

TOWN OF HOLDEN BEACH

Response to RFP for Financial Audit Services



Responsible Office and Contact Person:

Jay E. Sharpe, CPA, CFE

PARTNER – DIRECTOR OF AUDIT SERVICES

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Profile

FIRM PROFILE

Rives & Associates, LLP is a professional limited liability partnership licensed by the North Carolina State Board of CPA Examiners and is engaged in the practice of public accounting with five offices in North Carolina. Rives & Associates, LLP was established in 2004 by W. Leon Rives and Leon L. Rives II. The Lexington practice was originally founded by W. Leon Rives in the early 1980s, doing business as W. Leon Rives CPA (sole proprietorship). The Firm added offices in Charlotte and Raleigh in order to facilitate growth and to serve existing clients across the State. With a staff of more than 50, Rives & Associates, LLP has evolved to serve North Carolina clients for over twenty-five years.

We have a primary objective to provide high quality audit, accounting, tax and advisory services to clients in the best professional manner. Our partners, managers, and staff are expected to comply with this statement of philosophy in order to achieve the desired objective. "Professionalism" in the accounting profession means integrity, objectivity, independence where required, adherence to professional standards and applicable laws and regulations, and a demonstrated will to maintain and improve the quality of professional services and to withstand all pressures competitive and otherwise, to compromise on principles, standards, and quality. Particularly in the field of auditing, professionalism requires an understanding of and dedication to the public interest. The public interest in audited financial statements has placed the public accounting profession in a unique position of public trust. Moreover, there is also a significant public interest in the way in which the Firm carries out accounting, tax and advisory services. Therefore, no client or Firm consideration is allowed to interfere with our ability to carry out our commitment to professionalism.

Our Non-Profit/Governmental Audit Team takes the audit service beyond the basics, by providing advice throughout the audit process to improve operations and ensure compliance with regulations and general statutes. We are a member of the American Institute of Certified Public Accountants Governmental Audit Quality Center, North Carolina Association of Certified Public Accountants, North Carolina Association of School Board Officials, the American Institute of Certified Public Accountants Private Practice Center, and the North Carolina Center for Nonprofits.

In 2010 Rives & Associates, LLP was named in the Top 5 North Carolina Small Businesses and in 2011 was named in the Top 50 Small Businesses in the South. The Firm was recently awarded "FAST 50" status in the Triad Area.

EXPERIENCE

Rives & Associates, LLP initiated its practice in the non-profit and governmental service industry in response to our observation that larger firms were devoting fewer and fewer resources to their smaller and mid-size clients. The collective and extensive experience of our Non-Profit/Governmental Audit Team has developed one of the fastest growing service areas of Rives & Associates, LLP. Ever-changing accounting standards, economic conditions and the continued rise in operating costs have propelled our Non-Profit/Governmental Audit Team to help entities alleviate the pressures facing the industries. Our

commitment to the non-profit and governmental industry is reflected in the significant growth of our practice, the retention of those clients and the low turnover of our employees.

We are one of the largest auditors of Governmental Agencies in North Carolina, we currently audit more than 60 governments/agencies/non-profits in North Carolina, which accounts for more than \$4 Billion dollars annually in revenues. This includes the 15th largest school system in the United States.

The experience and capabilities of our Non-Profit/Governmental Audit Team include:

- | | |
|---|---|
| <ul style="list-style-type: none"> • Financial Audits • Single Audits (A-133) • Program Specific Audits • Agreed-upon Procedures • Forensic Audits • Performance Audits | <ul style="list-style-type: none"> • Risk Assessment and Remediation • Strategic Planning • Internal Controls • Efficiency Studies • Staff Training Seminars • Management Reviews |
|---|---|

Our OMB Uniform Guidance and A-133 Single Audit experience, which we perform on a recurring basis, includes the following federal and state programs:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Water and Waste Disposal Systems for Rural Communities • Head Start and Early Head Start • Child and Adult Care Food Program • Special Education Cluster: <ul style="list-style-type: none"> • Education of the Handicapped • Children with Disabilities – Risk Pool • Coordinating Early Intervening Services • Preschool Handicapped • IDEA Targeted Assistance for Preschool Federal Grant • IDEA VI-B Special Needs Targeted Assistance • Weatherization Assistance Program • Workforce Investment Act • N.C. Pre-K (More At Four) • Community Services Block Grant • Community Development Block Grant • Vocational Education | <ul style="list-style-type: none"> • Community Services Block Grant • Improving Teacher Quality • Title II Immigrant & Youth • Race To The Top • National School Lunch Program • School Breakfast Program • Education Technology • English Language Acquisition Grants • N.C. State Public School Fund • Public Building Capital Fund • State Buses Appropriation • School Improvement Grants • Parent Training and Information Program • Technical Assistance For Parents • Family to Family Health Information Program • Child Abuse Prevention and Treatment Program • Home Care Program • Title 1, Part A Cluster Grants |
|--|--|

AUDIT STAFFING

Rives & Associates, LLP employs approximately fifty professionals over its five offices in North Carolina. The staffing needs are based on the complexity and nature of the organization, timing, the extent of procedures which must be performed to meet the audit objective, and the travel involved. We have designated specific audit associates to the engagement however, our audit associates are interchangeable between our offices and their assignments may change. There will be a minimum of two audit associates, one audit manager, and one partner designated to the engagement at all times. It is very common for two managers to be assigned to an engagement as one will act as an associate. Each member of this team will be fully available to satisfy the needs of the engagement.

