

**CONTRACT FOR PROFESSIONAL SERVICES**

THIS AGREEMENT is made this 26 day of January, 2015 in the Territory of the Virgin Islands, by and between the Government of the Virgin Islands, Department of Property and Procurement, on behalf of the DEPARTMENT OF FINANCE (hereinafter referred to as "Government") and BDO USA, LLP (hereinafter referred to as "Contractor").

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DEPARTMENT OF JUSTICE  
OFFICE OF THE  
ATTORNEY GENERAL

**WITNESSETH:**

**WHEREAS**, the Government is in need of the services of a qualified firm or individual(s) to provide Single Audit and Basic Financial Statement audits for the Government for the fiscal years ended September 30, 2014, September 30, 2015 and September 30, 2016, which duties and responsibilities are more particularly described in Addendums I, III, IV (Scope of Services) attached hereto; and

**WHEREAS**, the Contractor represents that it is willing and capable of providing such services;

**NOW, THEREFORE**, in consideration of the mutual covenants herein contained, and intending to be legally bound by this written instrument, the parties hereto do covenant and agree as follows:

**1. SERVICES**

The Contractor will provide the services described in Addendums I, III, IV (Scope of Services) attached hereto and made a part of this Contract.

**2. TERM**

This Contract shall commence on January 26, 2015 and shall terminate on December 31, 2017.

**3. COMPENSATION**

The Government in consideration of the satisfactory performance of the services described in Addendums I, III, IV (Scope of Services), agrees to pay Contractor an amount not to exceed SIX MILLION, SIX HUNDRED AND ELEVEN THOUSAND DOLLARS (\$6,611,000) in accordance with the provisions set forth in Addendum II (Terms of Compensation) attached hereto and made a part of this Contract. This Contract includes only those services specifically described herein; any additional services not specified herein will be agreed to via an amendment to the Contract.

**4. TRAVEL EXPENSES**

Inclusive in the compensation for services as specified in Paragraph 3 (Compensation) above, the Government agrees to pay documented transportation, subsistence, lodging and other travel expenses, while in travel status, for trips which have been authorized in writing, in advance, by the Government. These costs shall be advanced or reimbursed on the same basis as is applicable to non-Contract employees of the Government, or as agreed to by an addendum to this Contract, however, said costs and expenses shall not exceed                     N/A                    .

**5. RECORDS**

The Contractor, when applicable, will present documented, precise records of time and/or money expended under this Contract.

**6. PROFESSIONAL STANDARDS**

The Contractor agrees to provide services in accordance with generally accepted governmental accounting standards issued by the Governmental Accounting Standards Board, generally accepted accounting standards issued by the Financial Accounting Standards Board, *Governmental Auditing Standards* issued by the U.S. General Accounting Office; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

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**7. DOCUMENTS, PRINTOUTS, ETC.**

All documents, books, records, instructional materials, programs, printouts and memoranda of every description derived therefrom and pertaining to this Contract shall become the property of the Government and shall be turned over to it at the termination of this Contract. The above described materials shall not be used by Contractor or by any other person or entity except upon the written permission of the Government.

**8. LIABILITY OF OTHERS**

Nothing in this Contract shall be construed to impose any liability upon the Government to persons, firms, associations, or corporations engaged by Contractor as servants, agents, or independent Contractors, or in any other capacity whatsoever, or make Government liable to any such persons, firms, associations, or corporations for the acts, omissions, liabilities, obligations and taxes of Contractor of whatsoever nature, including but not limited to unemployment insurance and social security taxes for Contractor, its servants, agents or independent Contractors.

**9. ASSIGNMENT**

Except as noted in the Contractor's Technical Proposal to Provide Professional Services and (including, where applicable, member firms of the international BDO network), agents, or contractors (a "Permitted Assignee"), the Contractor shall not subcontract or assign any part of the services under this Contract without the prior written consent of the Government.

**10. DOCUMENT RETENTION STANDARDS**

The Contractor agrees to be subject to document retention standards applicable to certified public accounting firms mandated by the American Institute of Certified Public Accountants, the Government Accounting Standards Board, and the United States Government Accounting Office.

**11. INDEMNIFICATION**

Contractor agrees to investigate, defend and hold harmless the Government from and against any and all loss, damage, liability, claims, demands, detriments, cost, charges and expense (including attorney's fees) and causes of action of whatsoever character which Government may incur, sustain or be subjected to, arising out of or in any way connected to the services to be performed by Contractor under this Contract and arising from any cause, except the sole negligence of Government.

**12. INDEPENDENT CONTRACTOR**

The Contractor shall perform this Contract as an independent Contractor and nothing herein contained shall be construed to be inconsistent with this relationship or status.

**13. GOVERNING LAW**

This Contract shall be governed by the laws of the United States Virgin Islands without regard to conflict of laws principles. Any and all suits for the enforcement of this agreement or arising from any breach of this agreement shall be filed and maintained in a court of competent jurisdiction in the United States Virgin Islands.

**14. WAIVERS AND AMENDMENTS**

No waiver, modification or amendment of any term, condition or provision of this Contract shall be valid or of any force or effect unless made in writing, signed by the parties hereto or their duly authorized representatives and specifying with particularity the nature and extent of such waiver, modification or amendment. Any such waiver, modification or amendment in any instance or instances shall in no event be construed to be a general waiver, modification or amendment of any of the terms, conditions or provisions of this Contract, but the same shall be strictly limited and restricted to the extent and occasion specified in such signed writing or writings.



**15. ENTIRE AGREEMENT**

This Contract constitutes the entire agreement between the parties hereto, and all prior understanding or communications, written or oral, with respect to the Project, which is the subject matter of this Contract, are merged herein.

**16. RIGHT TO WITHHOLD**

If work under this Contract is not performed in accordance with the terms hereof, Government will have the right to withhold out of any payment due to Contractor, such sums as the Government may deem ample to protect it against loss or to assure payment of claims arising therefrom, and, at its option, the Government may apply such sums in such manner as the Government may deem proper to secure itself or to satisfy such claims. The Government will immediately notify the Contractor in writing in the event that it elects to exercise its right to withhold.

No such withholding or application shall be made by the Government if and while Contractor gives satisfactory assurance to the Government that such claims will be paid by Contractor or its insurance carrier, if applicable in the event that such contest is not successful.

**17. CONDITION PRECEDENT**

This Contract shall be subject to the availability and appropriation of funds and to the approval of the Governor.

**18. TERMINATION**

(a) This Contract may be terminated only as follows:

- (1) by mutual written agreement of the Government and the Contractor, or
- (2) by the Government when the Contractor has failed to substantially perform a material provision of this Contract. The Government shall give the Contractor written notice of its intention to terminate this Contract pursuant to this Section, and the notice shall specify

the duties and responsibilities which the Contractor has failed to perform. Thereupon, the Contractor shall have a term of **THIRTY (30) Days** following the receipt of said notice to cure such failure or failures or, in the alternative, to provide a Corrective Action Plan to reach such objective. If the Contractor cures such failure or failures to the reasonable satisfaction of the Government, the notice of intent to terminate shall be deemed terminated upon the lapse of the 30 day period, unless the parties shall otherwise agree in writing. In the event of termination, the Contractor shall be entitled to compensation for the fiscal year in which termination occurs, of fees and expenses incurred up to and including the date of termination, but in no event more than the amount authorized under Addendum II of this Contract.

- (3) By the Contractor when the Government has failed to substantially perform a material provision of the Contract, including its duties and responsibilities as specified in Addendum 1, Section C, or when the Contractor believes it is in the best interest to withdraw from the Contract. The Contractor shall give the Government written notice of its intention to terminate this Contract pursuant to this Section, which notice shall specify any duties and responsibilities which the Government has failed to perform or the reasons that led the Contractor to the conclusion to withdraw. Thereupon, Government shall have a term of **THIRTY (30) Days** following receipt of said notice to cure such failure or failures or, in the alternative, to provide a Corrective Action Plan to reach such objective. If the Government cures such failure or failures to the reasonable satisfaction of the Contractor, the notice of intent to terminate shall be deemed withdrawn. Otherwise, the Contract shall be deemed terminated upon the lapse of the 30-day period or at the projected completion date presented in the Corrective Action Plan, unless the parties agree shall otherwise agree in writing. In

the event of termination under this paragraph (3), the Contractor shall be entitled to compensation for fees and expenses incurred up to and including the date of termination, but in no event more than the amount authorized under Addendum II of this Contract for the fiscal year in which the termination occurs.

(b) Procedures For Termination Of The Contract

(1) Notice of Termination shall be given as provided in Section 22 of this Contract, and shall specify with particularity the nature and date of the termination.

(2) Upon receipt by the Contractor of a Notice of Termination the Contractor shall:

(i) Stop work under this Contract on the date and to the extent specified in the Notice of Termination.

(ii) Complete the performance of such part of the work that has been specified for completion by the Notice of Termination. However, the Contractor shall not be obligated without its express consent to complete the performance of any part of the work contemplated under this Contract, or to continue performing on such parts of the work as the Government may specify following the effective date of termination.

(3) Upon termination of this Contract in full, the Government may require the Contractor to return to the Government any property made available for its use during the term of this Contract.

**19. NON-DISCRIMINATION**

No person shall be excluded from participating in, be denied the proceeds of, or be subject to discrimination in the performance of this Contract on account of race, creed, color, sex, religion, disability or national origin.

**20. CONFLICT OF INTEREST**

(a) Contractor covenants that it has no interest and will not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of services required to be performed under this Contract.

(b) Contractor further covenants that it is:

(1) not a territorial officer or employee (i.e., the Governor, Lieutenant Governor, member of the Legislature, or any other elected territorial official; or an officer or employee of the legislative, executive or judicial branch of the Government or any agency, board, commission or independent instrumentality of the Government, whether compensated on a salary, fee or Contractual basis); or

(2) a territorial officer or employee and, as such, has:

(i) familiarized itself with the provisions of Title 3, Chapter 37 of the Virgin Islands Code, pertaining to conflicts of interest, including the penalties provision set forth in section 1108 thereof;

(ii) not made, negotiated or influenced this Contract, in its official capacity;

(iii) no financial interest in the Contract as that term is defined in section 1101 (1) of said Code chapter.

**21. EFFECTIVE DATE**

The effective date of this Contract shall be the day of execution of the Contract by the Governor.

**24. FALSE CLAIMS**

Contractor warrants that it shall not, with respect to this Contract, make or present any claim upon or against the Government of the Virgin Islands, or any officer, department, board, commission, or other agency thereof, knowing such claim to be false, fictitious, or fraudulent. Contractor acknowledges that making such a false, fictitious, or fraudulent claim is an offense under Virgin Islands law.

**25. NOTICE OF FEDERAL FUNDING**

Contractor acknowledges that this Contract may be funded, in whole or in part, by federal funds. Contractor warrants that it shall not, with respect to this Contract, make, or present any claim knowing such claim to be false, fictitious, or fraudulent. Contractor acknowledges that making such a false, fictitious, or fraudulent claim is a federal offense.

