Other Services

We will also assist in preparing the financial statements and related notes of the County in conformity with U.S. generally accepted accounting principles based on information provided by you. 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 establishing and maintaining effective internal controls, including internal controls over compliance, and for monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management 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

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grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements 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. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, and (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.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written 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.

You are 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 or illegal acts affecting the County 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 County received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the County 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 the State of Texas Single Audit Circular, 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. The summary schedule of prior audit findings, if applicable, should be available for our review on January 1, 2017.

You are responsible for the preparation of the schedule of expenditures of state awards in conformity with the State of Texas Single Audit Circular. You agree to include our report on the schedule of expenditures of state awards in any document that contains and indicates that we have reported on the schedule of expenditures of state awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of state awards that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (a) you are responsible for presentation of the schedule of expenditures of state awards in accordance with the State of Texas Single Audit Circular; (b) that you believe the schedule of expenditures of state awards, including its form and content, is fairly presented in accordance with the State of Texas Single Audit Circular; (c) that 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 (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of state awards.

You are 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. You

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agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree 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. Your responsibilities include acknowledging to us in the written representation letter that (a) you are responsible for presentation of the supplementary information in accordance with GAAP; (b) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that 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 (d) you have 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 for us 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 other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Management is responsible for the financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government awards received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal and state awards (including notes and noncash assistances received) in accordance with the requirements of the State of Texas Single Audit Circular. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of state awards, schedule of expenditures of federal awards, and related notes. 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*. You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal and state awards, related notes and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with the preparation of the financial statements and the schedule of expenditures of federal and state awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal and state awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Your 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. 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.

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Engagement Administration, Fees, and Other

We understand that your employees will locate any documents selected by us for testing.

At the conclusion of the engagement, we will provide one electronic copy (in searchable *.PDF format) of our report to the County; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal and state awards, summary schedule of prior audit findings, auditor's reports, and a corrective action plan) to State Agencies and, if appropriate, to pass-through entities. 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 Richard P. Loughlin, CPA, and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a state awarding agency, a federal awarding 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 you of any such request. If requested, access to such audit documentation will be provided under the supervision of Richard P. Loughlin, CPA personnel. Furthermore, upon request, we may provide 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 (5) years after the report release or for any additional period requested by any state awarding agency or any federal awarding agency. If we are aware that a state awarding agency, 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 audit documentation.

We expect to begin our audit on approximately December 31, 2016 and to issue our report no later than June 15, 2017. Richard P. Loughlin, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as travel, postage, copies, etc.). Based on our preliminary estimates, the fees should approximate \$32,000 to \$36,000, with our best fee estimate at \$34,000. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the outside CPA firm's work on capital assets and the OPEB Plan, and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

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Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

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.

Very truly yours,



Richard P. Loughlin
Certified Public Accountant

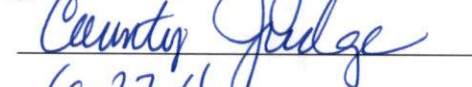
RESPONSE:

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

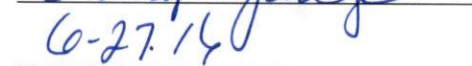
By:



Title:



Date:



MARLOW C. HUNTER, P.C.

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SYSTEM REVIEW REPORT

October 23, 2014

To the Shareholders
RICHARD P. LOUGHLIN, CPA
and the Peer Review Committee of the
Texas Society of Certified Public Accountants

I have reviewed the system of quality control for the accounting and auditing practice of **RICHARD P. LOUGHLIN, CPA** (the "firm") in effect for the year ended March 31, 2014. My 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 part of my peer review, I considered reviews by regulatory agencies, if applicable, in determining the nature and extent of my 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. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my 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*.

In my opinion, the system of quality control for the accounting and auditing practice of **RICHARD P. LOUGHLIN, CPA**, in effect for the year ended March 31, 2014, has been suitably designed and was 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*.

RICHARD P. LOUGHLIN, CPA received a rating of **PASS**.

Marlow C. Hunter, P.C.



**AICPA Peer Review Program
and TSCPA Peer Review Program**
Administered by the Texas Society of CPAs



December 11, 2014

Richard P Loughlin, CPA
Richard P. Loughlin
Po Box 1716
Henderson, TX 75653

Dear Mr. Loughlin:

It is my pleasure to notify you that on December 8, 2014 the Texas Society of CPAs 2014-15 Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2017. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Jerry L. Cross, CPA
Director, Peer Review
jcross@tscpa.net 800 428-0272

cc: Marlow C Hunter

Firm Number: 10119028

Review Number 361434

Letter ID: 945332