We understand that professionals who have gained specific governmental knowledge through on site experience are best equipped to serve our clients, so we are committed to returning team members to the same engagements each year. This continuity helps control costs and saves time, by making sure you are working with trusted professionals who have a clear understanding of your goals and strategies.

Our partners and managers maintain a high degree of client involvement which minimizes the overhead and reduces the audit costs. This also provides the client a higher level of expertise that is always available. The following indicates the individuals by level and location that will handle the audit:

The Town's Audit will staff by Rives & Associates, LLP as follows:

Partner (and in charge)	Raleigh
Manager	Raleigh
Senior Staff	Wilmington
Staff	Raleigh
Technical Review	Raleigh

GOVERNMENT CLIENTS

Below is a sample of a governmental audit clients the Raleigh Office has served:

<u>Client</u>	<u>Services</u>	<u>Years</u>	<u>Gasb 34</u>
Wake County Board of Education	Financial statement audit		
	Single audit	6	Yes
Town of Benson	Financial statement audit	3	Yes
Town of Pittsboro	Financial statement audit		
	Single audit	6	Yes
City of Kinston	Financial statement audit		
	Single audit	1	Yes
Town of Ayden	Financial statement audit	1	Yes
Town of Goldston	Financial statement audit		
	Single audit	5	Yes
Wayne County Board of Education	Financial statement audit		
	Single audit	2	Yes
Jones County Board of Education	Financial statement audit		
	Single audit	2	Yes
Caldwell Community College	Financial statement audit	4	
Cary EMS	Financial statement audit	6	
Eastern Wake EMS	Financial statement audit	6	
Cape Fear Center for Inquiry (charter school)	Financial statement audit		
	Single audit	15	Yes
Phoenix Academy (charter school)	Financial statement audit		
	Single audit	13	Yes
Bethany Community Middle School (charter school)	Financial statement audit		
	Single audit	8	Yes
Cape Fear Community College Foundation	Financial statement audit	5	
Coastal Preparatory Academy	Financial statement audit		
	Single audit	1	Yes
Metrolina Regional Scholars Academy (charter school)	Financial statement audit		
	Single audit	6	Yes
Healthy Start Academy (charter school)	Financial statement audit		
	Single audit	3	Yes
North East Carolina Preparatory Academy (charter school)	Financial statement audit		
	Single audit	3	Yes

GASB 34 Reporting Model

As indicated above, the majority of our governmental clients' financial statements are prepared on the GASB 34 reporting model. We prepare greater than 90% of these financial statements and are very familiar with the reporting model and the templates the LGC has prepared.

ADDITIONAL GOVERNMENT SERVICES

Rives & Associates, LLP from time to time provides other services to government entities. A couple of example of these services includes the following:

- The Firm conducted a three-year forensic audit for the Lumberton Housing Authority.
- The Firm consulted on the presentation of Foundations related to Cape Fear Community College and Carteret Community College when GASB 61 was introduced. This consultation included the determination of the Foundations as component units and their presentation on the financial statements if they were determined to be component units.
- The Firm conducted pension testing for two school systems (Durham County Schools and Anson County Schools) during 2015 and one school system (Wake County Schools) during 2016.
- The firm conducted a vendor audit for a School System.

PEER REVIEW

Rives & Associates, LLP is a member of the American Institute of Certified Public Accountants (AICPA) and participants in the AICPA Peer Review Program. The AICPA Peer Review Program, - administered by the North Carolina Association of Certified Public Accountants in North Carolina, requires enrolled firms to have a peer review conducted by an independent evaluator, once every three years, of their accounting and auditing practice. Such review assures that the services we provide to our clients meet the highest level of standards in the accounting profession. Our most recent peer review for the year ended March 31, 2017, received a "pass" rating, the highest rating of quality controls. See a copy of the peer review report in Attachment A.

It is the policy of our Firm that our quality control system be monitored on an ongoing basis to provide the Firm with reasonable assurance that the policies and procedures established by the Firm for each of the other quality control elements (including quality control elements and activities not formalized in writing) of quality control are suitably designed and are being effectively applied. The adequacy and effectiveness of the Firm's quality control system is monitored on an ongoing basis by the Firm's quality control partner. As an integral part of the monitoring process, our quality control system is inspected annually to determine whether the Firm has complied with its stated quality control policies.

STAFF EXPERIENCE

All staff assigned to the Town’s audit will have previous governmental audit experience. All staff also have experience preparing financial statements under the GASB 34 model.

The Town’s audit will be staffed by Rives & Associates as follows:

Partner in Charge	Jay E. Sharpe, CPA, CFE	Raleigh	50%
Audit Manager	Jacob Allen, CPA	Raleigh	100%
Senior Staff	Jessica Body, CPA	Wilmington	100%
Staff	TBD	Raleigh	100%

TEAM BIOGRAPHIES

SUPERVISING AUDITOR

Jay E. Sharpe will be the partner in charge for the Town’s audit. Additional information for each staff is as follows:

Jay E. Sharpe, Partner - Director of Audit Services

Jay E. Sharpe, CPA, CFE is the Raleigh office’s partner and services as the firm’s Director of Auditor Services. Jay joined Rives & Associates, LLP in 2012 and brings over 17 years of experience in governmental and not-for-profit organizations. His work experience includes working with a variety of Towns, Boards of Education, Community Colleges, not-for-profits, charter schools, EMS Units and HUD properties. Jay previously worked for the Office of the State Auditor.



In addition to his auditing experience, Jay performs forensic and fraud investigative services. He has led seminars in the past on preventing fraud and is the President of the Board of Directors for the Central Carolina Chapter of the Association of Certified Fraud Examiners.

