



# City of Hendersonville North Carolina

**Cost Proposal to Provide Audit Services  
Fiscal Year June 30, 2021 through 2023**

**Mauldin & Jenkins, LLC**

**Tim M. Lyons, CPA, Partner**

**James W. Bence, CPA, Partner**

**Phone: (803) 799-5810**

**Email: [tlyons@mjcpa.com](mailto:tlyons@mjcpa.com)**

**[jbence@mjcpa.com](mailto:jbence@mjcpa.com)**

**508 Hampton Street, Suite 100  
Columbia, South Carolina 29201**

**Web: [www.mjcpa.com](http://www.mjcpa.com)**

**MAULDIN  
& JENKINS**

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## **Transmittal Letter**

April 2, 2021

City of Hendersonville, North Carolina  
Attn: John Buchanan, Financial Services Director  
160 Sixth Ave E.  
Hendersonville, North Carolina 28792

Ladies and Gentlemen:

Mauldin & Jenkins is pleased to submit a qualifications package including cost estimates to provide annual financial and compliance auditing services for the City of Hendersonville, North Carolina (the "City"). It is our understanding that the City is requesting proposals from qualified firms of certified public accountants to establish a contract for the professional services of a Certified Public Accountant (the "auditor") for financial and compliance audits. The contract for such audit services will be for the fiscal year ended June 30, 2021, and ending with the fiscal year ended June 30, 2023, subject to annual review and the annual availability of an appropriation for audit services by the Board.

As requested by the City, we have enclosed on the following pages an all-inclusive maximum fee for the financial and compliance audit services for the fiscal years noted above. This sealed cost proposal contains all pricing information relative to the performance of the audit. The total all-inclusive maximum price for the City's financial audit for the fiscal years ending June 30, 2021 through 2023 is as follows:

- 2021 - \$33,000
- 2022 - \$34,000
- 2023 - \$35,000

As a partner at Mauldin & Jenkins, LLC, I am certified and authorized to represent Mauldin & Jenkins, empowered to submit the bid, and authorized to sign a contract with the City. Our total all-inclusive maximum price for providing annual financial and compliance auditing services to the Town is contained on the following pages. We appreciate the opportunity to propose and we look forward to hearing from you.

Very truly yours,

MAULDIN & JENKINS, LLC



Tim Lyons, CPA, CGMA  
*Partner*

## **1. Type of Audit Programs Used**

After performing our review of your present accounting systems, we will use Firm manuals specifically designed for governments to develop audit programs tailored to the City which incorporate the requirements set forth above. **The programs we use are standard governmental audit program developed by Thompson Reuters Checkpoint. The Practitioner's Publishing Company, or PPC, programs are able to be tailored to each specific client, given the specific needs and services. The programs will then be used to develop the necessary audit procedures to conduct the City's audit.** We anticipate that these procedures will enable us to express our professional opinion that the financial statements of the City present fairly, in all material respects, the financial position and results of operations of the various opinion units in conformity with accounting principles generally accepted in the United States of America. If conditions are discovered which lead to the belief that material errors, defalcations, or other irregularities exist which might prohibit us from expressing an unqualified opinion or if any other circumstances are encountered that require extended services, we will promptly advise the City. No extended services will be performed unless they are authorized in contractual agreement or in an amendment to the agreement.

**Upon completion of the above phase of planning the audit, we will prepare a letter of items we will need to conduct the final audit fieldwork. The requested items will be tailored to the City based on our understandings of the City's operations. This "letter" is provided through a workflow program called Suralink. This is a secure, cloud based interactive model which allows both sides to comment, upload attachments, and see progress of the files provided. This prevents the duplication of requests or instances where clients have been asked to provide the same item multiple times. We have been using the program over the past year and have received numerous comments from clients on how efficient this has made the process. The list can be modified to show only outstanding items, allowing the preparation listing to transform into a "live" open items list.**

For final audit fieldwork, we will schedule our visits with the City's officials. We will then begin an unfragmented process of auditing the City.

