



CPAs

PLLC

Accounting • Tax • Advisory

CITY OF HENDERSONVILLE

SECOND SECTION

Response to RFP for Financial Audit Services

Responsible Office and Contact Person:

Diana Hardy, CPA, CFE

AUDIT PARTNER

GOVERNMENTAL/NON-PROFIT AUDITS

629 Green Valley Road, Suite 201

Greensboro, NC 27408

Phone: (336) 481-0281

Email: dhardy@rh-accounting.com

Website: www.rh-accounting.com

TABLE OF CONTENTS

SECOND SECTION

1-6	Technical Approach	2
7	Audit Timeline	4
8	Fees	5

APPENDICES:

Appendix C – Cost Proposal

Appendix D – Summary of Audit Costs Sheet

SECOND SECTION

1- 6 TECHNICAL APPROACH

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 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.

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 are 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 our professional 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.

INTERNAL CONTROL

We will gain an understanding of internal controls through the use of internal control walkthroughs. We typically perform control testing 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.

MANAGEMENT LETTER COMMENTS

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 Board’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. In addition, we will provide verbally any areas 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.

The City’s audit will be staffed by RH CPAs, PLLC as follows:

<u>Level</u>	<u>Individual</u>	<u>Office</u>	<u>% time on-site</u>
Partner in Charge	Diana Hardy, CPA, CFE	Greensboro	25% minimum
Senior Audit Manager	TD Hill	Lexington	50%
Staff	Steven Montesano	Lexington	100%
Staff	Will Southern	Lexington	100%

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 requested 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 City. In order to accomplish this, we do expect complete cooperation from the City’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 and management 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 City’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.

7. AUDIT TIMELINE

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

- February 2024 RH is awarded the audit.

- February 2024 Engagement letter and contracts are prepared. Signed engagement letters and contracts are returned to RH and submitted to the LGC for approval. RH communicates with the predecessor auditors and sets up a time to review their working papers. RH sets a pre-planning conference with Finance Staff.

Engagement Fieldwork

- June 2024 We will conduct preliminary fieldwork. This will include planning, risk assessment, procedures, internal control testing, compliance testing (if applicable) and Inventory observations (if applicable). We anticipate approximately three full days of preliminary fieldwork.

- August/September 2024 RH will receive trial balances in advance of fieldwork so we can enter into our system and conduct preliminary analysis.

RH will conduct final fieldwork. All issues we note during our audit will be discussed with staff before fieldwork is complete. We anticipate approximately one full week of fieldwork.

A final trial balance will be provided by September 30th for approval by management.

Engagement Conclusion

- October 2024 The Audit will be finalized once approved by the City and the LGC.

- November 2024 We will present the audit to the City Council.

8. FEES

A full cost breakdown can be found in **Appendix C**. The following is our summary fee proposal for the audit services for the City for the fiscal year ending June 30, 2024:

June 30, 2024	Audit Services	\$ 53,015
June 30, 2025	Audit Services	\$ 56,250
June 30, 2026	Audit Services	\$ 59,805

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 non-profits and governments are sensitive to costing in today's economic conditions. We have discounted our fees in response to this. We attempt to keep fees for governments and non-profits 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. Billing is completed as time accrues throughout the audit engagement with 50% due at commencement of the audit up to 75% with a final bill produced after presentation to City Council.

Technical Questions

We understand management 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 management has questions or research topics that require extensive time, those services will be billed at our standard billing rates (discounted for governments). We will agree to the cost of this additional work with you before beginning any such requests.

Remainder of this page left intentionally blank

APPENDIX C
Cost Proposal

CITY OF HENDERSONVILLE
Cost Proposal
Audit Services - June 30, 2024



The following is a summary of our cost proposal for the audit services of the City for the year ended June 30, 2024. 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>
Opening Balance Testing & Setup	-	1	4	9	14 *
Preliminary Fieldwork	8	16	16	8	48
Fieldwork	24	40	44	45	153
Work performed in auditor's office					
Planning and wrap up	5	20	15	15	55
Total Hours	37	77	79	77	270
Rates	\$ 375	\$ 330	\$ 140	\$ 110	
	\$ 13,875	\$ 25,410	\$ 11,060	\$ 8,470	\$ 58,815
Data Input Worksheet Preparation					\$ 550
Governmental Discount					\$ (5,800)
					\$ 53,015
COST PROPOSAL AUDIT FEES					
			June 30, 2024		\$ 53,015 **
			June 30, 2025		\$ 56,250 **
			June 30, 2026		\$ 59,805 **
Travel estimate (to be billed at cost each year):					
Mileage					\$ 1,725
Travel Time					\$ 5,730
Overnight Accommodations & Meals					\$ 5,000
Total					<u>\$ 12,455</u>
Financial Statement Preparation, if required by RH					<u>\$ 12,000</u>

* Estimated non-recurring first year engagement hours and costs of \$1,880

** This is a cost not to exceed for audit services. If the costs are less than the quoted amount, the City will be charged the lesser amount. We anticipate approximately a 10% increase in fees each year.

Compliance testing will be billed at \$4,500 per Federal and/or State program tested based on RH CPA Assessment of Draft SEFSA.

APPENDIX D

Summary of Audit Costs Sheet

SUMMARY OF AUDIT COSTS SHEET --FIRM NAME RH CPAs, PLLC

	FY24	FY25	FY26
	<i>Binding</i>	<i>Estimate</i>	<i>Estimate</i>
Base Audit Fee: Includes all personnel costs, travel, and on-site work, supplies and materials – provide separate detail as described below	\$ 65,470	\$ 68,705	\$ 72,260
Financial Statement Preparation: Includes preparation and printing of ACFR	\$ 12,000	\$ 13,200	\$ 14,250
Extra Audit Services (if needed)			
Other Costs: (Explain)			
TOTAL:	\$ 77,470	\$ 81,905	\$ 86,510

Separately provide detail for the following components of the *Base Audit Fees*:

Personnel costs –
Itemize the following for each category of personnel (partner, manager, senior, staff accountants, clerical, etc.) with the different rates per hour.

Estimated hours – categorize estimated hours into the following:
of Hours -On-site interim work, # _____ Rate per hour _____
of Hours -Year-end on-site work, # _____ Rate per hour _____
of Hours -Work performed in the auditor’s office # _____ Rate per hour _____

Total cost for each category of personnel and for all personnel costs in total.

Travel – itemize transportation and other travel costs separately.

Cost of supplies and materials – itemize.

Other costs – completely identify and itemize.

If applicable, note your method of determining increases in audit costs on a year to year basis.