Community Involvement

- Treasurer on the Board for the SPCA of Wake County.
- Coaches basketball and baseball for local youth programs

Jay is a volunteer reviewer for the GFOA.

Education and Licenses

- Bachelor of Science in Accountancy – The University of North Carolina at Wilmington
- Masters in Science in Accountancy – The University of North Carolina at Wilmington
- Licensed as a Certified Public Accountant in North Carolina (license # 27818)
- Licensed as a Certified Fraud Examiner

Professional Affiliations

- American Institute of Certified Public Accountants (AICPA)
- North Carolina Association of Certified Public Accountants (NCACPA)
- Association of Certified Fraud Examiners (ACFE)

Continuing Professional Education

Jay has maintained required CPE levels over the past three years. He has taken over 160 credit hours during this period including annual ethics requirements, annual audit updates, fraud seminars and attended the local government and not-for-profit conferences held by the NCACPA. Jay has also led seminars on fraud and auditing techniques during the past three years.

Not-for Profit / Governmental Audit Experience:

A sample of relevant clients that Jay has worked on in the past include:

- Town of Pittsboro
- Town of Benson
- Town of Ayden
- City of Kinston
- Town of Goldston
- Wayne County Board of Education
- Jones County Board of Education
- Caldwell Community College
- Davidson County Community College
- Wake County Board of Education
- Durham County Board of Education
- Green County Community Health Center
- Various charter schools (all under GASB 34)

Diana Hill, Audit Manager

Diana Hill is an Audit Manager in the Raleigh office of Rives & Associates, LLP. Diana practices in the areas of auditing and attestation. She has over six years of experience in public accounting and her experience in public accounting and areas of expertise include: Towns, Boards of Education, Not-for-profits, HUD and affordable housing audits, community health centers, A-133 audits, charter schools, private schools, churches, foundations, manufacturing companies, retail companies, and trade associations.



Education and Licenses

- Bachelor of Science in Accounting – North Carolina State University
- Masters of Accountancy – North Carolina State University
- Licensed as a Certified Public Accountant in the State of North Carolina (license #36753).

Professional Affiliations

- American Institute of Certified Public Accountants (AICPA)
- North Carolina Association of Certified Public Accountants (NCACPA)
- Association of Certified Fraud Examiners (ACFE)

Community Involvement

- Board of the Kinston City Arts Council
- Young CPA Board of the NCACPA

Continuing Professional Education

Her continuing education includes attendance at courses concentrating on audit services for governmental industry clients, not-for-profits, and fraud topics. She has maintained the required CPE levels over the past three years, including annual ethics requirements.

A sample of relevant clients that Diana has worked on in the past include:

- Town of Pittsboro
- Town of Ayden
- Wake County Board of Education
- Wayne County Board of Education
- Jones County Board of Education
- Green County Community Health Center
- Kinston Community Health Center
- Durham County Board of Education
- Various charter schools

Jacob Allen, Audit Manager

Jacob Allen, CPA, is an Audit Manager in the Raleigh office of Rives & Associates, LLP. Jacob joined the firm in October 2013, and practices in the areas of auditing and attestation. He has over seven years of experience in public accounting and his areas of expertise include:

Continuing Professional Education

His continuing education includes attendance at courses concentrating on audit services for governmental industry clients.

Education

- Bachelor of Business Administration in Accounting – Campbell University
- Masters of Accountancy – North Carolina State University

Professional Affiliations

- American Institute of Certified Public Accountants (AICPA)
- North Carolina Association of Certified Public Accountants (NCACPA)

Accreditations and Licenses

Jacob is licensed as a Certified Public Accountant in the State of North Carolina (#37400).

A sample of relevant clients that Jacob has worked on in the past include:

- Town of Pittsboro
- Wake County Board of Education
- Town of Benson
- Town of Pittsboro
- Green County Community Health Center
- Durham County Board of Education
- Various charter schools



Adam Scarboro, Senior Audit Associate

Adam Scarboro is a Senior Audit Associate in the Raleigh office of Rives & Associates, LLP. Adam joined the firm in August 2015 after graduating from UNC-Wilmington, and practices in the areas of auditing and attestation. His experience in public accounting and areas of expertise include: school boards, municipalities, HUD audits, charters schools and not-for-profits.

Continuing Professional Education

His continuing education includes attendance at courses concentrating on audit services for governmental industry, not-for-profit and insurance clients.

Accreditations and Licenses

- Bachelor of Science in Accounting – UNC-Wilmington
- Masters of Accountancy – UNC-Wilmington

Accreditations and Licenses

Adam is licensed as a Certified Public Accountant in the State of North Carolina

A sample of relevant clients that Adam has worked on in the past include:

- Town of Pittsboro
- Wake County Board of Education
- Wayne County Board of Education
- Town of Benson
- Town of Pittsboro
- Town of Goldston
- Green County Community Health Center
- Durham County Board of Education
- Various charter schools

Staff Commitment

The Firm is fully committed to having the having the same staff on an annual basis on the Town's audit engagements. We fully understand from previous experience with clients that staff continuity is one of the major reasons organizations become dissatisfied with their CPAs. It is beneficial to the Firm to have the same staff on an engagement on an annual basis as they will have previous knowledge with the client and will be more efficient.

Unfortunately, the CPA industry experiences quite a bit a turnover on an annual basis. We have heard of industry averages ranging from 20 to 25%. Our Firm has experienced approximately 10% overall turnover over the last few years. Some of the main reasons for this turnover have been staff moving and staff looking to practice in a different industry or career niche. The Raleigh office's audit team has had no turnover over the past 18 months. We have actually added staff due to growth. How has this been accomplished? Management of the Firm has made it their mission to develop a culture that empowers staff. We do not act like your typical CPA firm.

Education

It is a policy of Rives & Associates, LLP that all audit staff maintain at a minimum of 40 hours of CPE on an annual basis, rather or not that they have at their CPA license. This continuing professional education is accomplished through a combination of conferences, seminars, webinars, self-study course and internal CPE courses. Every staff assigned to the Town's audit will have sufficient CPE and Yellow Book credit hours on an ongoing basis.

Some of the many seminars the Firm's staff has attended in recent years:

- Jay and Diana have attended the annual non-profit conference held by the NCACPA the last several years.
- The Firm sends many of its staff to the NCACPA LGC Conference annually including several from Raleigh. We just got back from annual LGC conference last week!
- Jennifer, Jacob and Diana attended UNC School of Government audit updates last summer.
- Jay attended a Government Audit Sampling Workshop instructed by the NC State Auditor, Beth Wood back in January 2014.

Authorized Non-Profit/Governmental Courses and Seminars:

- UNC School of Government Annual Updates
- Local Government Conference.
- Understanding, Applying & Documenting, Governmental Compliance Requirements
- Fraud in non-profits.
- GASB Update
- Auditing & Accounting
- Governmental Accounting and Auditing - Preparation/Developing/Writing
- Auditing of School Districts
- Governmental/Non-Profit Accounting & Auditing Update
- Internal Controls and SAS 115
- A & A Concepts & Financial Disclosure
- Yellowbook Update and Risk Assessment
- Governmental Audit Sampling - Substantive & Compliance

In addition to the in-house courses and seminars, the Non-Profit/Governmental Audit Team members also attend courses and seminars conducted by other organizations such as NCACPA and AICPA. Below is a sample of courses and seminars attended by the Non-Profit/Governmental Audit Team conducted by other organizations:

- Applying A-133 to Non-profit and Governmental Organizations
- NC Accountancy Law, Ethics, Principles and Professional Responsibilities
- Compliance Auditing Workshop
- Non-For-Profit Conference
- Studies on Single Audit and Yellow Book Deficiencies
- Local Government Commission Update
- Economic Update
- The SBI and White Collar Crime
- Introduction to School Board Audits
- Compliance Auditing School Districts
- Frequent Frauds Found In Governments and Not For Profits
- Professional Ethics and Conduct
- Malpractice Risk Seminar
- Employee Benefit Conference

GOVERNMENTAL EXPERIENCE

As noted under our Firm Profile, the Firm has vast experience in auditing government agencies. That includes an array of Federal Single Audits and State Single Audits for various programs. Our governmental experience includes:

- Boards of Education
- Towns
- Charter Schools
- Community Colleges
- Utility authorities
- EMS units
- HUD properties

In addition, Jay Sharpe, who will lead the audit team previously worked with the NC Office of the State Auditor, where he performed audits of Universities, Community Colleges, the Ports Authority and Clerks of Court.

ALL STAFF ASSIGNED TO THE TOWN'S AUDIT HAVE PREVIOUS EXPERIENCE WITH AUDITING TOWNS AND FINANCIAL STATEMENT PREPARATION UNDER GASB 34.

SPECIALIZED SKILLS AND TRAINING

The following discusses some of the specialized skills and training for individuals that may be assigned to the Agency's audit.

Jay E. Sharpe – In addition to his CPA license, Jay holds his certified fraud examiners license. He is currently the President of the Central Carolina Chapter of the ACFE's. He has put on seminars in the past discussing fraud deterrence and detection methods.

Jay is also a volunteer reviewer for the GFOA Certificate for Excellence in Financial Reporting.

REFERENCES

We invite you to contact the below personnel of other current audit clients in regards to their audit experience with us.

Town of Benson
303 E. Church Street
Benson, NC 27504
Kim Pickett – Finance Director
kpickett@townofbenson.com
(919) 894-3553

Town of Pittsboro
635 East Street
Pittsboro, NC 27312
Heather Meacham – Finance Director
hmeacham@pittsboronc.gov
(919) 542-4621 ext. 102

Cape Fear Community College Foundation
411 N. Front Street
Wilmington, NC 28401
Christina Greene – Controller CFCC; cgreene@cfcc.edu
910-362-7712

Additional references available upon request.

INDEPENDENCE

In accordance with the quality control document of Rives & Associates, LLP all professional personnel must be familiar with and adhere to the independence, confidentiality integrity, and objectivity rules, regulations, interpretations, and Rulings of the AICPA, the State of North Carolina Board of Accounting, the State of North Carolina CPA Society, state statutes, and other State or regulatory agencies where applicable. Independence, Confidentiality, Integrity, and Objectivity Representation is required by all personnel when hired and annually thereafter.

Independence on all audit engagements is reviewed on an annual basis to insure compliance with all rules that govern this topic. We have reviewed our independence in association with this proposed engagement and in all matters relating to the audit of the Town, Rives & Associates, LLP is independent in fact and appearance. Please see Attachment B for a copy of our employee manual as it concerns independence.

Note: There is a change in the Yellowbook regulations that could possible affect auditor independence in regards to financial statement preparation. This is effective for the June 30, 2020 audit.