Upon completion of the audit fieldwork, we will draft copies of all respected reports. If the City would not mind, we like to prepare such reports while continuing to work at the City's offices. We find this process to be more efficient than returning to our office. This allows us to incorporate City officials in various deliberations that are important to the conclusion of the overall process. Meetings with various officials will probably be held at that time.

Formal meetings will be conducted with the various parties upon the drafting of all reports. We will meet as needed to everyone's satisfaction.

## 2. Use of Statistical Sampling

Our approach to auditing relies heavily on the use of audit sampling as provided in Statement on Auditing Standards No. 39, *Audit Sampling*, as amended by SAS No. 111. We would plan to utilize audit sampling whenever a decision is made to apply a specific audit procedure to a representative sample of items within the account balance or class of transactions with the objective being reaching a conclusion about the entire balance or class.

We anticipate using audit sampling on the following types of audit tests:

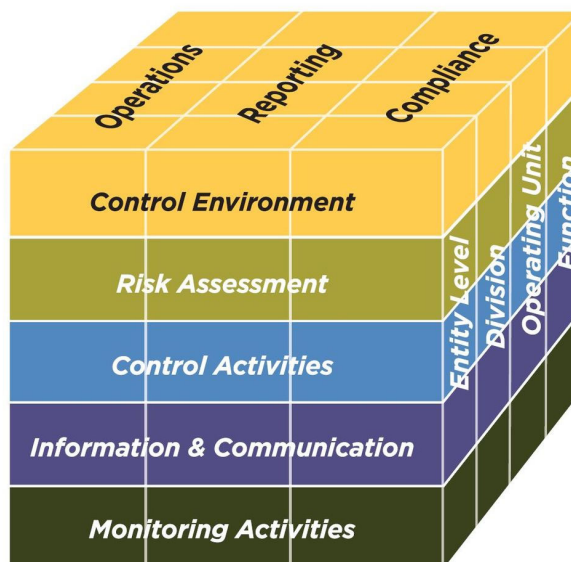
- (1) Substantive tests of details of balance sheet account balances.
- (2) Substantive tests of details of transactions.
- (3) Tests of controls
- (4) Tests of compliance with laws and regulations

Our use of audit sampling will be based on the guidance in SAS 39 and SAS 111 and the AICPA Audit and Accounting Guide - Audit Sampling.

## 3. Use of Automated Processes and Internal Control Testing Methods

For purposes of an audit of the financial statements and statutory, regulatory and contractual compliance, the City's control structure consists of the following five elements as they relate to the City's ability to conduct operations and use resources in accordance with management's authorization and consistent with laws, regulations, contracts and policies, and to record, process, summarize, and report financial data consistent with assertions embodied in the financial statements: the control environment; risk assessment, control activities, information and communication processes/systems, and monitoring.

The internal control structure and its policies and procedures are an important source of information about the types and risks of potential material misstatements that could occur in the financial statements and violations of statutory, regulatory and contractual requirements. This information is essential for effective audit planning and in designing effective and efficient audit tests.



In our understanding of City's internal control structure, we will obtain knowledge about:

- How internal control structure policies, procedures and records are designed;
- Whether internal control structure policies, procedures and records have been placed in operation, i.e., whether City is using them;

- Whether internal control structure policies, procedures and records are designed effectively, i.e., whether they are likely to prevent or detect material misstatements or compliance violations on a timely basis;
- Whether internal control structure policies, procedures and records are operating effectively.

Auditing standards generally accepted in the United States of America require the auditor to document our understandings of the internal control structure elements. The form and extent of documentation is flexible. Generally, the more complex an entity's internal control structure and the more extensive the procedures performed to obtain the understanding, the more extensive our documentation should be. In addition to memos, we plan to use specific designed forms and questionnaires to document our understanding of the internal control structure. Recent changes in auditing standards, known as the risk assessment standards, denote that the auditor is not required to test internal control so as to rely on them to reduce other test work, but do not allow for only inquiry procedures related to internal control. We are required, and will perform, other procedures, such as walkthroughs and observation, related to controls over significant financial statement and audit assertions.

