

PROPOSAL FOR:

Town of Hillsborough, North Carolina



August 30, 2022

A Proposal to Provide Professional Auditing Services
for the Years Ending June 30, 2022, 2023 and 2024

108,373.01
28
6,521.57
2,054.01
1,997.64

Submitted by:

Robert E. Bittner, III, CPA, MBA, Partner
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ASSURANCE, TAX & ADVISORY SERVICES

Title Page



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RFP Subject	Proposal – Professional Auditing Services
	Town of Hillsborough, North Carolina
Submitted By	PBMares, LLP
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Date	August 30, 2022
EIN	54-0737372
DUNS No.	188985337
SCC No.	J000745-1



August 30, 2022

Members of Town Council
Town of Hillsborough
Post Office Box 429
Hillsborough, NC 27278
Attention: Eric Peterson, Town Manager

Dear Mr. Peterson:

We appreciate the opportunity to submit a proposal to provide professional auditing services for the Town of Hillsborough, NC (the Town) for the years ending June 30, 2022, 2023 and 2024. We are excited about the prospect of serving you and are pleased to present the accompanying proposal for audit services for your consideration.

While we hope you will find our detailed proposal informative, outlined below are a few more reasons why we believe we are the best choice to serve as the audit provider for the Town.

Personal Client Service. I will serve as your client service coordinator and will provide you with the level of personal attention needed to help ensure that our team exceeds your expectations.

Dedicated State and Local Government Team: PB Mares has a practice solely focused on serving governmental organizations. This enables us to leverage our expertise across multiple clients and identify trends and industry practices from a diverse client base. We participate in industry and regulatory bodies to be able to give our clients timely and insightful feedback.

Engagement Team Experience. The Town needs and deserves an external audit team with experience and expertise. Our proposed audit team's direct experience includes such clients as City of Fayetteville, NC; City of Wilmington, NC; City of Asheville, NC; Carteret County, NC; and Town of Morehead City, NC. The team also participates as reviewers in the GFOA Certificate of Excellence in Financial Reporting program.

Local Presence, National Expertise. As members of the RSM US Alliance, we are able to provide our clients with the personal attention expected from a local accountant coupled with the national expertise of the fifth largest provider of assurance, tax and consulting services in the United States.

Value. Our approach is to provide a consistent, long-term value proposition. We commit to always keep our fees reasonable and to serve as a business advisor you can count on to provide insights and an independent perspective to help you achieve your mission.

Communication. The most important part of the audit process is communication during planning, execution, and completion. "No surprises" is our motto. As detailed in our formal proposal, we propose an initial meeting to open lines of communication; to understand the Town's operations, goals, and challenges; to discuss auditing and reporting issues; and to set expectations for engagement execution.

Finally, we would like to emphasize one last point: **we want to serve you!** We believe this proposal will demonstrate our commitment to serving the Town. We are committed to delivering quality audit and assurance services founded on integrity, objectivity and competence.

If you have any questions about our proposal or items that require additional elaboration, please do not hesitate to contact us. We look forward to hearing from you.

Very truly yours,

PBMares, LLP

A handwritten signature in blue ink, appearing to read "R. E. Bittner, III".

Robert E. Bittner, III, CPA, MBA
Partner

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Firm Qualifications and Experience



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PBMares, LLP

Ranked as a Top 100 firm by *INSIDE Public Accounting* and *Accounting Today*, as well as one of *Forbes'* top tax and accounting firms for 2021 and 2022, PBMares is a full-service accounting and consulting firm, providing audit, tax, and advisory services. Founded in 1963, the firm is headquartered in Virginia and maintains a strong presence in the Mid-Atlantic region, with offices in Morehead City and New Bern, North Carolina, Baltimore and Rockville, Maryland, as well as Fairfax, Fredericksburg, Harrisonburg, Newport News, Norfolk, Richmond, Warrenton and Williamsburg, Virginia.

PBMares is a limited liability partnership owned by the partners of the firm. With more than 350 professionals, we offer expertise across a broad range of industries and service offerings. In addition to traditional assurance and tax services, we provide forensic, wealth management, pension plan administration, transaction advisory, and SEC compliance services through affiliated companies and dedicated practice groups.

Currently, the professionals at PBMares perform audit, tax, and consulting services for clients in a number of diverse industries including governmental entities, not-for-profit organizations, utilities, manufacturers, clubs and hospitality, retail providers, construction contractors, financial institutions, transportation and multi-national corporations. Our staff includes not only CPAs, but individuals with expertise in business valuations, computer network engineering, cybersecurity, fraud detection, and business, tax and estate planning.

Local Engagement Office

The Morehead City office, located at 3621 John Platt Drive, will be responsible for completing the audit with assistance provided from the New Bern and Tidewater Virginia offices. All personnel who will be assigned to the engagement are full-time employees of the firm. Below is a breakdown by staff level of the professionals who work in the firm's Morehead City, New Bern and Tidewater offices: Please see the section entitled "Your Client Service Team" for a description of the roles and professional experience of members of the engagement team.

Staff Level	Morehead City	New Bern	Tidewater Virginia
Partner	1	3	12
Director / Manager	5	6	15
Supervisor	3	3	5
Senior/Staff Accountant	3	5	20
Paraprofessional	5	4	4
Administrative/Operations	4	3	34

Size of Governmental Staff

Our governmental team is committed to supporting and growing our public sector practice. We have significant experience providing audit and consulting services to state and local governments, and have established a dedicated government practice team that includes more than 30 professionals.

Firm Qualifications and Experience



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Local Response, Global Resources

An independently owned member
RSM US Alliance



PBMares offers the advantages and resources of a major national firm combined with the service-oriented perspective and fee schedule of a local firm. Our ownership structure gives us full responsibility and authority to serve our clients in all matters. However, we can quickly draw upon both national and international support.

PBMares is an integral member of RSM US Alliance, a premier affiliation of independent accounting and consulting firms in the United States, with more than 80 members in over 40 states, Canada and the Caribbean. We became a member of RSM US Alliance because it is a natural fit with our commitment to our clients and our determination to stay at the forefront of developments affecting accounting and consulting firms today.

This affiliation gives us access to a full range of national and international capabilities. As a member of RSM US Alliance, PBMares has access to resources and services RSM US LLP provides its own clients. RSM US LLP is the leading provider of audit, tax and consulting services focused on the middle market, with more than 13,000 people in 86 offices nationwide. RSM US LLP is the U.S. member of RSM International, a global network of independent audit, tax and consulting firms with more than 38,000 people in over 120 countries.

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com for more information regarding RSM US LLP and RSM International. RSM, the RSM logo and RSM US ALLIANCE are trademarks of RSM International Association or RSM US. The services and products provided by RSM US Alliance are proprietary to RSM US LLP.

Professional Representations

We make the following representations as implicitly required in your request for proposal:

- PBMares is an independent contractor and is wholly responsible for the services and the supervision of its own employees and permitted sub-contractors.
- PBMares, LLP has met the peer review standards of the AICPA and *Government Auditing Standards*.
- We will maintain adequate supervision of all staff on a day-to-day basis.
- We provide continuing professional education to each person assigned to the audit in accordance with PBMares' quality control document and as required by the *Government Auditing Standards*, issued by the Comptroller General of the United States. This training includes governmental audit training courses.
- PBMares affirms our experience with governmental audits, including GFOA and GASB, is recent and extensive.
- We will comply with all federal, state and local laws and regulations in the performance of this engagement.
- Our work papers will be available for routine review by appropriate auditors of state and federal agencies.
- It is the firm's policy to provide equal opportunity to all qualified persons without regard to race, creed, color, sex, age, national origin, religion, disability, or veteran status. We are proud to be an EEO/AA employer M/F/D/V.
- At all times during the proposal and contract process, PBMares will comply with all applicable state and federal anti-discrimination laws, rules, regulations, and requirements.

Experience Serving Similar Clients



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Simply stating that we have experience in a wide array of state and local government projects does not convey the breadth of our experience. We invite you to consider the following specific work we have performed for clients served by your team over the past five years with requirements similar to the Town.

Name of Organization	Type(s) of Services Performed	Current Client	Years Served
Town of Morehead City, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance 	Yes	10+
Town of Holden Beach, NC	<ul style="list-style-type: none"> Internal Control Risk Assessment 	No	1
City of Greenville, NC; Greenville Utilities Commission	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance 	No	6
City of Wilmington, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance 	Yes	10+
County of Stafford, VA (includes school system and solid waste authority)	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance Virginia Auditor of Public Accounts agreed upon procedures, bond covenant procedure 	No	5
Craven County, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance 	No	10+
Carteret County, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR review 	Yes	10+
Pender County, NC	<ul style="list-style-type: none"> Audit (financial and compliance) Consulting ACFR preparation Assistance 	No	4
City of Asheville, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation Assistance 	Yes	4
City of Fayetteville, NC; Fayetteville Public Works Commission	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation Assistance 	Yes	5
City of New Bern, NC	<ul style="list-style-type: none"> Audit(financial and compliance) ACFR preparation assistance Consulting services related to utility service expansion and sharing debt feasibility w/ issuance consulting 	No	5
Wilmington Convention Center	<ul style="list-style-type: none"> Audit (financial and compliance) Financial statement preparation assistance 	Yes	10
City of Jacksonville, NC	<ul style="list-style-type: none"> Audit (financial and compliance) ACFR preparation assistance 	No	10+

Experience Serving Similar Clients



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Pamlico County, NC	<ul style="list-style-type: none"> ■ Annual year-end close out planning, review and audit preparation 	Yes	6
Onslow Water and Sewer Authority	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ ACFR preparation assistance 	Yes	10+
Neuse Regional Water and Sewer Authority	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ Financial statement preparation assistance 	Yes	10+
Electricities of NC, Inc., North Carolina Municipal Power Agency #1, North Carolina Eastern Municipal Power Agency	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ Financial statement preparation assistance ■ GASB 87 preparedness study 	Yes	8
Piedmont Municipal Power Agency	<ul style="list-style-type: none"> ■ Agreed-upon procedures related to operation of the Catawba Nuclear Station 	Yes	4
North Carolina Electric Membership Corporation	<ul style="list-style-type: none"> ■ Agreed-upon procedures related to operation of the Catawba Nuclear Station 	Yes	4
County of Rockingham, VA	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ ACFR review 	Yes	25+
County of Goochland, VA	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ ACFR review 	Yes	8+
County of Augusta, VA	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ ACFR review 	Yes	6+
Washington Metropolitan Council of Governments	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ Tax services 	No	5
Neuse River Council of Governments d/b/a Eastern Carolina Council	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ Financial Statement preparation assistance 	Yes	10+
Cape Fear Council of Governments	<ul style="list-style-type: none"> ■ Audit (financial and compliance) ■ Financial Statement preparation assistance 	Yes	10+

Commitment to Audit Quality



We are committed to maintaining the highest quality standards of our profession. To that end, the firm is a member of the American Institute of Certified Public Accountants' (AICPA) Center for Audit Quality (CAQ), the AICPA Government Audit Quality Center (GAQC) and the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC).

These centers are firm-based, voluntary membership organizations designed to help CPAs meet the challenges of performing quality audits in highly regulated environments. By meeting the stringent membership requirements of each Center, the firm demonstrates its dedication to achieving the highest levels audit quality in the assurance practice. In addition to fostering a culture of high audit quality, our membership provides us with an additional resource for research and staff development.

Quality Control Reviews

PBMares was one of the first members of the AICPA's Government Audit Quality Center, and we continue to participate in and support this excellent audit quality mechanism. In connection with this membership, we have agreed to abide by the various membership requirements imposed, including the documentation of our audit and accounting quality control policies and procedures and their review by a peer firm every three years.

KraftCPAs PLLC performed PBMares' most recent peer review which covered the system of quality control in effect for the year ended February 29, 2020. KraftCPAs issued its unmodified report, dated January 15, 2021, on the firm's system of quality control which was accepted by the AICPA.

A copy of our most recent peer review report is included in the Appendices.

Engagement Team Qualifications



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Your Client Service Team

By employing only the most qualified personnel and training them properly, we conduct our engagements with minimal interruption to our clients' personnel and day-to-day operations. In addition, PB Mares operates under a "one firm" philosophy, meaning members of the engagement team may not all be from one office location. This enables us to provide the highest level of expertise by drawing from the talent across our office locations.

Robert (Robbie) E. Bittner, III, CPA, MBA, Engagement and Assurance Partner

The Engagement Partner ensures that the services clients receive are of the highest quality and that the benefits of the professional working relationship between our two organizations are maximized. As such, they have overall responsibility for supervision of the engagement and provide technical expertise as needed. As partner-in-charge of the engagement, they are actively involved with the supervision, management and performance of the audit fieldwork, as well as the review of work papers and reports. They review the audit strategy and conduct the technical standards review of all work papers and the final report. In addition, they serve as a sounding board for the audit staff throughout the engagement and are available for meetings with management and appropriate staff to discuss all findings and the report.

Michael A. Garber, CPA, MBA, Engagement Quality Control Reviewer (EQCR)

An EQCR performs a corroborating technical review of significant audit areas and final reports. In addition, these reviewers often bring a specialized level of expertise to the engagement.

Sarah Kate Willis, CPA, Assurance Manager

The Assurance Manager designs the engagement strategy and procedures, directs the fieldwork and reviews the work of the staff accountants assigned to the engagement. They are also responsible for performing the detailed review of the financial statements, work papers and reports. As your primary member contact, they work with the engagement staff to ensure the quick completion of fieldwork with minimal disruption to your office. In addition, they are onsite during the engagement, providing direct oversight and input, as well as serving as a sounding board for the engagement staff.

Amalia E. Neco Valle, CPA, Supervisor/Engagement In-charge

The Supervisor/Engagement In-charge helps plan and implement the engagement strategy, coordinates on-site and daily work efforts, oversees the staff accountants, reviews the completion of the fieldwork, and supports the audit manager in any extra ways possible.

Antonina K. McAvoy, CISA, Cyber & Control Risk Services Manager

The Cyber & Control Risk Services Manager is experienced in performing a wide spectrum of cybersecurity, information security, privacy, and other government IT internal controls assessments. As your primary cyber and IT point of contact, your cybersecurity service team performs assessments of systems and networks to validate established security requirements, and reviews managements implementation of internal controls related to information technology operations and security. Antonina is effective at helping you manage your risks, assess information security programs and systems that protect the data collected, used, stored, and destroyed; as well as, provide recommendations for additional security requirements and safeguards.

Your client service team will be available during the year to serve as advisors on your engagement. In addition, the members of your team are only a phone call or email away and we pledge to respond to your questions and inquiries within 24 hours. In the attached Appendices, you will find resumes of key members of your client service team. There have been no formal complaints or actions taken against any of these individuals.

Engagement Team Qualifications



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Staff Continuity

The best way to provide the Town with responsive, quality services is to assign the most qualified individuals to the engagement and maintain continuity of staff on successive engagements. Building rapport with our clients and familiarity with their specific practices makes our work, and yours, easier and more efficient. This practice is also the key to our team's expertise – stability in engagement teams better allows our professionals to develop industry-specific capabilities and areas of specialty.

We are committed to maintaining the same staff on engagements year-after-year. We will strive to keep the core team the same each year. In addition, by assigning an engagement partner that remains on your team even as staff may change, we ensure a continuous knowledge of your organization and your specific needs. If turnover occurs on your engagement team, we pledge to assign a new person to your team with an appropriate level and type of experience. Prior to implementing any necessary changes to your engagement team, we will discuss with you the reasons for the changes and obtain your approval.

Continuing Professional Education

All proposed PB Mares staff members on the engagement have exceeded the minimum governmental Continuing Professional Education ("CPE") hours required by GAO's *Government Auditing Standards* and overall CPE requirements instituted by the AICPA. PB Mares' audit and accounting programs train general service professionals to provide basic accounting and auditing services, which have become the cornerstone of our client relationships. This knowledge of services provides the foundation for many of the expanded services that our clients are seeking.

All PB Mares professionals who participate in audits of governmental clients receive a minimum of 24 hours of CPE every two years in subjects directly related to:

- Understanding the client's environment, including accounting unique to governments.
- Auditing techniques as they pertain to the satisfaction of federal and state audit requirements.

The professionals who are subject to the 24-hour requirement include:

- All seniors, managers and partners who are part of an audit subject to the standards
- All staff who perform 20% or more of the fieldwork of an audit subject to the standards
- All staff who spend 20% or more of their annual chargeable time on audits subject to the standards

Professionals who serve governmental entities satisfy the 24-hour requirement by attending the following RSM US LLP continuing education programs:

- Governmental Accounting, Auditing, and Financial Reporting
- Advanced Governmental Accounting and Auditing
- Governmental Auditing for In-Charge Auditors
- Government Compliance Auditing Workshop
- Government Financial Auditing

Engagement Team Qualifications



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Continuing Professional Education (Concluded)

Additionally, our professionals attend industry specific continuing education such as:

- Governmental CPE courses and conferences sponsored by the Government Finance Officers Association and the North Carolina Government Finance Officers' Association
- Governmental CPE courses sponsored by the North Carolina Association of Certified Public Accountants
- Governmental CPE courses and conferences sponsored by the NC Local Government Commission
- Governmental CPE courses and conferences sponsored by UNC's North Carolina School of Government
- Governmental CPE courses sponsored by the AICPA's Government Audit Quality Center

All professional employees of PB Mares complete at least 40 hours of CPE per year. Most professionals exceed that amount, since each office location also conducts training throughout the year.

Engagement Team Qualifications



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Public Sector Commitment and Experience

We devote significant time to training and research on the economics, operational issues and trends affecting governmental entities. Our perspective is that of a knowledgeable independent auditor who can relate to the unique aspects of government entities and their interrelationships with similar organizations and the private sector. This perspective, coupled with our working experience with the public sector, enables us to provide efficient and cost-effective audits of financial statements and compliance audits for our government clients.

Audits of entities like the Town demand a firm with experienced professionals who are dedicated to serving the needs of governmental entities. The public sector is one of our main focus industries within our firm. We provide audit and consulting services to many cities, authorities, boards, commissions, school boards, counties, towns, and other public entities.

As a member of the RSM US Alliance, we have dedicated resources to monitor industry developments. These resources communicate regularly with Alliance members on important issues affecting the government industry to ensure our client service personnel are well versed in issues affecting you.

The commitment of our personnel to the public sector extends far beyond a normal professional relationship. Robbie Bittner currently serves on the North Carolina Association of Certified Public Accountants (NCACPA) Governmental Auditing and Accounting (GAA) committee. He and others serve as instructors at several industry related conferences. Our firm is a member of the:

- Government Finance Officers Association
- North Carolina Government Finance Officers' Association
- North Carolina Association of Certified Public Accountants
- American Institute of Certified Public Accountants
- Government Audit Quality Center
- Virginia Government Finance Officers' Association
- Virginia Society of Certified Public Accountants
- Maryland Association of Certified Public Accountants

GFOA Experience

Members of the engagement team have helped authorities, boards, commissions, school boards, counties, cities, towns, and other local government organizations prepare reports that have received the GFOA's Certificate of Achievement for Excellence in Financial Reporting. Furthermore, we are members of a Special Review Committee for the Annual Comprehensive Financial Reports submitted by governmental entities wishing to be awarded the GFOA's Certificate of Achievement for Excellence in Financial Reporting. We will:

- Assist with the disposition of the comments generated from the GFOA's review of the prior year's Annual Comprehensive Financial Report (ACFR); and
- Review the Annual Comprehensive Financial Report for compliance with GFOA's requirements.

Training Opportunities and Thought Leadership

PBMares will share information regarding training opportunities in applicable subject matters, including the firm's free annual Municipal Government Ethics & Training Day. The State and Local Government Team also maintains a blog, giving government entities timely information on subjects that impact them. Recent blog posts have covered topics including Federal grant compliance and guidance for implementing new *Governmental Accounting Standards*.

Engagement Team Qualifications



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Public Sector Commitment and Experience (Concluded)

Uniform Guidance Audit Experience

A number of our public sector clients receive federal funds and require a single audit in accordance with the *Uniform Guidance and/or the State Single Audit Implementation Act*. Our local professionals possess comprehensive knowledge of accounting requirements, federal procurement regulations and cost-accounting standards and their impact on organizations like the Town.

Auditing and accounting of federal funding is one of the most dynamic aspects of public accounting. The needs of clients and the expectations of financial statements and audit report users are changing rapidly. As a result, it is necessary that both our firm and our clients have a means to keep current on changing requirements, to have access to decision makers when laws, regulators, standards and principles are being considered and established, and to have an avenue of appeal, if necessary.

To assure these benefits for both our firm and clients, we have established extensive formal and informal relationships with government officials, industry associations, standards-setting bodies and professional organizations at the national, regional and state levels. Most recently, we became a founding member of the AICPA's government audit quality center.

The professional staff assigned to your account will have participated in both internal and external training relative to audits performed in accordance with provisions of the *Uniform Guidance*. The professional staff will also have been involved in other Uniform Guidance audits prior to being involved with your account.

Professional Development

Our professional development program includes on-the-job development, self-study and continuing professional education as described under Continuing Professional Education:

- **On-the-job development.** Components of on-the-job development include appropriate work assignments, effective coaching by supervisors, performance appraisal and feedback, and monitoring effectiveness. In-charge accountants instruct, review and evaluate staff accountants. Directors, managers and supervisors provide similar on-the-job learning opportunities for in-charge accountants. Partners and directors provide all employees with on-the-job development through constructive feedback during reviews of engagement performance and end products.
- **Self-study.** Assigned self-study is essential to our professional development program. Reading on a planned and continuous basis—via a self-study learning library available to all professionals—is encouraged and expected.

Client References



www.PBMares.com

PBMares and its successors have been involved in auditing local governments for over 50 years. We think the services we offer are the best available in the industry and the best way we know to validate our claim is to let clients speak for us. We encourage you to call any or all of the following references.

City of Wilmington, North Carolina

Bryon Dorey, Assistant Finance Director / Treasurer
102 Third Street, PO Box 1810, Wilmington, NC 28402-1810
(910) 342-2730

Carteret County, North Carolina

Dee Meshaw, Assistant County Manager/Finance
302 Courthouse Square, Beaufort, NC 28516
(252) 728-8410 or deem@carteretcountync.gov

City of Fayetteville, North Carolina

Jody Picarella, CFO
433 Hay Street, Fayetteville, NC 28301
(910) 433-1677 or jodypicarella@fayettevillenc.gov

Town of Morehead City, North Carolina

Jewel Lasater, Finance Director
706 Arendell Street, Morehead City, NC 28557
(252) 726-6848, ext. 104 or jewel.lasater@moreheadcitync.org

Statement of Policy and Procedures



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Firm's Statement of Policy and Procedures Regarding Independence under GAS

PBMares, LLP requires all employees to adhere to strict independence standards in relation to the firm's clients. These independence standards exceed, in many instances, the standards promulgated by the American Institute of Certified Public Accountants (AICPA), as well as those contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Other services may have to be discussed in detail as the Independence standards place limitations on all CPA firms on providing such services. These services require firms to document in detail the skills, knowledge, and experience of management as well as other information to determine that the CPA firm is indeed independent. Such documentation is required in accordance with GAS and AICPA standards. PBMares, LLP unequivocally meets the independence requirements relevant to audits of governmental units.

PBMares is committed to maintaining its professional independence as it relates to the *Government Auditing Standards* (YellowBook), July 2018 Revision. We will ensure appropriate safeguards will be put into place in order to ensure our independence including when providing non-audit services. Those safeguards include, but are not limited to:

- Clearly identifying the scope of the non-audit services to ensure no management decisions are being made by PBMares staff.
- Identifying at the Town, an individual with the appropriate skills, knowledge, and experience to oversee the non-audit services
- Identify and assign a Public Sector partner within PBMares who is independent of the engagement team to perform an independent review of the non-audit services.

Meeting the Independence Standards of the AICPA, the DOL and the SEC

PBMares has established policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity and other relevant ethical requirements. These requirements include regulations, interpretations and rules of the American Institute of Certified Public Accountants (AICPA), Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), U.S. Government Accountability Office, U.S. Department of Labor (DOL), state CPA societies, state boards of accountancy and other applicable regulators. All partners and other professionals are expected to adhere to all applicable provisions of the AICPA Code of Professional Conduct, as well as applicable ethics requirements of the PCAOB and the state boards of accountancy.

Quality of Staff over Engagement Term

Led by Robbie Bittner, we will provide the Town with a committed and qualified team of professionals to serve this engagement. When required, our audit engagement team meets *YellowBook* competency CPE standards. In addition, we have stringent standards as to who can perform the in-charge and manager function on a governmental audit.

Statement of Policy and Procedures

PBMares and its personnel must comply with the Code of Professional Conduct of the AICPA, the Code of Ethics of the International Federation of Accountants (IFAC), the ethics rules of all relevant State Boards of Accountancy, and where applicable the SEC; the Independence Standards Board (ISB), the PCAOB, the Government Accounting Office (GAO), the DOL, and other regulatory authorities.

The governing bodies' codes, regulations, and standards PBMares must comply with may change from time to time.

Litigation History and Professional Liability

PBMares, LLP has no disciplinary action imposed or pending against the firm during the past three (3) years by the AICPA, state regulatory bodies or professional organizations to report.

PBMares, LLP has no claims or suits against the firm within the last three years to report. In the event of a material dispute or legal claim, we are adequately insured for professional liability. The insurance limit of liability is \$5,000,000 per claim and \$10,000,000 aggregate.

License to Practice in North Carolina

- Each person on the proposed engagement team is a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.
- PBMares, LLP is registered with the North Carolina State Board of CPA Examiners.
- All assigned key professionals are properly registered/licensed to practice in the State of North Carolina.
- PBMares, LLP meets any and all other specific requirements imposed by state or local law.

Our Understanding of Your Needs



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This section will summarize our understanding of your needs and provide you with the information necessary to be fully aware of how our capabilities are uniquely positioned to continue providing the greatest value to the Town of Hillsborough, NC (the Town) now and in the coming years.

Scope of Work

For the years ending June 30, 2022, 2023 and 2024, PBMares will perform a financial and compliance audit of the Town's basic financial statements, supplementary information and compliance reports in accordance with the laws and/or regulations of the State of North Carolina. The audit will cover federal, state, and local funding sources in accordance with the following:

- Generally Accepted Auditing Standards;
- *Government Auditing Standards*, issued by the Comptroller General of the United States, including 2018 revisions;
- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200; (if applicable)
- the Single Audit Act of 1984; (if applicable)
- the Single Audit Act Amendments of 1996; (if applicable)
- the State Single Audit Implementation Act; (if applicable) and
- All other applicable laws and regulations for the audit of a government's financial statements prepared in accordance with GAAP.

The financial audit opinion for the Town will cover the financial statements for the governmental activities, the business-type activities, each major fund, and the remaining fund information, which collectively constitutes the basic financial statements.

The combining and individual financial statements, schedules, and related information are not necessary for fair presentation, but will be presented as additional analytical data. This supplemental information, as required by GASB 34, will be subject to the tests and other auditing procedures applied in the audit of the basic financial statements, and an opinion will be given as to whether the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. PBMares will also express an opinion on the budgetary comparison information for the general fund, the major funds, and any annually budgeted special revenue funds. An opinion will not be given on the Management Discussion and Analysis.

In addition, PBMares will perform a financial audits for the Hillsborough Tourism Development Authority and Town of Hillsborough Tourism Board, which are discreetly presented component units of the Town.

As part of the engagement, PBMares will attend the following:

- A pre-planning conference with Town management and anyone else deemed appropriate to discuss their expectations of the audit as well as provide a listing of information needed for the audit.
- Periodic conferences during the conduct of the audits.
- Exit conference at the completion of fieldwork.

Management Letter

If required, PBMares will issue a management letter to the Town after completion of the audit and assist management in implementing recommendations, as is practical. We will also submit an informal letter to the Finance Officer with any efficiency, internal control or accounting improvements that could be made based on the audit staff's observation during their fieldwork. All content will be discussed with the Finance Officer prior to issuance. PBMares will discuss the content while the management letter is in draft form to ensure all parties fully understand the circumstances that led to auditor comments.

Methodology for Requested Services



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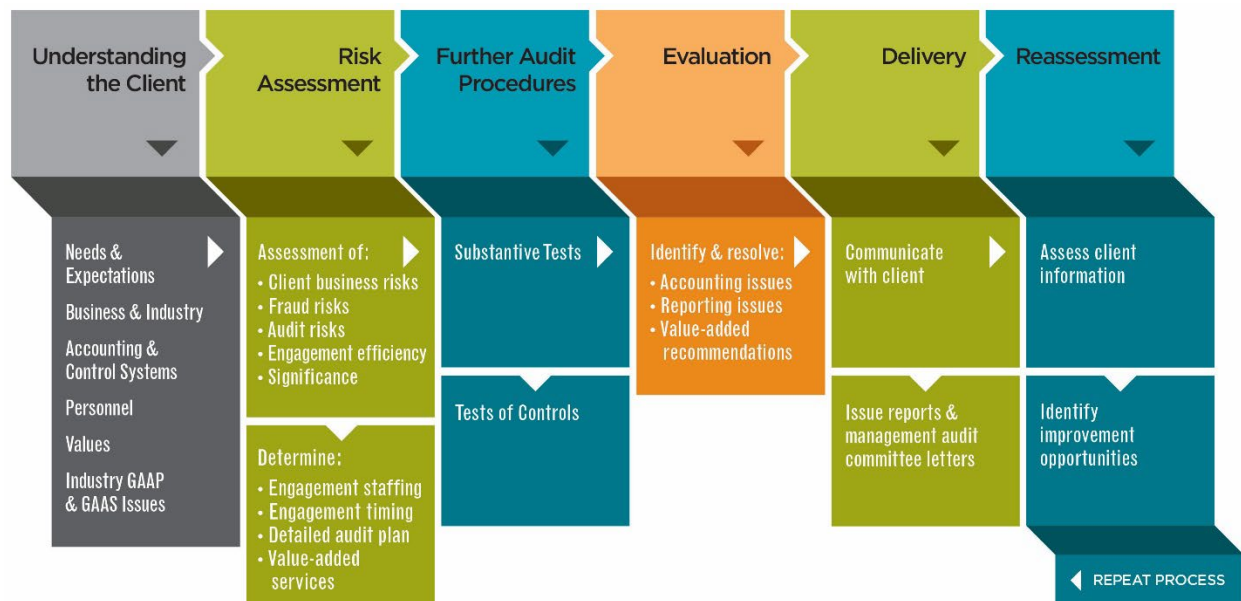
Audit Approach

Our approach and services are tailored to fit your unique needs and operations. PB Mares' governmental audit approach and audit programs are designed to obtain sufficient, competent evidential matter within the framework of a risk assessment process, the end result of which is naturally unique to each client.

Our tailored audit approach emphasizes early planning based on how the Town functions. This enables us to identify key audit components and mold our procedures to the unique aspects of the Town. The benefit to you is an effective, cost efficient, independent audit, performed in a timely manner by experienced professionals.

Our overall audit approach is to understand the control structure for purposes of assessing the risk of material misstatement. After this evaluation, appropriate modifications are made to adjust the amount and extent of substantive tests of balances to a commensurate level.

The path our audit actually takes is dependent on our risk assessment. This assessment is the determining factor in our statistical sample sizes and, ultimately, the extent of all our procedures.



Work Plan and Audit Methodology

We have built our reputation on the quality of audit services we provide to organizations like yours. Using sophisticated auditing tools, we assure that you will receive an audit that is consistent, objective and provides accountability.

Over the past few years, we have devoted substantial internal and external resources to redesign our audit process – including investment in software that supports our process making our governmental audits virtually paperless and increases our efficiency.

Sequenced over the timeline of the audit engagement, our work plan functions as follows:

Interim Work

— Preliminary Phase

Planning. Work begins with a structured planning phase, which streamlines the audit process and minimizes any interruptions to your staff. A listing of work tasks (i.e., schedule preparations) for which your personnel would be responsible is prepared. In planning the engagement, we also identify new accounting pronouncements and their effect on the financial statements. At this time, we will submit an arrangement letter for ratification that outlines the work being performed for the Town.

Entrance Conferences. A conference is scheduled with the appropriate personnel to discuss the audit scope, timing and other logistical issues. Another conference will be scheduled before fieldwork commences.

Obtain Background Information. We then obtain background information concerning the audit, such as prior audit reports, management letters, laws, regulations and procedures affecting our audit; the budget, organizational charts, relevant financial information and relevant correspondence.

Risk Assessment. Our approach to the audit will be based on a formal risk assessment that encompasses an understanding of your operating and regulatory environment, as well as your control environment, including controls over financial reporting and compliance. Each fund and class of transactions has its own unique area of audit concern, so we will tailor our audit approach. Factors which we will consider are:

- Nature of transactions affecting the account
- Statutory and regulatory compliance
- Susceptibility of financial data to error and other inherent risks
- Internal controls/control risk
- Materiality of the account balance

Understanding and Documenting the Control Structure. An increased focus on internal control is key to the development of a successful, effective audit. Control is not a one-time event or just a matter of performing a few checks and reconciliations. Internal control is a process, an interconnected web of policies, procedures, attitudes and actions that work together to achieve a desired result. Auditors analyze an internal control system by breaking it down into its five component parts: control environment, risk assessment, control activities, information and communication, and monitoring.

Work Plan and Audit Methodology (Continued)

Our approach to the review of the control structure is through the use of a series of questionnaire forms. Our “Government Services Manual” contains these practice aids which are specifically geared to entities the size of the Town. They are designed so that their proper completion would provide sufficient understanding and documentation of the control structure and include the following elements:

- Assessing the control environment
- Accounting system understanding
- Performance of walk throughs
- EDP file processing
- Individuals performing processing functions
- Basic controls and critical accounting routines
- The preliminary assessment of control risk
- Performance of procedures to establish that basic controls and critical accounting routines on which reliance is anticipated are in place

For purposes of reviewing the control structure, we break down the system into the following cycles and segments:

- Receivables and Revenue Cycle
- Receipts Processing Cycle
- Expenditure/Expense Cycle
- Purchasing
- Capital Assets Cycle
- Cash Disbursements
- Payroll
- Budgeting
- Financial Reporting Cycle
- Compliance and Single Audit, if required

Perform Tests of Internal Accounting Controls. Internal accounting controls are tested to determine whether they are adequate and operating effectively and efficiently. If the results allow, maximum reliance is placed on internal controls, thus reducing the extent of substantive testing.

Audit sampling may or may not be applicable to a test of controls depending on the audit objective and the procedure to be applied. For example, audit sampling would not be applicable when our audit objective is to obtain a sufficient understanding of how an internal control policy or procedure is designed in order to evaluate its design effectiveness. Likewise, audit sampling is not applicable to observation and inquiry procedures regardless of our audit objective.

Audit sampling is likely to be applicable when:

- Our audit objective is to obtain evidential matter regarding the application of an internal control structure policy or procedure to evaluate its operating efficiency.
- Our plans to inspect documents evidencing the application of the policy or procedures or perform the policy or procedure to achieve our objective.

Work Plan and Audit Methodology (Continued)

When audit sampling is applicable to a test of controls, statistical numeric sampling is used when efficient. Statistical numeric sampling is not efficient for very small populations. Generally, when the population consists of 50 items or less, this method is considered inefficient. In this case, we judgmentally determine and select the number of items to inspect or perform as a test of the operating effectiveness of a control policy or procedure.

Sampling is generally used for test of controls over cash receipts cycles (i.e. charges for services cycles), cash disbursement cycles (i.e. payroll, compliance programs, capital expenditures) and certain end of year balances. Our testing methodology employs the guidance of the AICPA Auditing Standards Codification Section 350 and the AICPA's Audit Practice Release: Audit Sampling. Typical statistical sample size might range from 30 to 60 items per population depending on risk factors, stratification of population attributes and other factors.

Perform Tests of Compliance. The State and the Federal single audits require testing of compliance with specific laws and regulations. The approach to drawing audit samples for purposes of tests of compliance is similar to the use of sampling for tests of controls discussed above. Baseline guidance for determining and testing applicable laws and regulations will be drawn from the federal and state compliance supplements as modified annually.

Finalize Audit Plan. In addition to developing specific audit procedures to be performed, our audit plan requires the use of analytical procedures to assist in planning the nature, timing and extent of other auditing procedures. The primary focus of analytical procedures employed is the identification of specific risks of errors in the financial statement or compliance violations. At a minimum, the following analytical procedures will be employed:

- Comparison of actual income and expenditure balances to budget
- Comparison of major balance sheet and income statement balances to prior year's amounts
- Consideration to the extent applicable, of key financial relationships and ratios in relation to preliminary expectations to determine if there are unusual or unexpected balances or unexpected relationships

Design Audit Programs. Detailed audit programs are designed to identify the specific audit procedures to be performed. These programs integrate the results of internal control testing and risk assessments to assure efficient auditing.

Year-end Work

— Substantive Phase

Perform Substantive Testing of Balances. As a result of our preliminary phase, we develop a detailed audit program outlining the specific procedures to be used in performing substantive testing of balances. These substantive procedures involve analysis and testing of various accounts, confirmation with outside parties, and reviewing the work of specialists.

PBMares recognizes the audit efficiencies gained by using statistical sampling in auditing. We have made a significant investment in training our staff on the application of statistical sampling.

When applying statistical sampling in the performance of substantive tests of details, we use monetary sampling. Monetary sampling is a sample selection method similar to probability proportionate to size (PPS). The calculated sample size is impacted by our assessment of audit risk (confidence level), our reliance on the internal control, our reliance on analytical procedures, inherent risk, materiality considerations, and the dollar amount and dollar size of the items making up the population.

Work Plan and Audit Methodology (Continued)

PBMares' choice between a monetary (statistical) and non-statistical sample is a cost-benefit consideration. Generally, a non-statistical sample will always be larger than a comparable monetary sample to achieve the same degree of assurance. However, setup time and sample selection time for a monetary sample, in relation to time required to verify sample items and follow-up discrepancies, etc., could be significant, favoring a non-statistical sample. For most audit sampling applications, our experience shows that monetary sampling has proven to be more efficient than non-statistical sampling. Substantive tests of details to which sampling generally would be applied includes the testing of accounts receivable and inventory values, if applicable.

Analytical review is also used as a substantive test. Such evidence is often less costly to gather than tests of details. It is, therefore, an efficient audit strategy to employ analytical procedures to the maximum extent possible and then vary the required extent of substantive tests of details inversely with the degree of assurance already obtained.

Analytical procedures require the development and evaluation of plausible relationships between the financial data being examined and other data with logical or predictable relationships to the financial data. The procedures employed may include:

- Reviewing fluctuations from prior years for reasonableness.
- Scanning accounts for items larger or smaller than expected when compared to budgets.
- Reviewing and comparing logical relationships between years. Comparisons between years can be made more effective when logical relationships between elements of the financial statements that would be expected to conform to a predictable pattern are used to develop trends. This is primarily accomplished through the use of ratios.
- Analyzing and comparing non-financial information such as number of employees to payroll costs, etc.
- Comparing data to statistics for organizations of similar operations.
- Comparison of actual results to budget.

Report and Review Phase

— Completion/Reporting

Final Review by Engagement Partner and Quality Control Partner. Throughout the audit engagement, staff work is reviewed by someone with a higher level of experience and technical expertise. In completing the audit, all work is reviewed by the engagement partner. Our firm policy also requires that a partner who is not otherwise involved with the engagement perform an independent quality control review on the financial statements.

Summarize Results of Work and Findings. During the audit, fieldwork findings are noted and results of testing are documented. Recommendations are developed for enhancing operational efficiencies. This information must be summarized for presentation to management and anyone else deemed appropriate.

AICPA Auditing Standard Section AU-C 260. *The Auditor's Communication with Those Charged with Governance* establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements.

Work Plan and Audit Methodology (Concluded)

More specifically, AU-C 260 –

- Defines the terms control deficiency, significant deficiency and material weakness;
- Provides guidance on evaluating the severity of deficiencies identified; and
- Requires the auditor to communicate for each audit, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Reporting. The audit partner will be responsible for reviewing the financial statements to ensure they are in accordance with all GASB requirements. No fewer than three people will review the financial statements before they are released. At the conclusion of the audit, it is our firm's policy to provide our government audit clients with a report to the governing body covering required communications under auditing standards generally accepted in the United States of America. We also issue a management letter that goes beyond the required internal control reporting of significant deficiencies and material weaknesses and other internal control matters and provides our clients with recommendations to improve operational efficiency, as well as information regarding any new accounting pronouncements and other issues that impact the Town. We will work with you to understand their impact and to provide you meaningful implementation advice. We will also be available to you during the year to answer any questions that may arise.

Exit Conference. At the end of our engagement, we will meet with the Town Manager, Finance Officer and Town Council to present our reports and letters.

Work Paper Retention

As is our policy for all attest services, PB Mares will retain the work papers for a minimum of seven (7) years upon completion of the services provided unless the firm is notified in writing by the Town of the need to extend the retention period. The Town, their authorized agents, subsequent independent auditors, and/or state and federal auditors will have full access to and the right to examine any of these materials during that time.

Methodology for Requested Services



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Cybersecurity and Information Technology Audit Specialists

Over the past five years, data breaches of PII and proprietary data accounted for over half of all security breaches. Among those breaches, social engineering, business e-mail compromise, and advanced persistent threats due to poor internal controls were the leading cause of data breach incidents.

Specialized Cybersecurity & Information Technology Services

In light of the increasing volume and sophistication of cyber threats, PBMAres, a long-time provider of cyber and IT audit services, offers the following customized consulting and attestation services to meet your needs if desired:

Consulting Services	Attestation Services
<ul style="list-style-type: none">■ Cybersecurity Risk Assessments■ Vulnerability Scans (Internal and External)■ Penetration Testing (Internal and External)■ Wi-Fi / Access Point Penetration Tests Per Location■ Security Awareness Training and Phishing Simulator■ Incident Response Table-Top Exercises■ InfoSec Policy and Procedure Development■ Continuity Plan Development: IRP, DRP, and BCP■ Review of Cyber Insurance Coverage■ User Lifecycle Management Consulting■ DoD DFARS and CMMC Compliance Audits■ HIPAA Compliance Assessments	<ul style="list-style-type: none">■ Information Technology General Controls Audits■ Service Organization Control (SOC) Audits<ul style="list-style-type: none">– SOC 1– SOC 2– SOC 3– SOC for Supply Chain

PBMAres has provided Information technology (IT) and cybersecurity (cyber) consulting services for over 20 years. Our professionals dedicate a substantial percentage of their time to assisting organizations with IT and cyber risk management requirements. In addition, the engagement team holds ISACA's Certified Information Systems Auditor and the AICPA's Cybersecurity Advisory Services Certificates. Our experience means your team understands the strategic, operational, and regulatory issues impacting your industry.

Business Impact and Risk

Cyber incidents can have a financial, operational, legal and reputational impact. An organization's role in critical infrastructure can also increase the potential impact of a cyber incident. Some examples of impact from a cyber incident may include:

- Negative publicity resulting in loss of reputation
- Loss of intellectual property or trade secrets
- Fines, lawsuits and legal fees resulting from noncompliance or loss of confidential or consumer information
- Forensic investigation costs
- Public relations campaign costs to improve public image
- Technology improvement costs to mitigate and improve cybersecurity controls
- Loss of time and productivity

Cybersecurity and Information Technology Audit Specialists (Concluded)

Benefits to Your Organization

PBMares has established criteria and specialized training to perform a comprehensive cybersecurity risk-based assessment, thoroughly reviewing the current state of the Town's cybersecurity risk posture, as well as the design and operating effectiveness of IT internal controls. The Town will have access to these resources and the involvement of the cyber subject matter specialists in the review of your system and IT Internal Controls from an audit perspective. Through our cyber services, management can enhance their oversight and establish a cyber-risk profile:

- Identifying a data mapping of key information technology systems and what data resides within each system.
- Assessing current risk management practices, and IT general controls in place to determine control gaps, and identify security weaknesses within the organization's information technology environment.
- Evaluating observations identified over the organization's current cybersecurity preparedness and set a target state of preparedness best aligned with the organization's overall cyber risk appetite.
- Reviewing, approving, and supporting plans to address risk management and IT control gaps or weaknesses.

PBMares has experience with auditing clients with the following information systems and software packages:

- | | | |
|----------------------|--|---------------|
| ■ Abila MIP | ■ GolfGopher | ■ MUNIS |
| ■ ACCPAC | ■ Grant Management System (GMS) | ■ Peachtree |
| ■ AccuFund | ■ HTE (Sunguard) | ■ Pentamotion |
| ■ BAI (Bright) | ■ J D Edwards MAS 90 and Advanced Versions | ■ QuickBooks |
| ■ Blackbaud | ■ Microsoft Dynamics Great Plains | ■ RecTrac |
| ■ Citipak | ■ Mitchell Humphrey | ■ SAP |
| ■ Creative Solutions | | ■ SBT |
| ■ Eden | | |

Use of Technology

Emerging audit techniques such as the use of "big data" analysis tools to audit large volumes of transactions keep us on the leading edge of the audit discipline. We are able to bring this approach to the Town because we invest in our people by ensuring they have access to some of the best continuing education providers in the industry. In addition, the firm launched a Data Analytics Competency and Execution team whose members are committed to researching, training and understanding the applicable benefits of emerging technologies such as robotic process automation and data analytics.

The Town deserve a quality audit performed in a well-organized, timely and productive manner. A core firm value, innovation benefits the audit process by automating certain audit procedures, enabling efficient communication and providing a secure data exchange with our clients. Further, this allows your engagement team to focus on designing audit procedures surrounding the areas of highest risk.

Use of Technology (Concluded)

Our audit tools include a wealth of secure technological resources, such as:

- Paperless engagement binders that can be accessed simultaneously from any location;
- Automated on-line account confirmations;
- Statistical sampling and data manipulation software;
- Automated trial balance software, with integrated report and workpaper links;
- Electronic and on-line technical resource materials;
- Standard office automation and communication software;
- Wireless networking capabilities, both in the office and in the field;
- Assistance with your electronic report submissions;
- Audit data analytics; and
- Video conference capabilities to conduct interviews, observations and audit procedures in an environment where face-to-face meetings are not possible

Management Letter

Proper planning is essential in generating pertinent management letter comments. To accomplish this, the client service team will meet periodically to discuss opportunities to provide business advice to you as well as to plan for the delivery of compliance services. Our goal is to meet or exceed your expectations.

Generating Management Letter Points

During the audit, the engagement team members understand they have a responsibility to generate ideas that may be used in the management advice letter. Audit planning sessions are used to identify focus areas, such as:

- Problems noted during the audit. The engagement partner and manager encourage staff to identify any potential issues and opportunities during the audit.
- Industry experience. Understanding our client's needs and industry is vital for review effectiveness. Our familiarity with clients in your industry and industries with similar operating issues allows us to effectively identify and offer solutions to problems confronting the Town.
- Discussions with client service team members. The engagement team will attend a wrap-up conference to review ideas and develop the basis for the management letter.

Communication of Management Letter Comments

We strive to effectively communicate recommendations to our clients. In addition to accumulating comments and observations during the engagement, our findings will be discussed with key personnel as significant matters arise. At the end of fieldwork, the management letter is drafted and reviewed with management for accuracy of the factual circumstances. All audit findings that are candidates for inclusion in the management letter will be discussed with the appropriate parties prior to formal issuance. The management letter is then subject to the same quality review process as other audit reports prior to release. We will prepare and submit the letter to the appropriate parties.

Methodology for Requested Services



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Communications

From the engagement letter, preliminary audit planning, delivery of the reports, and presentation of the management letter, we strive to maintain open communications. This includes keeping all involved in the loop using email communications as work progresses and meetings with your staff.

We will communicate the findings of our audit work and potential adjustments to the Director of Finance and/or the level of management at which a problem, issue or opportunity arises. Generally, matters are also communicated at least to the next level of management or governance as applicable. We strive to ensure that we have an accurate understanding of the facts and circumstances prior to providing any formal communication. Our goal is “No Surprises”. We will communicate any and all findings to the Finance Officer and Town Manager as soon as they arise.

All formal communication is provided in draft form prior to committee or board meetings in which they will be discussed. Management and audit communication letters are also subject to the same quality review process as other audit reports prior to release.

Equally important, we will work with you throughout the year to identify means of improving efficiency and effectiveness of operations and fine-tune financial reporting to maximize utility. You will receive the benefits of a trained group of professionals dedicated to providing clear communication and placing your needs first, while adhering to the standards of professional integrity.

Assistance from the Town's Staff

We anticipate that we will receive support from the government's accounting personnel necessary for the preparation of requested schedules, supporting documentation and assistance with compliance requirements before we commence fieldwork. By utilizing our extensive knowledge with similar organizations, we will limit the assistance required from your staff as much as possible. Timing for delivery of the agreed-to schedules and assistance will be discussed with you while an audit timeline is coordinated between all parties.

Methodology for Requested Services



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Proposed Work Schedule

Your time is valuable. Your engagement will be planned to maximize efficiency and minimize disruption for you and your staff. Summarized below is the expected time frame for completion of the audit engagement. Specific dates will be coordinated at the convenience of the Town.

Key Activities and Deliverables	Timeframe
■ Provide the Town with a detailed work plan, onsite dates and times, work to be accomplished and list of "prepared by client" schedules, system generated reports and confirmation letters necessary for both interim and final fieldwork	November, 2022
■ Entrance conference to discuss scope of work and audit plan	December, 2022
■ Begin audit fieldwork	December 15, 2022
■ Complete final audit fieldwork to include all proposed audit adjustments related to the financial statements	January 20, 2023
■ Exit conference with management and anyone else deemed appropriate to report on the opinions and to provide required communications, and discuss management letter comments	January 27, 2023
■ Submit preliminary draft of the audit report and required journal entries for proofing and reconciliation to the Town's records	February 10, 2023
■ Issue final management reports and reports on compliance	February 24, 2023
■ Single Audit Data Collection Form completed and submitted PBMares; certified by PBMares and the Town	Subsequent of LGC approval of the Annual Comprehensive Financial and compliance report but no later than 30 days of approval
■ Attend respective Council/Committee meeting(s)	As requested

Adequate notification will be given prior to any changes in estimated times. Note, typical fieldwork would not encompass 4-5 weeks, however given compressed timeframe for initial audit procedures and information gathering, additional weeks are included. In the event information is ready and available earlier in the process of the audit, the reporting timeline may be accelerated. Traditional preliminary fieldwork to commence in May with final commencing in August/September to meet LGC reporting deadlines.

Additional Governmental Services

Our team provides governments with a full array of services ranging from cost-efficient, high quality audits like those we are proposing, to information systems and management consulting.

Engagements for governmental units have covered such diverse areas as: analyzing accounting and internal control systems in order to consolidate accounting functions while retaining adequate internal controls; assistance with sharing of resources for information systems and purchasing departments; assessment of a local government's "service efforts and accomplishments" as a basis for future performance budgeting; implementing and computerizing capital asset systems; operational efficiency; and revenue enhancement/cost of services study. Among the services we offer are:

General Services

- Financial Statement Audits
- Reviewed Financial Statements
- Compiled Financial Statements
- Agreed Upon Procedures
- Performance and Operational Evaluations
- Internal Control Evaluations
- Sub-recipient Monitoring Assistance
- Financial Projections
- Internal Audit Program Development/Evaluation
- Client Needs Assessment
- Evaluation of Financing Alternatives
- Technical assistance
- Training

Consulting Services

- Forensic Accounting in the Event of Fraud
- Cybersecurity
- Information Systems and EDP
- Disaster Recovery Planning
- Financial Management (including Cash Management)
- Operations Improvement
- Assistance with Financing and Bond Offerings (including issuance of comfort letters with respect to official statements)
- Long-Range Planning/Financial Feasibility
- Organizational Analysis
- Human Resources Management
- Management Training and Development
- Policy Manual and Employee Handbook Development
- Wage and Salary Studies
- Assistance with IRS Exams

Cost Proposal



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Estimated Fees

We hope to establish a long-term relationship with the Town. We can be better advisors if we are able to help you plan and establish long-term strategies geared toward attaining your future success.

We endeavor to provide high-quality, cost-effective service. Our fees are based on competitive, hourly rates relative to the professional achievements and experience of our personnel. By assigning staff with the appropriate level of expertise to complete your audit services comprehensively and efficiently, we manage your fees for our services in an effective manner.

As a part of our planning process, we will meet with your management team to determine whether all schedules and closing entries have been completed prior to the start of fieldwork and advise management of any items which have not been completed. Our pricing assumes that the information we request (including general ledger accounts, supporting schedules, and other information) is ready and sent to us at least one week prior to fieldwork and that all year-end closing entries have been made.

The costs presented below are based on our understanding of the engagement and our previous experience with similar organizations. The cost estimates are based on anticipated cooperation from your personnel and their assistance with preparing requested information. In addition, we estimate the total number of engagement hours to be approximately 425 hours for the Town, 85 for the Tourism Board and 70 for the Tourism Development Authority.

The costs detailed below are “not-to-exceed” for the fiscal year ended June 30, 2022.

Description	Town of Hillsborough	Town of Hillsborough Tourism Board	Hillsborough Tourism Development Authority
■ Audit of Financial Statements	\$50,000	\$10,000	\$8,000
■ Audit in Accordance with the Uniform Guidance or State Single Audit Implementation Act (if required)	Included	N/A	N/A
■ Supplies and Materials	Included	Included	Included
■ Other	Included	Included	Included
Total	<u>\$50,000</u>	<u>\$10,000</u>	<u>\$8,000</u>

Our fees above include the testing of one major Single Audit program. In the event additional programs are required to be tested, an additional \$4,000 to \$5,000 will be billed based on the complexity of the program. In the event the Town is not required to have a Single Audit, the fees quoted above will be reduced by \$6,000. We will commit that our fees should not rise more than 4-5% per year.

We wish to establish a long working relationship with the Town. Our fees above do not include approximately \$16,000 in additional first year costs related to information gathering, prior year workpaper inspection, and other initial year audit costs. In the event the Town wishes not to engage PB Mares for the three years as quoted above, our fees for a single year audit for the June 30, 2022 year will be \$63,000, \$13,000 and 11,000 for the Town, Tourism Board and Tourism Development Authority, respectively.

Professional Assistance

We encourage our clients to contact us with questions so we can address them as they arise. By keeping abreast of issues as they occur, we will not only be able to deliver a more efficient audit, but the advice we provide you will be more meaningful as we grow in our understanding of your organization.

Our staff members are committed to client service and generally respond to phone calls or emails the same business day. Our quoted fee includes ongoing consultation, any requested meetings and professional interaction related to the performance of the engagement.

In general, we do not charge for telephone calls or emails. However, if the call requires significant additional work on our part, there may be a fee. We will provide you an estimate before we perform any work requiring an additional fee.

Change in Engagement Scope

In the event that circumstances arise during the audit that require work to be performed in excess of the original estimates, any additional costs will be negotiated prior to commencement of the work and an amended contract will be approved by the governing board and forwarded to the staff of the LGC for approval.

Policy for Cost Overruns

We guard against surprises by spotting conditions that create time and fee pressures in advance. In addition, we believe it is inherent in our role as your strategic advisor that technical assistance and advice be provided. By communicating with you before expending any effort, we are able to reach a mutual solution before an issue turns into a problem. We take this responsibility seriously and will not bill you for time and fees that you have not agreed to in advance.

Why PBMAres?



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While we hope that you will find our detailed proposal informative, outlined below is a summary of the reasons why we believe we are the best choice to serve as audit provider for the Town.

Innovation. Our team approach and paperless audit technology allows us to have our specialists from anywhere in the firm participate in the engagement, thus negating the impact of geographical boundaries and travel time.

An audit schedule that works for the Town. It is now commonplace for some firms to conduct audit procedures throughout the entire year, including periods that are inconvenient for the Town's staff. We will work with you to create an audit schedule that provides minimal disruption to your staff.

Experienced staff. We are serious about having the Town as our client. The audit of the Town is important business and we will have only the most qualified audit professionals with appropriate government training assigned to the engagement.

Partner involvement. We are committed to serving the needs of the Town and to making our senior level team members available to you as needed throughout the course of the engagement. Robbie Bittner and Sarah Kate Willis will be available throughout the year to attend meetings as requested, as well as participate in the presentation of the audit reports and letters as requested.

Focus on the public sector. Our governmental team is committed to supporting and growing our public sector practice. We have significant experience providing audit and consulting services to local governments and have established a dedicated government practice which consists of more than 30 professionals. This means the Town will be served by a team with the knowledge and experience to meet the needs of the audit.

Value. We realize and appreciate the need for governments to obtain real value for their purchases of goods and services. Through our in-depth knowledge and understanding of the accounting and business risks affecting governments, we have developed a very effective and efficient risk-based audit approach. Consequently, we believe in passing these savings on to our clients. As you will see, we are competitively priced without sacrificing technical competency or efficiency.

Extended services available through alliances. PBMAres is one of the region's leading CPA firms, independently owned and operated, but with strong ties to a national firm. We are members of the RSM US Alliance of accounting and consulting firms. This alliance includes select firms throughout North America that share resources, a common audit methodology, and business best practices. As a member firm, we maintain our name, autonomy and independence and are responsible for our own client fee arrangements, delivery of services and maintenance of client relationships. **PBMAres provides you *the best of both worlds* – the depth and breadth of resources typically available only through a national firm, with the service-oriented perspective and fee schedule you expect from a local firm.**

Robert “Robbie” Bittner, III, CPA

Partner

Morehead City, NC

rebittner@pbmares.com

**Summary of Experience**

Robbie's experience is concentrated in the governmental, nonprofit and utility industries. His experience includes audits of municipal and nonprofit utility agencies in North Carolina and Georgia as well as cities, towns, counties, boards of education, higher education institutions, solid waste authorities, transportation authorities, water and sewer utilities, and nonprofit agencies in North Carolina, South Carolina, Florida, Virginia, Georgia and New Hampshire. His experience also includes work with commercial manufacturing.

Robbie has served numerous audit clients across the governments, nonprofit and utility arena. His experience has given him deep technical understanding of the rules and requirements of the Governmental Accounting Standards Board (GASB) pronouncements as well as *Government Auditing Standards* and the *YellowBook* (GAGAS). He plays an integral role in the implementation of new GASB pronouncements with clients across North Carolina and Virginia. He has extensive experience and skills related to audits of federal grants in accordance with the Single Audit Act, Uniform Grant Guidance and OMB Circular A-133. He has worked closely with federal and state grantor agencies to ensure entity compliance with all federal and states grant rules, regulations and reporting requirements. Robbie has also performed special purpose examinations including on the operational effectiveness and efficiency of public transportation systems.