**26. DEBARMENT CERTIFICATION**

By execution of this contract, the Contractor certifies that it is eligible to receive contract awards using federally appropriated funds and that it has not been suspended or debarred from entering into contracts with any federal agency. The Contractor shall include this provision in each of its subcontracts hereunder and shall furnish its subcontractors with the current "LIST OF PARTIES EXCLUDED FROM FEDERAL PROCUREMENT OR NON PROCUREMENT". In the event the Contractor or any subcontractor misrepresents its eligibility to receive contract awards using federal funds, the Contractor or subcontractor agrees that it shall not be entitled to payment for any work performed under this contract or any subcontract and that the Contractor or subcontractor shall promptly reimburse the Government of the Virgin Islands for any progress payments heretofore made.



27. OTHER PROVISIONS

Addendums I through IV attached hereto are a part of this Contract and are incorporated herein by reference.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the day and year first above written.

WITNESSES:

GOVERNMENT OF THE VIRGIN ISLANDS

Christian

[Signature]

3-16-15

Valdamier O. Collens

Date

Acting Commissioner

Department of Finance

Lisa Hill

[Signature]

4/7/15  
Date

Cecilia Milliner-Emanuel

Acting Commissioner

Department of Property and Procurement

CONTRACTOR

[Signature]

[Signature]

3-10-15

Neena Masih, Partner

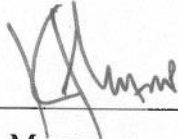
Date

BDO USA, LLP

(Corporate seal, if Contractor is a corporation)

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APPROVED:



Date: 04-17-15

Kenneth E. Mapp

GOVERNOR OF THE VIRGIN ISLANDS

APPROVED AS TO LEGAL SUFFICIENCY

DEPARTMENT OF JUSTICE BY:



Date: 4/16/15

\_\_\_\_\_  
PURCHASE ORDER

\_\_\_\_\_  
ACCOUNT CODE NO.

CERTIFICATE OF APPROVAL

I hereby certify that this is a true and exact copy of  
Contract No. [ ] entered into between  
The Department of Finance and  
BDO USA, LLP

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Cecilia Milliner-Emanuel, Acting Commissioner  
Department of Property and Procurement

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ADDENDUM I

SCOPE OF SERVICES

A. GENERAL PROJECT BACKGROUND INFORMATION

The Contractor will conduct an audit of the basic financial statements of the Government of the Government of the Virgin Islands as of and for each of the years ended September 30, 2014, 2015 and 2016 prepared in conformity with generally accepted accounting principles.

The Contractor will also conduct an OMB Circular A-133 Audit of the V.I. Government's federal financial assistance programs for the years ended September 30, 2014, 2015 and 2016. Such audits shall be conducted in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the U.S. General Accounting Office; and the provisions of Office of Management and Budget Circular A-133, *Audits of states, Local Governments and Non-Profit Organizations*.

The basic financial statements of the Government will include such component units as appropriate as provided by GASB Statement No. 14, *the Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Contractor will not be responsible for the audit of the component units not considered to be part of the "primary government". The primary government includes the following:

- o Chief Executive's Office
  - Public Relations and Information
  - National Guard
  - Virgin Island Territorial Emergency Management Agency
  - Energy
  - Virgin Islands Bureau of Internal Revenue
  - Veterans' Affairs
  - Office of Collective Bargaining
  - Board of Elections
  - Bureau of Information Technology
- o Virgin Islands Fire Department
- o Administrator's Office
- o Office of the Lieutenant Governor
- o Department of Tourism
- o Department of Agriculture
- o Department of Education
- o Department of Finance
- o Department of Health
- o Department of Sports, Parks and Recreation
- o Department of Human Services
- o Department of Justice
- o Department of Labor

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- NMB
- Department of Licensing and Consumer Affairs
  - Office of Management and Budget
  - Division of Personnel
  - Department of Planning and Natural Resources
  - Virgin Islands Police Department
  - Department of Property and Procurement
  - Department of Public Works
  - Virgin Islands Legislature
  - Superior Court
  - Supreme Court
  - University of the Virgin Islands Technology Park
  - Virgin Islands Waste Management

#### B. CONTRACTOR RESPONSIBILITIES

The Contractor will have the responsibility to conduct and will conduct the audit of the financial statements 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, with the objective of expressing an opinion as to whether the presentation of the financial statements taken as a whole conforms with accounting principles generally accepted in the United States of America.

In conducting the audit, the Contractor will perform tests of the accounting records and such other procedures as considered necessary in the circumstances to provide a reasonable basis for their opinion on the financial statements. The Contractor also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

The Contractor's audit of the financial statements is to be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

The auditor's report will be addressed to the Governor of the United States Virgin Islands. Based on prior experience, the Contractor does not anticipate that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary to modify the auditor's report or withdraw from the engagement. In such circumstances, findings or reasons for withdrawal will be communicated by the Contractor to the Commissioner of Finance of the Government of the U.S. Virgin Islands.



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The Contractor will inform management about any material errors and any instances of fraud or illegal acts to the extent that they come to the Contractor's attention. Further, the Contractor will inform the Commissioner of Finance, if brought to their attention, about fraud and illegal acts that involve senior management, fraud that in their judgment causes a material misstatement of the financial statements of the Government, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Commissioner of Finance.

Should the Government wish to include or incorporate by reference these financial statements and the Contractor's audit report(s) thereon into an offering of exempt securities, prior to the Contractor consenting to include or incorporate by reference its report(s) on such financial statements, the Contractor would consider their consent to the inclusion of their report and the terms thereof at that time. The Contractor will be required to perform procedures as required by the standards of the American Institution of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. The Contractor's reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, appearing in the financial statements. However, the Contractor will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of the Contractor's future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the Government wish to include or incorporate by reference these financial statements and the Contractor's audit report(s) thereon into an offering of exempt securities without obtaining the Contractor's consent to include or incorporate by reference their report(s) on such financial statements, and the Contractor is not otherwise associated with the offering document, then the Government agrees to include the following language in the offering document:

"{Name of Contractor}, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. {Name of Contractor} also has not performed any procedures relating to this official statement."

In planning and performing the audit, the Contractor will consider the Government's internal control in order to determine the nature, timing and extent of the Contractor's auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, the Contractor is required to communicate that the limited purpose of their consideration of internal control may not meet the needs of some users who require additional information about internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, the Contractor will perform tests of the Government's compliance with certain provisions of laws, regulations, contracts and grants, violations of which could have a



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direct and material effect on the financial statements. However, their objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, the Contractor will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAS report), on their consideration of internal control and tests of compliance made as part of their audit of the financial statements. While the objective of their audit of the financial statements is not to report on the Government's internal control and they are not obligated to search for reportable conditions as part of their audit of the financial statements, this report will include any reportable conditions to the extent they come to their attention. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the Government's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The definition of *reportable conditions* does not include potential future internal control problems, that is, control problems coming to the Contractor's attention that do not affect the preparation of financial statements for the period under audit. This report will also include illegal acts and fraud, unless clearly inconsequential and material violations of grants, contracts and abuse. It will indicate that it is intended solely for the information and use of the Government and management of the Government and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards* the Contractor will also issue a management letter to communicate other deficiencies in internal controls that are not reportable conditions and other violations of grants and contracts, and abuse that comes to their attention unless clearly inconsequential.

In accordance with *Government Auditing Standards*, the Contractor is also required in certain circumstances to report fraud or illegal acts directly to parties outside the Government.

The Contractor will also perform audit procedures with respect to the Government's major federal programs in accordance with the provisions of OMB Circular A-133. OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts and grants, which exceed those required by *Government Auditing Standards*.

As part of their audit procedures performed in accordance with the provisions of OMB Circular A-133, the Contractor will perform tests to evaluate the effectiveness of the design and operation of internal control that they consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts and grants applicable to each of the Government's major programs. The tests of internal control performed in accordance with OMB

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Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

The Contractor will perform tests of the Government's compliance with certain provisions of laws, regulations, contracts and grants the Contractor determines to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, the Contractor will prepare a written report which (1) provides an opinion on the schedule of expenditures of federal awards in relation to the Government's financial statements taken as a whole, (2) provides an opinion on compliance with laws, regulations, contracts and grants that could have a direct and material effect on a major federal program and (3) communicates the consideration of internal control over major federal programs.

The Contractor's reports on the internal control and on compliance with laws, regulations, contracts and grants will indicate that they are intended solely for the information and use of the Government, management of the Government and federal awarding agencies and pass-through entities and are not intended and should not be used by anyone other than these specified parties.

The work papers for this engagement are the property of the Contractor and constitute confidential information. However, pursuant to *Government Auditing Standards*, the Contractor is required to make certain work papers available to regulatory agencies upon request for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of the Contractor personnel. Furthermore, upon request, the Contractor may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

The Contractor will be responsible for providing sufficient staffing to conduct the audits as defined above.

The Contractor will also be responsible for providing living facilities for staff from locations other than the Virgin Islands. Such staff will be provided with the necessary supplies, authoritative literature and technical resources to conduct the audits. Such staff will also be provided the necessary continuing education necessary to meet the requirements of *Government Auditing Standards*.

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The Contractor will conduct engagement entrance and exit conferences and biweekly briefings meetings to discuss the audit's status and progress in relation to the established work plan and milestones.

The Contractor will evaluate the manner of inclusion of the competent units in the Government's basic financial statements as of September 30, 2014, 2015, and 2016 and will perform procedures considered necessary by the contractor to test the Government's compilation of the financial information from the audited financial statements of the competent units for inclusion in its basic financial statements. The Contractor will also be required to perform quarterly agreed-upon procedures and provide reports in accordance with the procedures set forth in paragraphs (a) through (i) below commencing with the quarter ended December 31, 2014 through September 30, 2016.

- a. The Contractor will review Sections 43, 44, and 45 of Title 33 of the Virgin Islands Code and any rules and regulations thereunder applicable to the imposition and collection of the gross receipt taxes.
- b. The Contractor will obtain the monthly gross receipt tax collections for each quarter covered by this agreement from the "Unaudited General Fund Statement of Revenues" and the "General Fund Daily Distribution Worksheets" prepared by the Revenue Audit Division of U.S. Virgin Islands Department of Finance.
- c. The Contractor will obtain from the Collecting Agent the monthly gross receipts tax revenues deposited during each of the quarters covered by this agreement.
- d. The contractor will compile gross receipt tax collections for each of the three months in each quarter from the "General Fund Daily Distribution Worksheets" prepared by the Revenue Audit Division of the U.S. Virgin Islands Department of Finance and will summarize the monthly information. The Contractor will compare the total gross receipt tax collection against the monthly report of "Unaudited General Fund Statements of Revenues" and the Collecting Agent total gross receipt tax deposits.
- e. For each of the quarters covered by this Agreement, the Contractor will release within 45 days following the end of each quarter an agreed-upon procedures report addressing the procedures set forth in the preceding four paragraphs.
- f. The engagement to apply agreed-upon procedures will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely responsibility of the Government. Consequently, the Contractor will make no representation regarding the sufficiency of the procedures either for the purpose for which the report is being prepared or for any other purpose.
- g. Because the agreed-upon procedures referred to above do not constitute an examination, the Contractor will not express an opinion on any of the elements, accounts, or items of the Government's financial statements for the quarters reported. The report will include a statement to that effect. In addition, the Contractor has no obligation to perform any procedures beyond those referred to above.
- h. The report will include a list of the procedures performed (or reference thereto) and the related findings. The report will also contain a paragraph indicating that had the Contractor performed additional procedures, other matters might have to come to their attention that would have been reported to the Government. The Contractor has no responsibility to update the report for events and circumstances occurring after the date of such report.



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- i. The report is intended solely for the use of the Government, and is not intended for use by those who have not agreed to the procedures for their purposes. If the government requests that additional specified users of the report be added, the Contractor will require that they acknowledge, in writing, their agreement with the procedures and their responsibility for the sufficiency of the procedures for their purposes.

If the Contractor is unable to complete the agreed-upon procedures referred to above, the Contractor will discuss the matter with the Commissioner of Finance of the Government during the engagement. In such circumstances, the Contractor may conclude that they will not issue a report as a result of this engagement.

In addition, the Contractor will also be responsible for providing verification of the Government's revenues or verifiable receipts for the fiscal years ended September 30, 2014, 2015, and 2016, in connection with Government Financial Accountability Act of 1999, Act No. 6289, which effective by August 23, 1999 mandates the enactment of a balanced budget with verifiable receipts attested to by an independent certified public accountant. The Contractor shall provide the agreed-upon procedures reports in accordance with the procedures set forth in paragraphs (a) through (j) below for fiscal year ended September 30, 2014 while conducting the audit of fiscal year 2013, for the fiscal year ended September 30, 2015 while conducting the audit of fiscal year 2014 and the fiscal year ended September 30, 2016 while conducting the audit fiscal year 2015.

- a. The Contractor will obtain the monthly General Fund revenues collections of income, real property and excise taxes for each of the three fiscal years covered by this agreement from the "Unaudited General Fund Statement of Revenues" and the "General Fund Daily Distribution Worksheets" prepared by the revenue Audit Division of the U.S. Virgin Islands Department of Finance.
- b. The Contractor will obtain from the Collecting Agent the monthly General Fund income, property and excise taxes deposited during each of the three fiscal years covered by this agreement.
- c. The Contractor will compile the collections of income; real property and excise taxes for each of the months in each of the three fiscal years from the "General Fund Daily Distribution Worksheets" prepared by the Revenue Audit Division of the U.S. Virgin Islands Department of Finance and will summarize the monthly information. The Contractor will compare the total gross receipt tax collection against the monthly report of "Unaudited General Fund Statements of Revenues" and the collecting Agent total gross receipt tax deposits.
- d. The Contractor will select a sample of 25 days from the "General Fund Daily Distribution Worksheets" and will compare the information of the tax collection for that day against the original remittance advice and against the validated bank deposit slip.

- e. For the 25 days selected, the Contractor will compare the amounts collected per the bank deposit slips against the amounts deposited per the bank statements.
- f. For each of the fiscal years, covered by this Agreement, the Contractor will release within 180 days following the end of each fiscal year the agreed upon procedures reports.
- g. The engagement to apply agreed-upon procedures will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of the Government. Consequently, the Contractor will make no representation regarding the sufficiency of the procedures either for the purpose for which the reports are being prepared or for any other purpose.
- h. Because the agreed-upon procedures referred to above do not constitute an examination, the Contractor will not express any opinion on any of the elements, accounts, or items of the Government's financial statements for each of the four fiscal years reported. The reports will include a statement to that effect. In addition, the Contractor has no obligation to perform any procedures beyond those referred to above.
- i. The reports will include a list of the procedures performed (of reference thereto) and the related findings. The report will also contain a paragraph indicating that had the Contractor performed additional procedures, other matters might have come to their attention that would have been reported to the Government. The Contractor has no responsibility to update the reports for events and circumstances occurring after the dates of such reports.
- j. The reports are intended solely for the use of the Government, and are not intended for use by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

If the Contractor is unable to complete the agreed-upon procedures referred to above, the Contractor will discuss the matter with the Commissioner of Finance of the Government during the engagement. In such circumstances, the Contractor may conclude that they will not issue a report as a result of this engagement.

**C. GOVERNMENT RESPONSIBILITIES**

The Government has responsibility for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements and all representations contained therein. Management of the Government also is responsible for identifying and ensuring that the Government complies with laws, regulations, contracts and grants applicable to its activities, and for informing the Contractor of any known material violations of such laws and regulations. Management of the Government also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies and for establishing and maintaining effective internal controls and procedures for financial reporting



to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management of the Government is also responsible for informing the Contractor, of which it has knowledge, of all reportable conditions in the design or operation of such controls.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal programs as discussed above, OMB Circular A-133 also requires the Government to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form, (Part 1)

While the Contractor may be separately engaged to assist the Government in the preparation these items, preparation is the responsibility of the Government.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The Government agrees to notify the Contractor of any such request by a granting agency and to work with the Contractor to modify the terms of this agreement as necessary to accommodate such requests.

In accordance with *Government Auditing Standards*, as part of planning the audit, the Contractor will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist the Contractor, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to the start of the audit.