#### **4. Use of Information Systems Audit Specialists**

The Management Advisory Services (MAS) department of Mauldin & Jenkins, LLC includes certain individuals who have had substantial training in the accounting, auditing, and use of electronic data processing (EDP) Systems. To compliment these highly trained individuals, all members of the audit staff have also had significant training in computer auditing techniques. Mauldin & Jenkins, LLC uses a very detailed and structured approach in using computer auditing techniques, which has been extremely successful for us in our past engagements.

At the start of the engagement during our planning phase, we will assess the computer systems used by the City and determine whether computer aided auditing techniques could be used. This approach would potentially consist of downloading trial balances, detail journals, and selected transaction files into our software through IDEA. This may decrease time spent in initial file setup, trial balance setup, and data integrity testing.

The trial balance downloaded will then be used to provide a clean audit trail for review and support of the City's financial statements.

## **5. Organization of the Audit Team**

Below is the proposed engagement team and the estimated percentage of the time each member will spend on the audit:

Audit Service Partner	17%
Quality Control Partner	2%
Client Service Partner	10%
Manager	30%
Staff	41%
Total Engagement	<u>100%</u>

## **6. Assistance from the City's Staff**

Upon completing the planning phase of the audit, we will prepare a letter of items we will need to conduct the final audit fieldwork. The requested items will be tailored to the City of Hendersonville based on our understanding of the City's operations. In addition to providing the items listed in the client assistance letter, we expect the City's staff to prepare audit confirmations and locate documents selected by us for testing. In the end, our goal is to utilize information you use routinely to operate the City and minimize the amount of information accumulated solely for the audit. If we request something that is time consuming to produce, please discuss it with us and we can probably utilize something that you routinely prepare to achieve the same goal.

## **7. Expected Audit Timeline**

Upon being notified of obtaining the audit contract with the City, we would schedule with management of the City the timing and scheduling of events as needed. At this time, we do not feel that specific scheduling should be considered fixed. All scheduling of the engagement would be conducted at the City's convenience. We are aware of the timetable set forth in the request for proposal and fully intend and expect to satisfy the City's time requirements.

### **Proposed Segmentation of Audit Engagement and Level of Staff Assigned**

The following table attempts to depict the timing and key elements of the planned audit process:

Timing of Audit Process & Procedures					
Segments	Fiscal Year 2021 Audit Calendar				
	May	June	Aug	Sept	Oct
<b>Segment I - Planning and Interim Procedures</b>					
Ongoing consultation on major issues & developments throughout the year, and greater discussions as year end approaches (such as new GASB standards).					
Meet management to discuss audit risks and scopes.					
Engagement team planning meetings and performance of interim audit procedures					
Gain understanding of significant processes & key controls.					
Perform testing of key controls with goal of reducing substantive audit testing.					
Determine nature, timing and extent of substantive tests to be performed.					
Finalize audit plan based on results to-date.					
<b>Segment II - Final Audit Fieldwork Procedures</b>					
Perform substantive tests (detail testing of respective general ledger / trial balance accounts, and final analytical procedures & key ratios & relationship of financial data).					
Conduct a final evaluation of risk assessments.					
Conduct of progress meetings with management as needed and as often as desired.					
Review and delivery of draft annual financial report, reports, findings, management letter comments, and any other deliverables.					
Meeting with management to discuss draft deliverables and final completion and presentation time-frames.					
<b>Segment III - Review, Completion &amp; Delivery Procedures</b>					
Upon management's review, delivery of Financial Report internal control reports, and management letter to management.					
Presentation of audit deliverables to the Board.					



The previous timeframes are estimates based on our understandings with the City as to its desires. We at Mauldin & Jenkins would be flexible in the timing of certain events as requested by the City. As noted in the above table, we want to work with City personnel in an effective manner. We intend to do a great deal of planning and tailoring of our approach from our initial visits.

Our professionals, who are knowledgeable with respect to audit requirements for governmental entities, will be assigned based on their expertise with respect to each segment. