



CPAs

PLLC

Accounting • Tax • Advisory

CITY OF HENDERSONVILLE

FIRST 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

This RFP for Audit Services is submitted by:

Offeror/Firm Name: RH CPAs, PLLC

Authorized Representative Name: Diana Hardy
(Print)

Authorized Representative Signature: *Diana Hardy* Date: 1/25/2024

Address: 629 Green Valley Rd, Ste 201

City/State/Zip: Greensboro, NC 27408

Telephone: 336-248-8281
(Area Code) Telephone Number

Facsimile: 336-248-2335
(Area Code) Fax Number

It is understood by the Offeror that The City of Hendersonville reserves the right to reject any and all Proposals, to waive formalities, technicalities, and to recover and rebid this RFP.

This RFP is valid for sixty (60) calendar days from the RFP due date.

**A certificate of insurance and W9 must be received prior to any work being done.
No Business License is required in the City of Hendersonville or Henderson County, NC**



Accounting • Tax • Advisory

January 25, 2024

To Whom it May Concern:

RH CPAs, PLLC is pleased to submit this proposal in response to the City's request for proposal (RFP) for auditing services for the year ending June 30, 2024. Our response demonstrates our qualifications and professionalism in order to start a mutually beneficial auditor-client relationship.

RH CPAs has a thirty-year history of exceeding the expectations of our clients. Our Firm was founded on the premise that our clients should have high expectations of us and that we have even higher expectations of ourselves. We develop trusted, long-term relationships with our clients and provide them with the depth of services that larger accounting firms offer but at a significantly better value and cost. Our team is known for its responsive, dependable and personable service.

This proposal is a firm offer of our services for any and all periods indicated. We will service your account with expert staff based in our Greensboro and Lexington offices, with support from our other office as needed. We are available for further interview or verbal presentation for clarification of any part of this proposal. We appreciate your consideration of our proposal and look forward to your response.

Regards,

RH CPAs, PLLC

Diana Hardy, CPA, CFE
Audit Partner

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FIRST SECTION

1 – 2. ENGAGEMENT STAFF AND FIRM PROFILE

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%

RH CPAs, PLLC is a professional limited liability company licensed by the North Carolina State Board of CPA Examiners and is engaged in the practice of public accounting with three offices in North Carolina. RH CPAs, PLLC evolved from Rives & Associates, LLP to accommodate the firm’s growth and expanded leadership team to support all of its service lines. With a staff of more than forty, RH CPAs, PLLC (RH) has excelled in serving North Carolina clients for over twenty-five years.

We have a primary objective to provide high quality audit, accounting, tax, and advisory services to clients in the best professional manner. Our partners, managers, and staff are expected to comply with this statement of philosophy in order to achieve the desired objective. “Professionalism” in the accounting profession means integrity, objectivity, independence where required, adherence to professional standards and applicable laws and regulations, and a demonstrated will to maintain and improve the quality of professional services and to withstand all pressures competitive and otherwise, to not compromise on principles, standards, and quality. Particularly in the field of auditing, professionalism requires an understanding of and dedication to the public interest. The public interest in audited financial statements has placed the public accounting profession in a unique position of public trust. Moreover, there is also a significant public interest in the way in which the Firm carries out accounting, tax, and advisory services. Therefore, no client or Firm consideration is allowed to interfere with our ability to carry out our commitment to professionalism.

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

In prior years the Firm was named in the Top 5 North Carolina Small Businesses and the Top 50 Small Businesses in the South. The Firm was also awarded “FAST 50” status in the Triad Area and Best Places to Work in 2022 by the Triad Business Journal.

CORE VALUES

At RH CPAs we are:

Personable – We provide services with personality

Responsive – We set expectations and exceed them

Team Player – The total is greater than the sum of the parts

Can-Do Attitude – Mindset is everything

Dependable – We say what we will do, and do it

Our purpose is exceeding expectations with expertise and enthusiasm. We will build and maintain relationships with employees of the City. City staff will know that they can depend on us to provide quality audit, accounting, and advisory services.

3 & 5. GOVERNMENT CLIENTS

Below is a sample of a governmental audit clients RH CPAs, PLLC has served:

Client	Service	Years Served	GASB 34
Caldwell Community College	Financial statement audit	6	Yes
Town of Benson	Financial statement audit	3	Yes
Town of Pittsboro	Financial statement audit and Single Audit	6	Yes
City of Kinston	Financial statement audit and Single Audit	6	Yes
Town of Ayden	Financial statement audit	1	Yes
Town of Goldston	Financial statement audit Single audit	5	Yes
Davidson County Community College	Financial statement audit	3	Yes
Cape Fear Community College Foundation	Financial statement audit	5	No
Durham Tech Community College Foundation	Financial statement audit	3	No
Johnston County Community College Foundation	Financial statement audit	3	No
Beaufort Community College Foundation	Financial statement audit	2	No
Wake County Board of Education	Financial statement audit and Single Audit	6	Yes
Wayne County Board of Education	Financial statement audit	3	Yes
Jones County Board of Education	Financial statement audit	3	Yes

Various charter schools throughout NC	Financial statement audit and Single Audit	3 - 10	Yes
Duplin County	Financial statement audit and Single Audit	2	Yes
Anson County Schools	Financial statement audit and Single Audit	12	Yes
Davidson County Schools	Financial statement audit and Single Audit	3	Yes
Durham Public Schools	Financial statement audit and Single Audit	10	Yes
Duplin County	Financial statement audit and Single Audit	1	Yes
Rowan-Salisbury Board of Education	Financial statement audit and Single Audit	6	Yes
Thomasville City Schools	Financial statement audit and Single Audit	12	Yes
Wilkes County Schools	Financial statement audit and Single Audit	4	Yes
Yadkin County Schools	Financial statement audit and Single Audit	11	Yes
Town of Seagrove	Financial statement audit and Single Audit	7	Yes
Town of Wilkesboro	Financial statement audit	2	Yes
Town of Macclesfield	Financial statement audit	2	Yes
Town of Stanley	Financial statement audit	2	Yes
Town of Spencer	Financial statement audit	3	Yes

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

- Financial Audits
- Single Audits
- Program Specific Audits
- Agreed-upon Procedures
- Forensic Audits
- Performance Audits
- Risk Assessment and Remediation
- Strategic Planning
- Internal Controls
- Efficiency Studies
- Staff Training Seminars
- Management Reviews

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

- FEMA Disaster Grants
- Community Development Block Grant

- Clean Water State Revolving Fund
- Home Investment Partnership Program
- Head Start and Early Head Start
- Child and Adult Care Food Program
- Special Education Cluster
- Weatherization Assistance Program
- Workforce Investment Act
- N.C. Pre-K (More At Four)
- School Improvement Grants
- Improving Teacher Quality
- Title II Immigrant & Youth
- National School Lunch Program
- School Breakfast Program
- Education Technology
- English Language Acquisition Grants
- N.C. State Public School Fund
- Public Building Capital Fund
- State Buses Appropriation
- Home Care Program
- Title 1, Part A Cluster Grants

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

- Municipalities
- Community College Foundations
- Community Colleges
- Boards of Education
- Various types of not-for-profits including charitable organizations and foundations, including federal and State single audits
- Charter Schools
- EMS units
- HUD properties
- Community Health Centers

4. REFERENCES

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

Handy Sanitary District

Lisa Hedrick: lhedrick@handysanitary.com
(336) 859-2553
PO Box 987
Denton, NC 27239

City of Kinston

Donna Goodson: Donna.Goodson@ci.kinston.nc.us
252-939-3281
207 E King Street
Kinston, NC 28502

Caldwell Community College and Technical Institute

David Holman: dholman@cccti.edu
828-726-2222
2855 Hickory Blvd
Hudson, NC 28638

Visit Lake Norman

Sally Ashworth: ashworth@lakenorman.org
704-987-3300
19900 W Catawba Ave. Suite 102
Cornelius, NC 28031

Unity Classical Charter School

Sheila Goad: sheila.goad@unityclassical.org
980-202-5899
1929 W Arrowood Road
Charlotte, NC 28217

Additional references available upon request.

6. PEER REVIEW

RH is a member of the American Institute of Certified Public Accountants (AICPA) and participants in the AICPA Peer Review Program. The AICPA Peer Review Program, administered by the North Carolina Association of Certified Public Accountants in North Carolina, requires enrolled firms to have a peer review conducted by an independent evaluator, once every three years, of their accounting and auditing practice. Such review assures that the services we provide to our clients meet the highest level of standards in the accounting profession. Our most recent peer review for the year ended March 31, 2020, received a “pass” rating, the highest rating of quality controls. See a copy of the peer review report in **Appendix A**.

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

7 – 8. STAFFING AND TEAM BIOGRAPHIES

RH employs approximately forty professionals over its three offices in North Carolina. The staffing needs are based on the complexity and nature of the organization, timing, and the extent of procedures which must be performed to meet the audit and tax objective, and the travel involved. We have designated specific associates to the engagement however, our associates are interchangeable between our offices and their assignments may change. There will be a minimum of two audit associates, one manager, and one partner designated to the engagement at all times. Each member of this team will be fully available to satisfy the needs of the engagement.

Our priority is making sure you are working with trusted professionals who have a clear understanding of your goals, strategies and reporting needs. Our partners and managers maintain a high degree of client involvement which minimizes the overhead and reduces the audit costs. This also provides the client a higher level of expertise that is always available.

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

SUPERVISING AUDITOR

Diana Hardy will be the partner in charge for the audits. Additional information for partners and managers is as follows:

Diana Hardy, CPA, CFE - Partner

dhardy@rh-accounting.com

[336-481-0281](tel:336-481-0281)

Diana Hardy is the Greensboro office's partner and services the firm's governmental and non-profit clients. Diana joined RH in 2015 and brings over 15 years of experience in governmental and not-for-profit organizations. Her work experience includes working with a variety of Towns, Boards of Education, Community Colleges, not-for-profits, community health centers, HUD and affordable housing audits, charter schools, private schools, churches, foundations, manufacturing companies, and insurance companies.

In addition to her auditing experience, Diana performs forensic and fraud investigative services. She is a member of the Central Carolina Chapter of the Association of Certified Fraud Examiners.



Community Involvement

- Board Member, Vice Chair – Goodwill Industries of Central North Carolina
- Past Chair – North Carolina Captive Insurance Association.
- Captive Insurance Companies Association – NextGen Committee and Conference Planning Committee Member

Education and Licenses

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

Professional Affiliations

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

Continuing Professional Education

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

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

• Town of Pittsboro	Manager	1 year
• City of Kinston	Manager/Partner	6 years
• Caldwell Community College	Manager/Partner	6 years
• Wake County Board of Education	Manager	3 years
• Wayne County Board of Education	Manager	3 years
• Jones County Board of Education	Manager	3 years
• Durham County Board of Education	Manager	2 years
• Various charter schools (all under GASB 34)	Various	12+ years
• Town of Macclesfield	Partner	1 year
• Town of Stanley	Partner	2 years
• Duplin County	Partner	2 years
• Town of Spencer	Partner	3 years

TD Hill, Senior Audit Manager

tdhill@rh-accounting.com

[336-248-8281](tel:336-248-8281)

TD Hill, CPA, CFE, CIA, CFSA, CCSA is a Senior Manager in the Lexington office of RH CPAs, PLLC and serves a variety of clients – both not for profit and for-profit entities. TD joined RH CPAs, PLLC in 2023 and brings over 20+ years of experience in internal auditing, forensic accounting, and corporate ethics. TD’s professional experience/expertise is in supply chain and distribution centers, control gap analysis and remediation, manufacturing, and fraud investigations. His not-for-profit and government experience includes working with service organizations, foundation entities, towns, cities, and counties.



Professional Affiliations

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

Education, Accreditations and, Licenses

- Master’s degree in Financial Fraud Investigations (FFI) – Pfeiffer University
- Bachelor of Science in Accounting and Finance – Pfeiffer College
- Licensed as a Certified Public Accountant (CPA) in North Carolina
- Certified Fraud Examiner (CFE)
- Certification In Control Self-Assessment (CCSA)
- Certified Financial Services Auditor (CFSA)

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

- | | | |
|------------------------------------|---------|---------|
| • North Carolina Lions Association | Manager | 1 year |
| • Town of Spencer | Manager | 1 years |
| • Town of Robbinsville | Manager | 1 years |
| • Duplin County | Manager | 2 years |
| • Graham County | Manager | 1 years |

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

9 – 10. EDUCATION AND EXPERIENCE

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

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

- The Firm sends many of its staff to the NCACPA LGC Conference annually.
- The Firm sends staff to the Annual UNC School of Government update.

Authorized Non-Profit/Governmental Courses and Seminars:

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

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

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

All staff assigned to the City's audit will have previous experience with GASB 34 presentation. RH initiated its practice in the non-profit and governmental service industry in response to our observation that larger firms were devoting fewer and fewer resources to their smaller and mid-size clients. The collective and extensive experience of our Non-Profit/Governmental Team has developed one of the fastest growing service areas of RH. Ever-changing accounting standards, economic conditions and the continued rise in operating costs have propelled our Non-Profit/Governmental Team to help entities alleviate the pressures facing the industries. Our commitment to the non-profit and governmental industry is reflected in the significant growth of our practice and the retention of those clients.

11. SPECIALIZED SKILLS AND TRAINING

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

Diana Hardy – In addition to her CPA license, Diana holds her certified fraud examiners license. She has also co-lead seminars in the past discussing fraud deterrence and detection methods. She is also a regular speaker at local and national insurance conferences.

TD Hill – TD has both domestic and international internal control and fraud/forensic accounting experience. He is a licensed CPA in the state of North Carolina and is a certified fraud examiner.

12. INDEPENDENCE

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

Independence on all audit engagements is reviewed on an annual basis to ensure compliance with all rules that govern this topic. We have reviewed our independence in association with this proposed engagement and in all matters relating to the audit of the City, RH CPAs, PLLC is independent in fact and appearance. Please see **Appendix B** for a copy of our employee manual as it concerns independence.

13. INSURANCE COVERAGE

RH CPAs, PLLC presently carries the following insurance policies:

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

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

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

14. REGULATORY ACTIONS

No regulatory action has been taken against the Firm or any staff members that will be assigned to the audit. We are NOT debarred from performing work for any State or federal governmental agencies.

15. OTHER INFORMATION

Why Choose Us?

Service

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

Staff

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

RH is an accounting firm that thrives on being different. There are no layers or gatekeepers when working with our Firm. You work with our most experienced experts.

Communication

In order to best serve you, we believe communication is an overriding factor. We will provide constant communication to management on the audit process through the engagement and be available for technical questions throughout the year.

16. GOVERNMENTAL AGENCY REFERRALS

City of Kinston

Donna Goodson: Donna.Goodson@ci.kinston.nc.us
252-939-3281
207 E King Street
Kinston, NC 28502

Town of Spencer

John Sofley: jsofley@spencernc.gov
704-633-2231
460 S Salisbury Ave.
Spencer, NC 28159

Duplin County

Chelsey Lanier: Chelsey.lanier@duplincountync.com
910-296-2104
P.O. Box 950
Kenansville, NC 28349

APPENDIX A
2020 Peer Review Report

Report on the Firm's System of Quality Control

June 2, 2021

To the Partners
RH CPAs, PLLC
and the Peer Review Committee of Coastal Peer Review, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of RH CPAs, PLLC ("the firm") in effect for the year ended March 31, 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 control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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

Required Selections and Considerations

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

As part of our peer review, we considered reviews by regulatory entities, 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 RH CPAs, PLLC in effect for the year ended March 31, 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*. RH CPAs, PLLC has received a peer review rating of *pass*.

Duncan Ashe, P.A.

Duncan Ashe, P.A.

APPENDIX B
Independence Manual

Excerpt from RH CPAS, PLLC Quality Control Document

Relevant Ethical Requirements

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

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

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

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

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

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

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

representation that confirms this responsibility.

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

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

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

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