The Government agrees that all records, documentation, and information requested by the Contractor in connection with the audit will be made available, that all material information will be disclosed, and that the Contractor will have the full cooperation of the Government's personnel. As required by auditing standards generally accepted in the United States of America, the Contractor will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The response to the inquiries, the written representations, and the results of audit tests comprise the evidential matter the Contractor will rely upon in forming an opinion on the financial statements.

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Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the Contractor in the representation letter that the effects of any unrecorded misstatements aggregated by the Contractor during the current engagement and pertaining to the latter period present are immaterial, both individually and in the aggregate, to the financial statements being reported as a whole. Because of the importance of management's representations to the effective performance of the Contractor's services, the Government agrees to release the contractor and its personnel from any claims, liabilities, costs and expenses relating to the services under this agreement attributable to any misrepresentations in the representation letter referred to above, notwithstanding anything to the contrary in the Agreement.

Management is also responsible for providing the Contractor with written responses in accordance with *Government Auditing Standards* to the findings included in the GAS report within 21 days of being provided with draft findings.

Management is responsible for the distribution of the reports issued by the Contractor. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are made to be available for public inspection.

The Government will provide a project management team to coordinate the project monitor the Agreement and assist the Contractor. The Government will notify the Contractor of any changes in the project management team.

The Government will identify the proper inclusion of all competent units in the financial statements. The Government will provide the Contractor an electronic work sheet containing the combined and individual balance sheets, statements of revenues and expenses (expenditures), statements of cash flows of its blended and discreetly presented component units. The Government will also identify all federal assistance programs received during the applicable year as suggested by the Catalog of Federal Domestic Assistance.

The Government will contact all component units notifying them of the inclusion of their financial information and the timetable for providing the necessary information for the audit.

The Government will complete the closing of its accounting records by November 30<sup>th</sup> of each year.

The Government will provide office space, telephone lines, fax machine service and copier availability.

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**D. TIMING**

The audit of the basic financial statements will be completed and the auditors' opinion available no later than June 30<sup>th</sup> of each year, provided the Government will complete the closing of its accounting records no later than November 30<sup>th</sup> of each year.

The auditors' report on internal control and compliance along with the schedules of findings and questioned costs, as appropriate, will be available no later than June 30<sup>th</sup> of each year, provided the Government will complete the schedule of federal financial assistance no later than November 30<sup>th</sup> of each year.

**E. COMFORT LETTERS AND BOND OFFERINGS**

Services related to bond offerings by the Government are not included in this Agreement. Service fee will negotiated between the Government and the Contractor as need for each offering.

**F. WORKPAPER RETENTION**

Audit work papers and reports will be retained for a minimum of three years from the date of the audit report or a period of one year from the date of resolution of audit findings and questioned costs, whichever occurs last, unless the Contractor is notified in writing to extend the retention period.

## Addendum II

### Terms of Compensation

The Government shall pay to the Contractor the sum of two million, one hundred and fifty thousand dollars (\$2,150,000) for the Services set forth in Addendums I, III, and IV, in accordance with the following terms and conditions:

1. Invoices of services of the fiscal year ended September 30, 2014, will be rendered to the Government in accordance with the following schedule:

<u>Invoice Schedule</u> <u>Billing Concept/Description</u>	<u>Estimated</u> <u>Invoice Date</u>	<u>Invoice</u> <u>Amount</u>
1. First progress bill	March 31, 2015	\$ 300,000
2. Second progress bill	April 30, 2015	\$ 505,750
3. Third progress bill	May 29, 2015	\$ 505,750
4. Fourth progress bill	June 26, 2015	\$ 505,750
5. Final bill	July 31, 2015	<u>\$ 332,750</u>
Total billed for Audit of fiscal year 2014		<u>\$ 2,150,000</u>

Contract No. PC05600F15  
RFP No. \_\_\_\_\_

Initials: AMD

**Addendum II**

**Terms of Compensation**

The Government shall pay to the Contractor the sum of two million, two hundred and three thousand dollars (\$2,203,000) for the Services set forth in Addendums I, III, and IV, in accordance with the following terms and conditions:

1. Invoices of services of the fiscal year ending September 30, 2015, will be rendered to the Government in accordance with the following schedule:

<u>Invoice Schedule Billing Concept/Description</u>	<u>Estimated Invoice Date</u>	<u>Invoice Amount</u>
1. First progress bill	November 27, 2015	\$ 320,500
2. Second progress bill	January 29, 2016	\$ 320,500
3. Third progress bill	February 26, 2016	\$ 320,500
4. Fourth progress bill	March 31, 2016	\$ 320,500
5. Fifth progress bill	April 29, 2016	\$ 320,500
6. Sixth progress bill	May 31, 2016	\$ 320,500
7. Final bill	June 30, 2016	<u>\$ 280,000</u>
Total billed for Audit of fiscal year 2015		<u>\$ 2,203,000</u>

Contract No. PC056D0F15  
RFP No. \_\_\_\_\_

Initials: MM



**Addendum II**  
**Terms of Compensation**

The Government shall pay to the Contractor the sum of two million, two hundred and fifty-eight thousand dollars (\$2,258,000) for the Services set forth in Addendums I, III, and IV, in accordance with the following terms and conditions:

1. Invoices of services of the fiscal year ending September 30, 2016, will be rendered to the Government in accordance with the following schedule:

<u>Invoice Schedule Billing Concept/Description</u>	<u>Estimated Invoice Date</u>	<u>Invoice Amount</u>
1. First progress bill	November 30, 2016	\$ 330,500
2. Second progress bill	January 31, 2017	\$ 330,500
3. Third progress bill	February 28, 2017	\$ 330,500
4. Fourth progress bill	March 31, 2017	\$ 330,500
5. Fifth progress bill	April 28, 2017	\$ 330,500
6. Sixth progress bill	May 31, 2017	\$ 330,500
7. Final bill	June 30, 2017	<u>\$ 275,000</u>
Total billed for Audit of fiscal year 2016		<u>\$ 2,258,000</u>

Contract No. PC056D0F15  
RFP No. \_\_\_\_\_

Initials: NMB

**Addendum III**

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services. Our acceptance of this agreement is contingent upon the satisfactory completion of our investigatory procedures.