Engagement experience includes:

- Town of Morehead City, NC
- Cape Fear Public Transportation Authority, NC
- Carteret County, NC
- City of Asheville, NC
- City of Charlotte, NC
- City of Fayetteville, NC
- City of Greenville, NC
- City of Jacksonville, NC
- City of Manchester, NH
- City of New Bern, NC
- City of Wilmington, NC
- Craven County, NC
- ElectriCities of NC
- Fayetteville Public Works Commission
- Greenville Utilities Commission
- Jacksonville, FL Transportation Authority
- NC Eastern Municipal Power Agency
- New Hanover County, NC
- North Carolina Municipal Power Agency #1
- Onslow Water and Sewer Authority
- Piedmont Municipal Power Agency
- Prince William County, VA
- Stafford County Schools
- Stafford County, VA
- Cape Fear Council of Governments
- Neuse River Council of Governments
- d/b/a Eastern Carolina Council

Robbie has also served in RSM's audit standards methodology group. Responsibilities included developing overall RSM audit policy and procedures to meet or exceed professional standards, performing interoffice audit engagement inspections, developing firm wide national trainings and delivering national training to all levels of RSM assurance professionals. He has also presented at the annual Nuclear Non-Operators Owners Group conference.

Robert “Robbie” Bittner, III, CPA

Partner

Morehead City, NC

rebittner@pbmares.com

Professional Affiliations and Credentials

- Certified Public Accountant, North Carolina
- American Institute of Certified Public Accountants
- North Carolina Association of Certified Public Accountants
- North Carolina and Virginia GFOA
- NCACPA Government Audit and Accounting Committee
- National Society of Accountants for Cooperatives
- American Public Power Association

Education

- Master of Accounting, University of North Carolina Chapel Hill
- Master of Business Administration, East Carolina University
- Bachelor of Science, business administration, University of North Carolina Chapel Hill

Michael A. Garber, CPA, MBA
Partner-in-Charge – Central Region
Co-Leader, State and Local Government Team
Harrisonburg, Virginia
mgarber@pbmares.com



Summary of Experience

Mike Garber has more than 25 years of experience in planning, performing, participating, and managing audits of all forms of local governments and governmental type entities. He has served in various capacities on audit teams for more than 40 counties, cities and towns, authorities, boards, commissions, and numerous school activity funds. He also provides consulting services for all forms of governmental entities including operational studies, forensic auditing services, internal audit support, assistance with software conversions, and assistance with implementing new Governmental Accounting Standards Board (GASB) Statements.

He has been a presenter and session leader for new GASB pronouncements and other governmental related topics for the Virginia Society of Certified Public Accountants, the Virginia Association of School Business Officials, and the Virginia Government Finance Officers Association. Mike is also a reviewer for the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting program. For ten years, he was recognized by *Virginia Business* magazine and the VSCPA as a “Super CPA” in the service areas of Government and Not-for-Profit as voted on by his peers from throughout the Commonwealth.

Professional Affiliations and Credentials

- Certified Public Accountant
- American Institute of Certified Public Accountants
- Virginia Society of Certified Public Accountants (VSCPA)
- Government Finance Officers Association (GFOA)
- Virginia Government Finance Officers Association (VGFOA)

Education

- Bachelor of Science in Business Administration with a concentration in Accounting, Bridgewater College
- Master of Business Administration, James Madison University in Harrisonburg, Virginia

Sarah Kate Willis, CPA
Manager
Morehead City, NC
skwillis@pbmares.com

Summary of Experience

Sarah Kate's experience is concentrated in the governmental, nonprofit, and utility industries. Her experience includes working with cities, towns, counties and government agencies in North Carolina as well as municipal and nonprofit utility agencies in North Carolina.

Since joining the firm, Sarah Kate has served as engagement staff and in-charge for various clients across the governments, not-for-profit and utility arena. Her experience has given her technical understanding of the rules and requirements of the Governmental Accounting Standards Board (GASB) pronouncements as well as *Government Auditing Standards* and the *YellowBook*. She has experience and skills related to audits of federal grants in accordance with the Single Audit Act and Uniform Grant Guidance. She has worked closely with federal and state grantor agencies to ensure entity compliance with all grant rules and regulations. She has considerable experience and understanding of the Federal Energy Regulatory Commission's accounting method as well as the rules and regulations of the Rural Utilities Service.

Professional Affiliations and Credentials

- Certified Public Accountant, North Carolina
- North Carolina Association of Certified Public Accountants
- American Institute of Certified Public Accountants

Education

- Master of Accounting, University of North Carolina Wilmington
- Bachelor of Science, business administration, University of North Carolina Wilmington

Amalia E. Neco Valle, CPA
Assurance Supervisor
Morehead City, NC
aenecovalle@pbmares.com

Summary of Experience

Amalia Neco Valle provides financial and compliance audits and other attest services to a variety of not-for-profits, public sector and governmental entities. Amalia has developed a governmental and public accounting/audit background while serving a variety of the firm's clients.

Her prior experience includes a providing accounting and auditing services to clients in various industries, including real estate organizations and financial services. She has also assisted organizations with their implementation of governmental accounting systems.

Currently, Amalia assists in the development of several audit engagements, provides advice to team member and clients on accounting audit matters and helps ensure that the audits are handled in a timely manner and in accordance with accounting professional standards.

Professional Certifications and Affiliations

- Certified Public Accountant, North Carolina Board of Accountancy
- Certified Public Accountant, Puerto Rico Board of Accountancy
- American Institute of Certified Public Accountants

Education

- Bachelor of Science in Business Administration with a major in Accounting, University of Puerto Rico

Antonina McAvoy, CISM, CISA, QSA, PCIP
Senior Manager
Cyber & Control Risk Services Team Leader
Hampton Roads, Virginia
amcavoy@pbmares.com



Summary of Experience

Co-leader of the Cyber & Control Risk Services Team, Nina McAvoy uses her experience to perform a wide spectrum of cybersecurity reviews, SOX information technology general control assessments, readiness assessments, independent trust and transparency (SOC reporting), HIPAA reviews, information technology internal audits, and control services.

Ms. McAvoy specializes in SOC audits, cybersecurity, as well as data protection and privacy. She performs complex data mapping exercises to identify where key data resides in an organization's environment, assessing the operating effectiveness of control environments, as well as identifying control gaps and weak cybersecurity settings. Ms. McAvoy is instrumental in analyzing the root cause and impact of IT issues through gaining a deep understanding of organization's operations. She is well versed in translating IT risks, recommending business solutions, and advising organizations on designing strategies to create and improve sustainable data protection and enterprise-wide risk prevention programs.

Her areas of specialization include:

- Risk Management, Cybersecurity, Vendor Management, Incident Response, Disaster Recovery, Business Continuity Management, HIPAA, GDPR, Data Privacy, Change Management, VPN, Network Perimeter, Outsourced IT Environments, and SOC Reporting (SOC 1, SOC 2, SOC 3, and SOC for Supply Chain).
- Planning, resourcing, and executing Global IT compliance audit efforts for multi-national clients.
- Engaging/interacting with management at all levels as well as communicating risks, exceptions, and managing client expectations; ability to translate IT risks and recommend business solutions.
- Managing fieldwork for controls assessments in the areas of IT governance, program change management, computer operations, operating system security, database security, network architecture, and logical security access in an array of industries.

Professional Affiliations and Credentials

- Certified Information Systems Auditor (CISA)
- Cybersecurity Advisory Services Certificate
- Certified Information Security Manager (CISM)
- Payment Card Industry (PCI) Qualified Security Assessor (QSA)
- Payment Card Industry Professional (PCIP)
- Publication: *The Secret to Mastering the Defense Federal Acquisitions Regulation Supplement Cybersecurity Requirements (ProQuest No 27672340)*

Education

- Master of Science in Cybersecurity, Concentration in Cyber Operations, Utica College
- Bachelor of Science in Business Management, Concentration in Accounting Babson College



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Appendix B

Peer Review Report

KraftCPAs PLLC performed PB Mares' most recent peer review which covered the system of quality control in effect for the year ended February 29, 2020. KraftCPAs issued its unmodified report, dated January 15, 2021, on the firm's system of quality control which was accepted by the AICPA. Our most recent peer review report is included below.

Report on the Firm's System of Quality Control

To the Shareholders of
PBMares, LLP
And the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of PBMares, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended February 29, 2020. 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 and complying with it to provide the firm reasonable assurance of performing and reporting in conformity with applicable professional standards in all material aspects. 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 weakness 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.

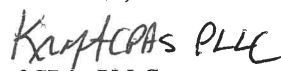
Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans, an audit of a broker-dealer, and an examination of service organizations [SOC 1 engagement].

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 PBMares, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended February 29, 2020, 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*. PBMares, LLP has received a peer review rating of *pass*.


KraftCPAs PLLC
January 15, 2021