INSURANCE COVERAGE

Rives & Associates, LLP presently carries the following insurance policies:

1. Worker's Compensation - The Firm maintains Worker's Compensation Insurance, as required by the laws of North Carolina, as well as employer's liability coverage.
2. Commercial General Liability –General Liability Coverage on a Comprehensive Broad Form on an occurrence basis.
3. Automobile - Automobile Liability Insurance, to include liability coverage, covering all owned, hired and non-owned vehicles, used in connection with the contract.
4. Professional Liability - Professional Liability Coverage on a Comprehensive Broad Form on an occurrence basis.

All insurance meets the laws of the State of North Carolina. Insurance coverage is obtained from companies that are authorized to provide such coverage and are authorized by the Commissioner of Insurance to do business in North Carolina. The Firm shall at all times comply with the terms of such insurance policies, and all requirements of the insurer under any such insurance policies, except as they may conflict with existing North Carolina laws or this contract. The limits of coverage under each insurance policy maintained by the Firm shall not be interpreted as limiting the contractor's liability and obligations under the contract.

If awarded the contract, we will be glad to provide a COI.

REGULATORY ACTIONS

No regulatory action has been taken against the Firm, the Raleigh Office or any staff members that will be assigned to the audit.

SECOND SECTION

AUDIT PROGRAMS

Our audit programs are combinations of programs made in house and programs which are issued by governmental authorities and private publishers such as Practitioners Publishing Company (PPC). We generate unique programs for each audit based on the client's industry and our risk assessment software. The use of this risk assessment software allows us to assess risk to each individual section of the financial statements and to generate additional tasks for higher risk areas. We able to customize the programs as needed. We subscribe to the local government industry from PPC and CCH.

STATISTICAL SAMPLING

We will use a combination of statistical and non-statistical sampling in our audit approach. We will determine which method to use based on auditor judgment during planning and creation of procedures. Statistical sampling will include use of either simple random sampling using a random number generator or interval sampling. Non-statistical sampling will include use of judgmental selection and haphazard selection. Audit procedures performed on selected samples along with analytical procedures will be used to obtain sufficient appropriate audit evidence to afford a reasonable basis for an opinion regarding the financial statements under audit. When appropriate, we will also use Dual-Purpose Sampling to test the operating effectiveness of controls and tests of the recorded monetary amounts, minimizing the time spent on repetitive tasks, thereby saving audit costs. The sample sizes will be directly related to the assessment of the inherent risk and the control risk of the entity.

We will gain an understanding of internal controls through the use of internal control walkthroughs. We typically perform test controls over major areas such as cash disbursement, receipts and payroll. We prefer to conduct internal control testing during interim fieldwork and during the actual year under audit so we can gain an understanding of controls during the year.

COMPUTER AUDIT SPECIALIST

We do use a computer audit specialist when a need arises. However, due to the heavy investments that our Firm has made in technology and the knowledge that our staff has, we are typically able to handle computer related issues without the need of a specialist. Our staff will obtain an understanding of the internal controls surrounding the computer systems to identify any potential weakness that may have a direct and material impact on the financial statements and we will make recommendations directly to management in areas where weaknesses are identified.

MANAGEMENT LETTER CONTENT

During compliance and substantive testing we may note certain matters involving internal control and other operational procedures. Our job as your auditor will be to ensure that you understand where you have deficiencies or weaknesses so that you can make informed decisions on how best to respond to these risks. We may identify the following types of deficiencies:

- **Control Deficiency:** A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. This type of deficiency is communicated in the management letter.
- **Significant Deficiency:** A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- **Material Weakness:** A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We will communicate to you orally and in a letter, all deficiencies noted and recommendations for your consideration, intended to improve the internal control and/or the results of the operating efficiencies. The letters are solely for management, those charged with your organization's governance, others you deem appropriate within your organization and any governmental authorities you need to share this information with.

Our Firm operates under a "NO SURPRISE MANDATE", any issues which arise during the audit will be brought to the attention of management for discussion and analysis. We will NOT be issuing board communication without providing the same information to management. Management, as well as the audit committee will have the opportunity to discuss any issues which come up prior to issuance of Standard Board Communication Letters.

In addition, during the audit process; especially as a new auditor, a.k.a. a fresh set of eyes, we will provide verbally any room we observe for improvement to management.

Our goal is to be a partner with all of our clients, and work together to make the audit a smooth, and value added process.

CLIENT ASSISTANCE METHODOLOGY

Our Firm uses state of the art technology in addition to e-mail and file sharing as much as possible, eliminating all unnecessary paper and removing geographic limitations. We customarily utilize paperless and electronic engagement software in the field to share data with staff working on the same engagement using Virtual Office and Prosystem Engagement. Therefore, the items outlined in the Request for Proposal (RFP) and other requested items are preferred in electronic format whenever possible. In addition to the environmental benefit, this can save significant amounts of time in calculations, sampling, procedures, and record keeping ultimately reducing audit costs.

We fully understand that minimizing costs is a high objective of both the Firm and the Town. In order to accomplish this, we do expect complete cooperation from the Town's staff during the performance of the audit. This includes preparing as many of the schedules and supporting documentation as possible and being available for questions and discussion. We understand the Staff at the Town are very busy in their daily responsibilities. An audit can be a burden for a short period of time, but the better the cooperation, the more efficient the audit can be performed and the quicker the auditors will leave! We can designate specific time to ask questions of staff if needed.

In order to input the Town's trial balances into our audit software, we would need the trial balance transmitted to us in an excel format or a format that could be converted to excel.

We will provide a list of items needed ahead of fieldwork.

Non-accounting staff may be utilized to interview to gain an understanding of how the Town operates.

AUDIT PLAN

AUDIT APPROACH

Our audit approach is designed to maximize efficiencies, by leveraging staff and technology. We utilize automated processes, and have staff that specializes in certain areas of the audits, such internal control tests and high risk areas. We have found that we can complete more efficient audits by utilizing this approach, which also provides a high level of expertise, therefore improving service and recommendations to your organization. Our goal is to provide an efficient high quality audit.

RISK ASSESMENT

We will perform a risk assessment of the Town's financial reporting process. This assessment will evaluate both inherent and control risks. Based on this risk assessment, we will concentrate our audit procedures on higher risk areas.

This is a tentative schedule. Actual dates will be determined in a preliminary meeting with management.

August 2019	Rives & Associates is awarded the audit.
August 2019	Engagement letter / contracts are prepared. Signed engagement letters / contracts are returned to Rives & Associates. Rives & Associates communicates with the predecessor auditors and sets up a time to review their working papers.
September	We will conduct preliminary fieldwork. This will include planning and risk assessment procedures. We will also send the Town a list of the items we will need to complete our regular fieldwork at this time along with any bank, loan (if applicable) and revenue confirmations.

August Rives & Associates, LLP will receive trial balances in advance of fieldwork so we can enter into our system and conduct preliminary analysis. We know the staff at the Town are very busy in their routine responsibilities. Our goal is to limit the disruption. We use a paperless engagement system, so documents can be sent ahead of fieldwork.

Engagement Fieldwork

September Rives & Associates, LLP will conduct final fieldwork. The exact dates will be discussed with management. All issues we note during our audit will be discussed with staff before fieldwork is complete. We expect to be on site for final fieldwork for approximately one week.

Engagement Conclusion

October The financial statements will be prepared by the Firm. Once completed, a draft will be provided to the Town for managements review. Once approved, we will submit to the LGC for their review. The Audit will be finalized once approved by the Town and the LGC.

October / November We will present the audits to any requested Board and / or committee meetings.

We will present the Town with a more specific time and more exact dates if awarded the audit.

FEES

Given the circumstances of the 2018 audit, to be fair to both the Town and Rives & Associates, LLP, we propose the following TWO costing methods (the Town may choose which methodology it wishes to utilize):

METHOD ONE: FIXED COST

Audit Services (including travel) for the year ended June 30, 2019: \$ 31,760

This is a not to exceed amount. If the audit costs less, the Town will be charged the lesser amount (applying the 15% governmental discount).

METHOD TWO: VARIABLE COST

Audit Services will be billed at our standard billing rates (less a 15% governmental discount) plus travel costs as follows:

Partner	\$170.00
Manager	\$146.00
Senior Staff	\$110.00
Staff	\$93.00

Note: Travel is billed at 50% of standard billing rates (for example partner travel would be \$100 per hour). Under this methodology, we will provide cost updates every two weeks.

Please see [Attachment C](#) for a cost proposal breakdown for various costs, rates and timing of hours.

We also have added an analysis of our actual costs for the year ended June 30, 2018. We anticipate some reduction in the hours due to one-time work such as setting up the audit files, entering capital assets into our software and setting up the financial statement template. If the material weakness is corrected, we would anticipate additional reduction in hours, but that is unknown at this time.

This fee includes:

- **Financial Audit of the Town**
- **Preparation of the financial statements of the Town.**
- **Board presentation of the Audit**
- **Travel costs**
- **Minor technical questions throughout the year.**

We determine the fee by estimating the number of hours it would take to complete the audit multiplied by the billing rates of anticipated staff on the engagement. The estimate also includes any other estimated costs to perform the engagement. The firm recognizes that governments and government agencies are sensitive to costing into today's economic conditions. We have discounted our fees in response to this. We attempt to keep fees for governments as flat as possible, but due to increases in operating costs or an increase in procedures (either due to new accounting pronouncements or additional accounting / compliance initiated by organizational growth), inevitably, fees may increase. We will discuss any fee increases with management.

** This fee is an estimate based on our expectation of the amount of work needed to complete the audit services for the Town. If the actual work is less than the fee quoted above, the Town will be charged the lesser amount.*

This includes financial audit, preparation of financial statements, and travel. Travel is estimated not to exceed and the Town will be charged the lesser amount if actual costs do not exceed the estimate.

Technical Questions

We understand the Town may seek consultation on various subjects throughout the year and we encourage our clients to contact us with questions. Routine questions are included in our fees above as part of our service and are encouraged. If the Town has questions or research topics that require extensive time, those services will be billed at our standard billing rates (discounted for not-for-profits). We will agree to the cost of this additional work with the Town before beginning any such requests.

The RFP the Town reserves the right to utilize the services of the auditor for additional consultation throughout the year for a period of up to twenty hours at no additional fee. Those terms are NOT part of this proposal. As noted above, any consulting above minor technical questions will be billed at an agreed upon cost.

OTHER INFORMATION

Why Choose Us?

Service

We at Rives & Associates, LLP pride ourselves on providing a service model that thrives on being more responsive to our clients. We want to serve our clients and work with them, not simply be a vendor that works for the client. We allow our clients access to our most experienced personnel. We believe we are the size the CPA firm that can give those personal services to organizations the size of the Town. We understand that many CPA firms could perform an audit, but it is the personal service that makes the difference. We want all our clients to succeed and we want to assist them in doing so.

Staff

As noted above, our service model calls for our most experienced personnel to be available to our clients. We have experienced low turnover, therefore we are able to offer staff continuity for the engagements. Technology and sophisticated auditing software systems are nice, but what makes the difference is the people. We believe the experience of our staff is a perfect fit for these engagements.