**Objective and Scope of the Audit**

We are pleased to confirm our understanding of the services we are to provide to the **Government of the United States Virgin Islands** (the "Government" or "you"). As agreed, BDO USA, LLP ("BDO" or "we") will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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 the Government as of and for year ended September 30, 2014. 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 Government'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 Government'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. Schedule of Funding Progress
- 3. Schedule of Employer Contributions

We have also been engaged to report on supplementary information other than RSI that accompanies the Government'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:

- 1. Schedule of Expenditures of Federal Awards

At your request, we will not audit the financial statements of the following component units:

- 1. Virgin Islands Lottery
- 2. The Employees' Retirement System of the Government of the Virgin Islands
- 3. Virgin Islands Housing Authority
- 4. Virgin Islands Public Television System
- 5. Virgin Islands Economic Development Authority
- 6. Magens Bay Authority
- 7. Virgin Islands Government Hospital and Health Facilities Corporation
- 8. Virgin Islands Housing Finance Authority
- 9. University of the Virgin Islands
- 10. Virgin Islands Waste Management Authority
- 11. University of the Virgin Islands Research and Technology Park

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You have engaged component auditors to perform similar audits of these component units, and have arranged for them to furnish us with their reports. To ensure those financial statements will be in form and detail suitable for inclusion in the Government financial statements and the component auditors' reports will be in form and detail suitable for us to refer to in our report on the Government financial statements, we may discuss significant accounting and reporting matters with the component auditors and your component units' management. You will authorize the component auditors and the management of your component units' to furnish us with such cooperation and communication as we may consider desirable for these purposes.

#### Audit Objectives

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

The *Government Auditing Standards* report on internal control over financial reporting 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 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 report on internal control over compliance 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. 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; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. 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 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.

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## Management Responsibilities

Management is responsible for the financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of OMB Circular A-133. Management is responsible for 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; following laws and regulations; ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and 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. You are 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, (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 also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information.

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 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. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the 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, 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.

You are responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon OR make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (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) you have disclosed to us significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards. You are responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles.

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You 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 (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe 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) you have disclosed to us significant assumptions or interpretations underlying the measurement or presentation of the supplementary information. Management is responsible for recording proposed audit adjustments in the financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Government's files; or otherwise concluding and confirming in a representation letter (as further described below) provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the financial statements taken as a whole.

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 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.

As required by U.S. generally accepted auditing standards, we will request certain written representations from management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations. Because of the importance of management's representations to an effective audit, the Government agrees, subject to prevailing laws and regulations, to release and indemnify BDO, its Permitted Assignees (as defined herein under "Assignment"), and each of their respective employees from any liability and costs relating to our services rendered under this Agreement attributable to any knowing misrepresentations by management. We will also request written representations from your attorney as part of the engagement, and they may bill you for responding to this inquiry.

#### **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. 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. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for 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 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, 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 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 OMB Circular A-133. 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*, and OMB Circular A-133.

**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 Government's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*. OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs.

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Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the Government's major programs. The purpose of these procedures will be to express an opinion on the Government's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

At the conclusion of the engagement, we will complete the appropriate sections of and electronically certify the Data Collection Form that summarizes our audit findings. We will provide a final copy of our reports in a pdf file to the Government; however, it is management's responsibility to upload the pdf version of the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) and complete the appropriate sections of the Data Collection Form. Management is responsible for electronically certifying the Data Collection Form and electronically submitting the completed Data Collection Form to the Federal Audit Clearinghouse. It is management's responsibility to provide the reporting package to pass-through entities, if required. The Data Collection Form and the reporting package must be submitted electronically within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the oversight agency for audit.

#### **Client Acceptance Matters**

BDO is accepting the Government as a client in reliance on information obtained during the course of our client acceptance procedures. William Eisig and Neena Masih have been assigned the role of engagement partners and are responsible for directing the engagement and issuing the appropriate report on the Government's financial statements.

#### **Reproduction of Audit Report**

If the Government plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit report provided to management by BDO USA. You also agree to indemnify BDO USA from any and all claims that may arise from any differences between the electronic and signed versions.

#### **Review of Documents for Sale of Debt or Other Securities**

The audited financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of debt or other securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Communications With Predecessor Auditors**

GAAS requires that we contact Ernst & Young LLP to review their working papers and discuss their audit of prior years' financial statements. It will be necessary that you authorize in writing Ernst & Young LLP to communicate with us for that purpose.

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**Assistance by Your Personnel and Internet Access**

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to the Government's employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the Government's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

**Peer Review Reports**

*Government Auditing Standards* require that we provide you with a copy of our most recent quality control review report.

**Other Services**

We are always available to meet with you and/or other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting the Government. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas.

**Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the Government in the performance of our services. Any discussions that you have with personnel of BDO regarding employment could pose a threat to our independence. Therefore, we request that you inform us immediately prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

**Third Party Use**

BDO USA will perform the professional services provided in connection with this engagement solely for the information and use of the Government. BDO USA does not anticipate and does not authorize reliance by any other party on its professional services. Any amendment to this provision must be made through a written document signed by the Government and BDO USA.

**Miscellaneous**

This Agreement is intended to cover only the services specified herein, although we look forward to many more years of pleasant association with the Government. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services. Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Government hereby authorizes BDO USA to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Government's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that BDO USA shall have no liability in connection therewith.

Whenever possible, each provision of this letter shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this letter shall be deemed prohibited or invalid for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this letter as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this letter.

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#### Addendum IV

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services for the Government of the United States Virgin Islands (the "Government" or "you"). Our acceptance of this agreement is contingent upon the satisfactory completion of our investigatory procedures.

#### Agreed-Upon Procedures

BDO USA, LLP ("BDO" or "we") will apply the agreed-upon procedures listed in the attached schedule to assist management of the Government in evaluating its assertion that gross receipts tax collections for the quarters ending December, March, June, and September of each respective fiscal year of the Government are accurate and complete. This engagement is solely to assist the Government, the Virgin Islands Public Finance Authority, and ACA Financial Guaranty Corporation in evaluating the Government's assertion that its gross receipts tax collections for the quarters ending December, March, June, and September of each respective fiscal year of the Government, are accurate and complete.

Our engagement to apply agreed-upon procedures will be performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for agreed-upon procedures contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of the specified parties in the report.

Therefore, we make no representation regarding the sufficiency of the procedures described in the attached schedule either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the agreed-upon procedures, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If we are unable to complete the agreed-upon procedures, we may decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

The agreed-upon procedures listed in the attached schedule do not constitute an examination or a review; therefore, we will not express an opinion or limited assurance on the Government's assertion that gross receipts tax collections for the quarters ending December, March, June, and September of each respective fiscal year of the Government are accurate and complete. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule.

We will submit a report listing the procedures performed and the results of those procedures. This report is solely for the use of Government, the Virgin Islands Public Finance Authority, and ACA Financial Guaranty Corporation and should not be used by those who did not agree to the procedures and take responsibility for the sufficiency of the procedures for their purposes. Our report will contain a paragraph indicating that, had we performed additional procedures, other matters might have come to our attention that would have been reported to you. In addition, during the course of our engagement, findings may be identified, either through our agreed-upon procedures or through communication by your employees to us, and we will bring these findings to your attention.

#### Client Acceptance Matters

BDO is accepting the Government as a client in reliance on information obtained during the course of our client acceptance procedures. William Eisig and Neena Masih have been assigned the role of engagement partners and are responsible for directing the engagement and issuing the appropriate report on our findings resulting from applying our agreed-upon procedures.

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**Management (and User) Representations and Indemnification**

At the conclusion of our engagement, we will request certain written representations from you to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations. We will also request that the specified parties confirm to us representations concerning their interpretation of the Virgin Islands' Code applicable to the imposition and collection of gross receipts taxes. Because of the importance of management's representations to our engagement, the Government agrees to release and indemnify BDO, its Permitted Assignees (as defined herein under "Assignment"), and each of their respective employees from any liability and costs relating to our services under this Agreement attributable to any knowing misrepresentations by management of the Government.

**Availability of Records and Personnel**

You agree that all records, documentation, and information we request in connection with our agreed-upon procedures will be made available to us, that all material information will be disclosed to us, and that we will have full cooperation of, and unrestricted access to, your personnel.

**Assistance by Your Personnel and Internet Access**

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to the Government's employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the Government's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

**Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to you in the performance of our services. Any discussions that you have with personnel of BDO regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

**Miscellaneous**

This Agreement is intended to cover only the services specified herein, although we look forward to many more years of pleasant association with the Government. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

**Additional Services or Specified Parties**

If the need for additional services arises, this Agreement will need to be revised. We customarily enumerate these revisions in an addendum to this Agreement. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of the procedures.

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Agreed-Upon Procedures Schedule

1. We will read Sections 43, 44, and 45 of the Subtitle 1 of Title 33 of the Virgin Islands' Code, applicable to the imposition and collection of gross receipts taxes.
2. We will obtain the monthly gross receipts tax collections for the each of the selected quarters identified, from the monthly "Unaudited General Fund Statement of Revenue" prepared by the Revenue Audit Division of the Government's Department of Finance.
3. We will obtain from management of the Government the First Bank (the Collecting Agent) account statements, which include the monthly gross receipts tax revenue collected for each of the three months in the selected quarter.
4. For the each of the selected quarters, we will obtain the "General Fund Daily Distribution Worksheets" prepared by the Revenue Audit Division of the Government's Department of Finance. We will add the total daily gross receipts tax collections as presented in the "General Fund Daily Distribution Worksheets" for each of the three months in the selected quarter, and compare the sum of those amounts to the monthly gross receipts tax collections as presented in the monthly "Unaudited General Fund Statement of Revenue" reports and identify any variances.
5. For the each of the selected quarters, we will compare the total daily gross receipts taxes collected as presented in the "General Fund Daily Distribution Worksheets" with the amounts deposited in First Bank (the Collecting Agent) as per the bank statements and identify any variances.
6. We will compare the total of the daily gross receipts tax collections, as derived from procedure No. 4, per the "General Fund Daily Distribution Worksheets" to the total amounts deposited in the First Bank gross receipts tax collections bank account, for each of the three months in the selected quarter and identify any variances.

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