

SPD&A

S. Preston Douglas & Associates, LLP
Certified Public Accountants

Town of Holden Beach, North Carolina

Cost Proposal

Lee Grissom, CPA, CFE, CISA, Partner
S. Preston Douglas & Associates, LLP
907 N. Walnut Street
Lumberton, NC 28358
(910) 739-7523 ext. 307

Date of Proposal: July 24, 2019



S. Preston Douglas & Associates, LLP
Cost Proposal
Table of Contents

	Page
1. Audit Program.....	1
2. Statistical Sampling.....	1
3. Use of Computer Audit Specialists	1
4. Organization of Audit Team.....	2
5. Information Contained in Management Letter	2
6. Assistance Expected from Government's Staff	2
7. Tentative Schedule for Completing the Audit	3
8. Specified Costs.....	4
9. Additional Information	6
10. Summary of Audit Costs Sheet.....	7

1. Audit Program

Our firm utilizes Practitioners Publishing Company (PPC) resources for Audit Programs and Checklists for "Audits of Local Governments". PPC's audit programs and checklists are updated annually for changes in generally accepted accounting standards, Codification of Governmental Accounting Guides, generally accepted governmental auditing standards and the GAO's *Governmental Auditing Standards*. In April and May of each year, our audit department specifically tailors PPC's Audit Programs and Checklists for "Audits of Local Governments" based on the firms' audit methodology developed over the years.

2. Statistical Sampling

Our firm utilizes CaseWare's IDEA Data Analysis software (IDEA) to perform statistical sampling. IDEA allows us to quickly analyze large sets of data. The specific method we select depends on the size of the population sampled as well as risk factors that are specific to the client.

3. Use of Computer Audit Specialists

None.

4. Organization of Audit Team

The approximate percentage of time to be spent on the audit by each member of the audit team is provided below:

	Percentage of Time Spent on Audit	Position
Lee Grissom, CPA, CFE	45%	Partner
Austin Eubanks, CPA	20%	Manager
Stephen Parker, CPA	10%	Manager
Matt McLean, CPA	10%	Manager
Erica Evans	10%	Staff Auditor
John D. Masters, CPA	5%	Review Partner
	<hr/> 100%	

5. Information Contained in Management Letter

Management Letters include internal control improvements which are identified during the audit engagement that are not significant enough to be disclosed as findings in the audit report.

6. Assistance Expected from Government's Staff

We will furnish your staff with an Audit Request List. For efficiency purposes, we tailor the Audit Request List to each client. Our goal is to include 90-95% of all requests in the Audit Request List. Before we begin the audit, we expect electronic copies of the trial balance and general ledger to be sent in advance of our on-site fieldwork. Depending on the client's preferences and other considerations, we may request documents via secure file exchange.

7. Tentative Schedule for Completing the Audit

The tentative schedule for completing the audit is provided below:

<u>Activity</u>	<u>June</u>	<u>September</u>	<u>October</u>	<u>November</u>
* Conduct planning meeting with management	X			
Send audit request list	X			
Perform interim audit procedures	X			
Conduct internal control walk-throughs		X		
Perform substantive audit procedures		X		
Prepare financial statements		X		
Submit financial statements to LGC			X	
Prepare Management Letter and applicable reports			X	
Conduct exit conference with personnel			X	
Present results of audit to the board				X

*For initial audits, we import the prior year trial balance into our software and then assign a grouping code to each general ledger account, which creates the basis of our Grouping Schedule reports. To ensure accuracy of our Grouping Schedules, we verify that the assigned grouping codes agree to the prior year financial statements. Then, we link the grouping schedule codes to our template consisting of excel and word documents. The linked template allows us to: 1) focus most of our time in August and September on completing the audit fieldwork and 2) provide a draft copy of the financial statements to the Finance Officer by October 1.

8. Specified Costs

The total costs listed in this section are not-to-exceed amounts.