Rives & Associates, LLP is an accounting firm that thrives on being different. There are layers or gatekeepers when working with our Firm. You work with our most experience experts.

Experience

Concentration in the government industry. We work with a variety government agencies and have extensive experience in preparing financial statements under GASB 34.

Communication

In order to best serve the Town, we believe communication is an overriding factor. We will provide constant communication to management on the audit process.

Pricing

We based our cost proposal on how much time we think, based on experience, it will take to complete the engagement. Many firms base their cost proposal on what the Town previously paid and try to low bid to win the contract. In the end, as with many services, we believe you get what you pay for. ***We are not in the business of "winning" engagements, instead we are "creating" relationships.***

Affiliations

Rives & Associates, LLP is a proud member of the following organizations:

- American Institute of Certified Public Accountants
- AICPA Governmental Quality Center
- North Carolina Association of Certified Public Accountants
- GFOA

ATTACHMENT A
2017 Peer Review Letter

MPK GROUP, PC

CERTIFIED PUBLIC ACCOUNTANTS

SUITE 224 • 700 CENTURY PARK SOUTH • BIRMINGHAM, ALABAMA 35226

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ALABAMA SOCIETY OF CPAs

TELEPHONE
(205) 978-8220

FACSIMILE
(205) 978-8224

Report on the Firm's System of Quality Control

September 26, 2017

To the Owners of Rives & 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 Rives & Associates, LLP (the firm) in effect for the year ended March 31, 2017. 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*, a compliance audit under the Single Audit Act, and an audit of an employee benefit plan.

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.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Rives & Associates, LLP in effect for the year ended March 31, 2017, 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*. Rives & Associates, LLP has received a peer review rating of *pass*.

MPK Group, PC

ATTACHMENT B

Statement of Policy and Procedures - Independence

Excerpt from Rives & Associates, LLP Quality Control Document

Relevant Ethical Requirements

It is the firm's policy that all professional personnel be familiar with and adhere to relevant ethical requirements of the AICPA, contained in the *Code of Professional Conduct*, the State of North Carolina Board of Accountancy, and the State of North Carolina Association of CPA's in discharging their professional responsibilities as well as those for any other state under whose jurisdiction may apply. Furthermore, it is the policy of our firm that, for engagements subject to *Government Auditing Standards* and other applicable regulatory agencies, all professional personnel be familiar with and adhere to the relevant ethical requirements included in those standards and that personnel will always act in the public interest. Any transaction, event, circumstance, or action that would impair independence or violate the firm's relevant ethical requirements policy on an audit, attestation, review, compilation engagement, or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under Rules 201 and 202) is prohibited. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach has occurred. The firm will take appropriate action to eliminate those threats or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach.

Although not necessarily all-inclusive, the following are considered to be prohibited transactions and relationships:

1. Investments by any partner or professional employee in a client's business during the period of a professional engagement defined as an audit, attestation, review, compilation engagement, or other service subject to the independence standards of the AICPA, State Board of Accountancy or other applicable regulatory agencies, including a commitment to acquire any direct or material indirect financial interest in a client.
2. An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors, or any partner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property:
 - a. An individual on an attest engagement team.
 - b. An individual in a position to influence the attest engagement by doing any of the following:
 - i. evaluating the performance or recommending the compensation of the attest engagement partner,
 - ii. directly supervising or managing the attest engagement partner and all of that partner's superiors,
 - iii. consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or

- iv. participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
 - c. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
 - i. the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
 - ii. he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
 - d. A partner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
 - e. The firm and its employee benefit plans.
3. Borrowing from or loans to a client, or client's personnel during the period of a professional engagement by any of the individuals listed in items 2. a,-e., except as grandfathered or permitted.
 4. Accepting or offering gifts or entertainment from or to a client unless reasonable in the circumstances and approved by the managing partner.
 5. Certain family relationships between professional personnel and client personnel. (Consult the managing partner for a ruling on such relationships.)

Notwithstanding the preceding policy and list of prohibited transactions and relationships, at the managing partners' discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional standards.

The firm ensures compliance with this policy by implementing the following procedures:

1. All personnel have ready access to the relevant ethical requirements to which the firm is subject. Those requirements include the AICPA *Code of Professional Conduct*, the State of North Carolina Board of Accountancy, and the State of North Carolina Association of CPA's ethical requirements. The firm maintains a current copy of those ethical requirements in the firm's library and personnel also have online access to the information. The firm expects its personnel to be familiar with those relevant ethical requirements.
2. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. Such signed representation letters are also required from part-time, seasonal, and contract professionals and any other individuals who work on accounting and auditing engagements and are required to be independent. Ethics training is provided for professional personnel at least every three years. Such training covers the firm's relevant ethical requirements policy and procedures and the independence and ethical requirements of all applicable regulators.
3. All professional personnel review the firm's current client list in conjunction with completing the representation letter for identification of threats to, or breaches of, independence. The current client list is maintained by the QC partner and changes to the list are communicated on a timely basis by a memorandum from the QC partner. When hired (and annually thereafter), all professional personnel are required to sign a

representation that confirms this responsibility.