Year Ended June 30, 2019

A. Personnel Costs

Personnel Category	Estimated Hours			Total	Rate per Hour	Total Cost
	On-Site Interim	On-Site Year End	Auditor's Office			
Partners	10	25	20	55	\$ 135.00	\$ 7,425.00
Senior Audit Staff	10	25	35	70	120.00	8,400.00
Staff Accountants	0	25	0	25	100.00	2,500.00
Total	20	75	55	150		18,325.00

B. Travel

675.00

C. Cost of Supplies and Materials

-

D. Other Costs

-

Total Amount for Fiscal Year 2019 Audit

\$ 19,000.00

8. Specified Costs (continued)

The total costs listed in this section are not-to-exceed amounts.

Year Ended June 30, 2020

A. Personnel Costs

Personnel Category	Estimated Hours			Total	Rate per Hour	Total Cost
	On-Site Interim	On-Site Year End	Auditor's Office			
Partners	10	25	20	55	\$ 135.00	\$ 7,425.00
Senior Audit Staff	10	25	35	70	125.00	8,750.00
Staff Accountants	0	25	0	25	100.00	2,500.00
Total	20	75	55	150		18,675.00

B. Travel 675.00

C. Cost of Supplies and Materials -

D. Other Costs -

Total Amount for Fiscal Year 2020 Audit \$ 19,350.00

8. Specified Costs (continued)

The total costs listed in this section are not-to-exceed amounts.

Year Ended June 30, 2021

A. Personnel Costs

<u>Personnel Category</u>	<u>Estimated Hours</u>			<u>Total</u>	<u>Rate per Hour</u>	<u>Total Cost</u>
	<u>On-Site Interim</u>	<u>On-Site Year End</u>	<u>Auditor's Office</u>			
Partners	10	25	20	55	\$ 135.00	\$ 7,425.00
Senior Audit Staff	10	25	35	70	130.00	9,100.00
Staff Accountants	0	25	0	25	100.00	2,500.00
Total	20	75	55	150		19,025.00

B. Travel 675.00

C. Cost of Supplies and Materials -

D. Other Costs -

Total Amount for Fiscal Year 2021 Audit \$ 19,700.00

9. Additional Information

We do not bill for questions/comments/telephone calls/etc. during the year. Our clients routinely ask about budgets, internal controls, grants, and payroll without incurring any additional charges.

AUDIT COST SUMMARY SHEET
Fiscal Year Ending June 30, 2019

1	Base Audit (General Purpose Financial Statements) Includes Personnel costs, travel, and on-site work	\$ <u>19,000.00</u>
2	Financial Statement Preparation	<u>included in base audit</u>
<hr/>		
3	Extra Audit Service (\$ <u>80-\$ 135</u> per hour)	\$ <u>when applicable</u>
4	Other (please explain)	\$ <u>-</u>
5	Other (please explain)	\$ <u>-</u>
	<u>TOTAL</u>	\$ <u><u>19,000.00</u></u>

AUDIT COST SUMMARY SHEET
Fiscal Year Ending June 30, 2020

"Estimated"

1	Base Audit (General Purpose Financial Statements) Includes Personnel costs, travel, and on-site work	\$ <u>19,350.00</u>
2	Financial Statement Preparation	<u>included in base audit</u>
3	Extra Audit Service (\$ <u>80-\$ 160</u> per hour)	\$ <u>when applicable</u>
4	Other (please explain)	\$ <u>-</u>
5	Other (please explain)	\$ <u>-</u>
	<u>TOTAL</u>	\$ <u><u>19,350.00</u></u>

AUDIT COST SUMMARY SHEET
Fiscal Year Ending June 30, 2021

"Estimated"

1	Base Audit (General Purpose Financial Statements) Includes Personnel costs, travel, and on-site work	\$ <u>19,700.00</u>
2	Financial Statement Preparation	<u>included in base audit</u>
<hr/>		
3	Extra Audit Service (\$ <u>80-\$ 135</u> per hour)	\$ <u>when applicable</u>
4	Other (please explain)	\$ <u>-</u>
5	Other (please explain)	\$ <u>-</u>
	<u>TOTAL</u>	\$ <u><u>19,700.00</u></u>

SPD&A

S. Preston Douglas & Associates, LLP
Certified Public Accountants

Town of Holden Beach, North Carolina

Technical Proposal

Lee Grissom, CPA, CFE, CISA, Partner
S. Preston Douglas & Associates, LLP
907 N. Walnut Street
Lumberton, NC 28358
(910) 739-7523 ext. 307

Date of Proposal: July 24, 2019



S. Preston Douglas & Associates, LLP
Technical Proposal
Table of Contents

	Page
1. Audit Personnel by Level	1
2. List of Local Office’s Governmental Audit Clients.....	1
3. Additional Services.....	3
4. Peer Review Participation.....	3
5. Peer Review Report.....	3
6. Professional Experience in Governmental Audits	4
7. Relevant Educational Background	9
8. Professional Experience	14
9. Specialized Skills, Training, and Background in Governmental Finance	14
10. References.....	17
11. Policy and Procedures Regarding Independence	18
12. Liability Insurance Coverage	18
13. Regulatory Action.....	18

Appendix

1. Peer Review Report.....	1
----------------------------	---

1. Audit Personnel by Level

Partner in Charge of the Audit:

1. Lee Grissom, CPA, CFE, CISA

Senior Audit Staff:

1. Austin Eubanks, CPA
2. Stephen Parker, CPA
3. Matt McLean, CPA

Staff Auditor:

1. Erica Evans

Review Partner:

1. John D. Masters, CPA

2. List of Local Office's Governmental Audit Clients

<u>Unit</u>	<u># of Years Served</u>	<u>Type of Service</u>
Alamance Community College	6	Audit
Calabash ABC Board	6	Audit
City of Archdale	3	Audit
City of Elizabeth City	3	Audit
City of Greer	6	Audit
City of Lumberton	12	Audit
College of The Albemarle	2	Audit
Leland Tourism Development Authority	3	Audit
Lumbee Tribe of North Carolina	3	Audit
Lumberton ABC Board	6	Audit
Lumberton Area Visitors Bureau	3	Audit
Lumberton Tourism Development Authority	12	Audit
Maxton ABC Board	6	Audit
McDowell Technical Community College	3	Audit
Public Schools of Robeson County	26	Audit
Richmond Community College	2	Audit
Shallotte ABC Board	6	Audit
Town of Atkinson	3	Audit
Town of Belhaven	3	Audit
Town of Boardman	2	Audit
Town of Burgaw	3	Audit
Town of Calabash	9	Audit

Continued on next page

2. List of Local Office's Governmental Audit Clients (continued)

Unit	# of Years Served	Type of Service
Town of Carthage	2	Audit
Town of Chadbourn	6	Audit
Town of Coats	3	Audit
Town of Emerald Isle	3	Audit
Town of Fairmont	15	Audit
Town of Gibson	6	Audit
Town of Holly Ridge	6	Audit
Town of Leland	6	Audit
Town of Marietta	12	Audit
Town of Maxton	12	Audit
Town of Maysville	2	Audit
Town of McDonald	12	Audit
Town of Mount Olive	2	Audit
Town of Oak Island	4	Audit
Town of Orrum	12	Audit
Town of Parkton	6	Audit
Town of Pembroke	12	Audit
Town of Pinebluff	6	Audit
Town of Proctorville	8	Audit
Town of Raynham	6	Audit
Town of Rennert	6	Audit
Town of Rowland	12	Audit
Town of Saint Pauls	3	Audit
Town of Spring Lake	4	Audit
Town of Sunset Beach	12	Audit
Town of Surf City	2	Audit
Town of Topsail Beach	3	Audit
Town of Wagram	3	Audit
Town of Watha	3	Audit
Town of Wilson's Mills	3	Audit

3. Additional Services

Our firm provides nonaudit services upon request. The 2018 revision of Generally Accepted Governmental Auditing Standards (Yellow Book) updated independence guidance on nonaudit services such as preparing financial statements. According to the 2018 Yellow Book revision, preparing financial statements for an audit client from a client-provided trial balance or underlying accounting records creates significant threats to independence. We anticipate many governmental units will seek assistance from accounting firms to prepare their annual financial statements as a result of the 2018 Yellow Book revision. Should you request additional services, we will gladly provide you with a separate quote.

4. Peer Review Participation

Our firm is a member of the American Institute of Certified Public Accountants and participates in a peer review program administered through the North Carolina Association of Certified Public Accountants. We are required to undergo a review every three years and have been in compliance with the quality control program since it became mandatory in the late 1980s.

5. Peer Review Report

A copy of our most recent peer review report is included in the Appendix to this Technical Proposal.

6. Professional Experience in Governmental Audits

The professional experience in governmental audits of each senior and higher level team member assigned to the audit is provided below:

Lee Grissom, CPA, CFE, CISA

<u>Unit</u>	<u># of Years Served</u>	<u>Position</u>
Alamance Community College	6	Partner
City of Archdale	3	Partner
City of Elizabeth City	3	Partner
City of Greer	6	Partner
City of Lumberton	3	Partner
College of The Albemarle	2	Partner
McDowell Technical Community College	3	Partner
Public Schools of Robeson County	9	Partner
Richmond Community College	2	Partner
Town of Atkinson	3	Partner
Town of Belhaven	3	Partner
Town of Burgaw	3	Partner
Town of Coats	3	Partner
Town of Emerald Isle	3	Partner
Town of Fairmont	9	Partner
Town of Leland	3	Partner
Town of Maysville	2	Partner
Town of Mount Olive	2	Partner
Town of Pembroke	9	Partner
Town of Rennert	3	Partner
Town of Rowland	9	Partner
Town of Saint Pauls	3	Partner
Town of Spring Lake	4	Partner
Town of Sunset Beach	3	Partner
Town of Surf City	3	Partner
Town of Topsail Beach	3	Partner
Town of Wagram	3	Partner
Town of Watha	3	Partner
Town of Wilson's Mills	3	Partner

6. Professional Experience in Governmental Audits (continued)

Austin Eubanks, CPA

Unit	# of Years Served	Position
Alamance Community College	6	Manager
City of Archdale	2	Manager
City of Elizabeth City	3	Manager
City of Greer	6	Manager
College of The Albemarle	2	Manager
Communities in Schools Charter School	4	Manager
Lumbee Tribe of North Carolina	3	Manager
McDowell Technical Community College	3	Manager
Public Schools of Robeson County	6	Manager
Richmond Community College	2	Manager
Town of Atkinson	3	Manager
Town of Belhaven	3	Manager
Town of Burgaw	3	Manager
Town of Carthage	2	Manager
Town of Chadbourn	2	Manager
Town of Coats	3	Manager
Town of Emerald Isle	3	Manager
Town of Leland	2	Manager
Town of Maysville	2	Manager
Town of Mount Olive	2	Manager
Town of Parkton	2	Manager
Town of Pembroke	3	Manager
Town of Sunset Beach	3	Manager
Town of Surf City	2	Manager
Town of Spring Lake	3	Manager
Town of Saint Pauls	3	Manager
Town of Topsail Beach	3	Manager
Town of Wilson's Mills	3	Manager

6. Professional Experience in Governmental Audits (continued)

Stephen Parker, CPA

Unit	# of Years Served	Position
Alamance Community College	8	Manager
City of Lumberton	3	Manager
Lumberton Tourism Development Authority	10	Manager
Pembroke Tourism Development Authority	10	Manager
Public Schools of Robeson County	10	Manager
Town of Fairmont	10	Manager
Town of Gibson	2	Manager
Town of Marietta	10	Manager
Town of Maxton	10	Manager
Town of McDonald	10	Manager
Town of Orrum	10	Manager
Town of Parkton	10	Manager
Town of Pembroke	10	Manager
Town of Proctorville	10	Manager
Town of Raynham	10	Manager
Town of Rennert	10	Manager
Town of Rowland	10	Manager
Town of Saint Pauls	3	Manager

6. Professional Experience in Governmental Audits (continued)

Matt McLean, CPA

Unit	# of Years Served	Position
Alamance Community College	6	Manager
Calabash ABC Board	6	Manager
City of Archdale	2	Manager
City of Greer	6	Manager
Lumbee Tribe of North Carolina	6	Manager
Lumberton ABC Board	6	Manager
Maxton ABC Board	6	Manager
Public Schools of Robeson County	6	Manager
Shallotte ABC Board	6	Manager
Tabor City ABC Board	6	Manager
Town of Leland	3	Manager
Town of Maxton	6	Manager
Town of McDonald	6	Manager
Town of Oak Island	4	Manager
Town of Orrum	6	Manager
Town of Parkton	6	Manager
Town of Pembroke	6	Manager
Town of Pembroke	6	Manager
Town of Pinebluff	2	Manager
Town of Proctorville	6	Manager
Town of Raynham	6	Manager
Town of Rennert	6	Manager
Town of Rowland	6	Manager
Town of Surf City	2	Manager
Town of Topsail Beach	2	Manager

6. Professional Experience in Governmental Audits (continued)

John D. Masters CPA

Unit	# of Years Served	Position
City of Lumberton	12	Partner
Lumberton Area Visitors Bureau	3	Partner
Lumberton Tourism Development Authority	12	Partner
Pembroke Tourism Development Authority	3	Partner
Town of Fairmont	15	Partner
Town of Gibson	6	Partner
Town of Marietta	12	Partner
Town of Maxton	12	Partner
Town of McDonald	12	Partner
Town of Orrum	12	Partner
Town of Parkton	6	Partner
Town of Pembroke	12	Partner
Town of Proctorville	8	Partner
Town of Raynham	6	Partner
Town of Rennert	6	Partner
Town of Rowland	12	Partner
Town of Saint Pauls	3	Partner

The percentage of time **on-site** for each senior member of the audit team is provided below:

Audit Personnel	Percentage of Time On-site	Position
Lee Grissom, CPA, CFE	100%	Partner
Austin Eubanks, CPA	100%	Manager
Stephen Parker, CPA	50%	Manager
Matt McLean, CPA	50%	Manager
John D. Masters, CPA	0%*	Review Partner

*John D. Masters, CPA is the Quality Control Reviewer on municipal audit engagements. As noted above, he does not spend time on-site.

7. Relevant Educational Background

The relevant educational background by senior members of the audit team within the last three years is provided below:

Lee Grissom, CPA, CFE, CISA

Education

B.S., Accounting, North Carolina State University

M.S., Accounting, North Carolina State University

Seminars/Courses in Governmental Accounting

2018 Local Government Conference (2018)

Yellow Book: Governmental Auditing Standards (2018)

Not-for-Profit Accounting and Auditing Update (2018)

Governmental Accounting and Audit Update (2018)

Fundamental for Performing a Single Audit under Uniform Guidance (2017)

AICPA's Annual Update: Top Governmental and Not-for-Profit Accounting Issues Facing CPA's (2017)

Frequent Frauds Found in Governments and Not-for-Profits (2017)

Governmental Accounting and Reporting (2017)

2017 Local Government Conference (2017)

Local Government Conference (2016)

2016 Healthcare Industry Conference (2016)

Performing a Single Audit (2016)

7. Relevant Educational Background (continued)

Austin Eubanks, CPA

Education

B.S., Accounting, University of North Carolina at Pembroke

Seminars/Courses in Governmental Accounting

2018 Local Government Conference (2018)

Yellow Book: Governmental Auditing Standards (2018)

Not-for-Profit Accounting and Auditing Update (2018)

Governmental Accounting and Audit Update (2018)

Compliance Auditing - School Districts (2018)

Accounting and Reporting for Not-For-Profit Organizations (2017)

Governmental Accounting and Reporting (2017)

Compliance Auditing - School Districts (2017)

Auditors Guide to Uniform Guidance (2017)

2017 Local Government Conference (2017)

Audit of School Districts (2016)

Advance Topics in a Single Audit (2016)

Fundamentals in Performing Single Audits (2016)

7. Relevant Educational Background (continued)

Stephen Parker, CPA

Education

B.S., Accounting, North Carolina State University

Seminars/Courses in Governmental Accounting

2018 Local Government Conference (2018)

Yellow Book: Governmental Auditing Standards (2018)

Not-for-Profit Accounting and Auditing Update (2018)

Governmental Accounting and Audit Update (2018)

2017 Local Government Conference (2017)

Governmental Accounting and Reporting (2017)

Accounting and Reporting for Not-For-Profit Conference (2017)

2016 Local Government Conference (2016)

Uniform Guidance (2016)

Top Governmental and NFP Accounting & Auditing Issues Facing CPA's (2016)

7. Relevant Educational Background (continued)

Matt McLean, CPA

Education

B.A., Communications, University of North Carolina at Wilmington

Seminars/Courses in Governmental Accounting

2018 Local Government Conference (2018)

Yellow Book: Governmental Auditing Standards (2018)

Not-for-Profit Accounting and Auditing Update (2018)

Governmental Accounting and Audit Update (2018)

2017 Local Government Conference (2017)

Governmental Accounting and Reporting (2017)

Accounting and Reporting for Not-For-Profit Conference (2017)

Local Government Conference (2016)

Fundamentals of Performing Single Audit Under Uniform Guidance (2016)

Frequent Frauds Found in Governments and Not-For-Profits (2016)

AICPA's Annual Update: Top Govt. & Not-For-Profits Accounting & Auditing Issues (2016)

7. Relevant Educational Background (continued)

John D. Masters, CPA

Education

B.S., Finance, University of Tennessee

M.S., Accounting, Memphis State University

Seminars/Courses in Governmental Accounting

2018 Local Government Conference (2018)

Yellow Book: Governmental Auditing Standards (2018)

Not-for-Profit Accounting and Auditing Update (2018)

Governmental Accounting and Audit Update (2018)

Not-for-Profit Accounting Conference (2017)

Compliance Auditing (2017)

2017 LGC Conference (2017)

Accounting, Reporting, and Not-for-Profit Reporting (2017)

Annual AICPA Update (2016)

Fundamentals for Performing Single Audits (2016)

2016 Local Government Conference (2016)

8. Professional Experience

The professional experience of each senior member of the audit team is provided below:

Lee Grissom, III, CPA, CFE, CISA has 12 years of experience auditing governmental and non-profits. Lee is the in-house administrator of computer-based, fraud detection tools for the firm.

Austin Eubanks, CPA has seven years of experience auditing governmental and non-profits. Austin specializes in compliance audits under the Uniform Guidance for Federal Awards and the State Single Audit Implementation Act.

Stephen Parker, CPA has 10 years of experience auditing governmental and non-profits. Stephen has been the leader in multiple technology initiatives for the firm including the firm's transition into a 100% paperless audit process.

Matt McLean, CPA has 10 years of experience auditing governmental and non-profits.

John D. Masters, CPA has over 30 years of experience auditing governmental and non-profits.

9. Specialized Skills, Training, and Background in Governmental Finance

The specialized skills, training, and background in governmental finance and membership in professional organizations by each senior member of the audit team is provided below:

Lee Grissom, CPA, CFE, CISA

Skills/Training/Background

Certified Fraud Examiner (CFE)

Certified Information Systems Auditor (CISA)

IDEA Data Extraction/ Analysis (specialized skill)

North Carolina CPA Certificate #33564

Association of Certified Fraud Examiners, License #562210 (ACFE)

Lee has 12 years of experience in auditing governmental units.

9. Specialized Skills, Training, and Background in Governmental Finance (continued)

Lee Grissom, CPA, CFE (continued)

Professional Organizations

American Institute of Certified Public Accountants (AICPA)

North Carolina Association of Certified Public Accountants (NCACPA)

NCAVPA Member Connection Committee, Member

Austin Eubanks, CPA

Skills/Training/Background

North Carolina CPA Certificate #39481

IDEA Data Extraction/ Analysis (specialized skill)

Austin has seven years of experience in auditing governmental units.

Professional Organizations

American Institute of Certified Public Accountants (AICPA)

North Carolina Association of Certified Public Accountants (NCACPA)

9. Specialized Skills, Training, and Background in Public Finance (continued)

Stephen Parker, CPA

Skills/Training/Background

North Carolina CPA Certificate #39393

IDEA Data Extraction/ Analysis (specialized skill)

Stephen has 10 years of experience in auditing governmental units.

Professional Organizations

American Institute of Certified Public Accountants (AICPA)

North Carolina Association of Certified Public Accountants (NCACPA)

Matt Mclean, CPA

Skills/Training/Background

North Carolina CPA Certificate #39138

IDEA Data Extraction/ Analysis (specialized skill)

Matt has 10 years of experience in auditing governmental units.

Professional Organizations

American Institute of Certified Public Accountants (AICPA)

North Carolina Association of Certified Public Accountants (NCACPA)

9. Specialized Skills, Training, and Background in Public Finance (continued)

John D. Masters, CPA

Skills/Training/Background

North Carolina CPA Certificate #14964

John has over 30 years of experience in auditing governmental units.

Professional Organizations

American Institute of Certified Public Accountants (AICPA)

North Carolina Association of Certified Public Accountants (NCACPA)

10. References

<u>Client</u>	<u>Contact</u>	<u>Address</u>	<u>Phone</u>
Town of Emerald Isle	Laura Rotchford	7500 Emerald Drive Emerald Isle, NC 28594	(252) 354-3424
Town of Sunset Beach	Tara Eatman	700 Sunset Boulevard North Sunset Beach, NC 28468	(910) 579-6297 ext 1015
Town of Carthage	Kesha Matthews	4396 Hwy 15-501 Carthage, NC 28327	(910) 947-2331

11. Policy and Procedures Regarding Independence

Our Quality Control Document and professional standards require us to be independent in fact and in appearance. On an annual basis, all employees receive and must sign a written Statement of Independence to document our firm's adherence to independence rules of conduct, which include any employee's personal or business relationships with our clients.

12. Liability Insurance Information

Our firm has contracted with Continental Casualty Company for liability insurance coverage in the amount of \$1,000,000 per claim and \$2,000,000 in the aggregate.

13. Regulatory Action

Our firm has never had any regulatory action imposed on it by any oversight board.

APPENDIX

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

January 31, 2017

To the Partners of S. Preston Douglas & Associates, LLP and the
Peer Review Committee of the North Carolina Association of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of S. Preston Douglas & Associates, LLP in effect for the year ended July 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants ("Standards").

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

FIRM'S RESPONSIBILITY

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

PEER REVIEWER'S RESPONSIBILITY

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

REQUIRED SELECTIONS AND CONSIDERATIONS

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

 **DEFICIENCIES IDENTIFIED IN THE FIRM'S SYSTEM OF QUALITY CONTROL**

We noted the following deficiency during our review:

- The firm's quality control policies regarding engagement and financial statement reviews have not been complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. During our review, we noted instances where disclosures were inadvertently omitted from financial statements of employee benefit plans and were not detected in review. This was noted in the previous peer review. The systemic cause of the deficiency was a result of a breakdown in the firm's review process. In our opinion, this contributed to audit engagements in the employee benefit plan industry that did not conform to professional standards in all material respects.

 **OPINION**

In our opinion, except for the deficiency previously described, the system of quality control for the accounting and auditing practice of S. Preston Douglas & Associates, LLP in effect for the year ended July 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. S. Preston Douglas & Associates, LLP has received a peer review rating of *pass with deficiency*.



WithumSmith+Brown, PC