4. To ensure that independence is properly addressed at the engagement level, the engagement partner will consider relevant information about client engagements and evaluate the overall effect, if any, on independence requirements as part of the engagement and acceptance decision. In making this determination, any familiarity threat related to senior personnel recurring on an audit or attest engagement for five years or more will be considered, including any other specific rotation requirements of regulatory agencies or other authorities. Additionally, the work programs and forms in the accounting and auditing manuals used by the firm contain steps requiring an evaluation of independence on each new and recurring engagement. Furthermore, those manuals contain reporting guidance for the types of engagements where a lack of independence is allowed.
5. All professional personnel are required to promptly notify the designated QC partner of any circumstances or relationships that may create a potential threat to independence (such as a potential prohibited transaction) or an independence breach, so that appropriate action can be taken. To acknowledge that responsibility, professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list known circumstances and relationships that may create a potential threat to independence or violate the firm's relevant ethical requirements policy. (Each individual keeps a copy of their representation letter, which includes cross references to the professional standards of relevant ethical requirements that govern the firm. Professional standards, including the AICPA's Conceptual Framework for AICPA Independence Standards, and the advice of the QC partner may be consulted if an employee is unsure if a threat to independence should be reported to firm management.)
6. If a potential threat to independence is identified, the QC partner accumulates and communicates relevant information to appropriate personnel so (a) firm management and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) the firm can maintain current independence information. For clients of whom the firm is not independent, only compilation services are performed and the firm discloses the lack of independence in its accountant's compilation reports for those clients.
7. If performing a group audit, the firm is required to obtain a written representation regarding the component auditor's independence with respect to the client. The auditing manuals used by the firm contain examples of representation letters to use in such situations. Furthermore, in a review or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by the firm contain steps to ensure compliance with this procedure.
8. The engagement partner (or the accountant in charge under the partner's supervision) has the primary responsibility for determining if there are unpaid fees on any of his clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement partner's knowledge of unbilled fees should be considered in making this determination. In addition, the managing partners have secondary responsibility to review the firm's

accounts receivable listing on a periodic basis to identify potential independence problems.

9. The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services impair independence with respect to that client. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the firm. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in Government Auditing Standards for ongoing, planned, and future audits. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure.
10. The engagement partner has the primary responsibility for determining whether actual or threatened litigation has an effect on the firm's independence with respect to the client. The firm's independence could be impaired by litigation (a) between the client and the firm, (b) with the client company's securities holders, and (c) from other third parties.
11. If the firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If the firm is engaged as principal auditor to report on a major fund, nonmajor fund, internal service fund, fiduciary fund, or governmental component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the firm reports on. The engagement partner has the primary responsibility for determining whether the firm's relationship with entities in the governmental financial statements has an effect on independence.
12. The managing partners have the primary responsibility for determining whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.
13. The QC partner is responsible for obtaining the representation letters, reviewing them for completeness, and accumulating relevant information relating to identified threats to relevant ethical requirements matters (including questions from the representation letters and those from other sources). In determining a resolution, firm management should consider the AICPA's Conceptual Framework for AICPA Independence Standards and, when necessary, consult the AICPA or the North Carolina Association of CPA's for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of a relevant ethical requirements matter should be filed in the client's permanent workpaper files. Firm management is also responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, requiring additional training, drafting a reprimand letter, or even termination.
14. The QC partner is responsible for monitoring the firm's independence of attest clients at which partners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.

15. If a breach of independence is identified, the firm promptly communicates the breach and the required corrective actions to (a) the engagement partner, who (along with the firm) has the responsibility to address the breach and (b) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the firm when required corrective actions related to the breach and noncompliance with these policies and procedures have been taken.
 16. At least annually, the QC partner reviews the firm's relevant ethical requirements policy and procedures to determine if they are appropriate and operating effectively.
-

ATTACHMENT C
Cost Proposal Breakdown

TOWN OF HOLDEN BEACH
Cost Proposal
Audit Services - June 30, 2019

The following is a summary of our cost proposal for the audit services of the Town for the year ended June 30, 2019. This cost proposal is on a "not-to-exceed" basis.

Personnel Costs	<u>Partner</u>	<u>Audit Manager</u>	<u>Senior Staff</u>	<u>Staff</u>	<u>Total</u>
Preliminary Fieldwork	-	-	-	-	-
Fieldwork	16	40	40	40	136
Work performed in auditor's office (planning, wrap up, financial statements, etc.)	24	20	35	35	114
Total Hours	40	60	75	75	250
Rates	<u>\$ 200</u>	<u>\$ 160</u>	<u>\$ 130</u>	<u>\$ 110</u>	
	\$ 8,000	\$ 9,600	\$ 9,750	\$ 8,250	\$ 35,600
Travel					\$ 1,500 **
Cost of supplies and materials					\$ -
Other costs					<u>\$ -</u>
TOTAL COSTS					\$ 37,100
Government discount			15%		<u>\$ (5,340)</u>
COST PROPOSAL			June 30, 2019		\$ 31,760 *

* This is a cost not to exceed. If the costs are less than the quoted amount, the Town will be charged the lesser amount.

** - This is a not to exceed amount, Town will be charged actual cost of travel

TOWN OF HOLDEN BEACH
Actual Costs
Audit Services - June 30, 2018

The following is a summary of our actual costs for the audit services of the Town for the year ended June 30, 2018.

Personnel Costs	<u>Partner</u>	<u>Audit Manager</u>	<u>Senior Staff</u>	<u>Staff</u>	<u>Total</u>
Actual 2018 Costs	41	156	38	71	306
Total Hours	41	155.9	38.2	70.94	306.04
Rates	\$ 200	\$ 160	\$ 130	\$ 110	
	\$ 8,200	\$ 24,944	\$ 4,966	\$ 7,803	\$ 45,913
Travel					\$ 2,000
Cost of supplies and materials					\$ -
Other costs					\$ -
TOTAL COSTS					\$ 47,913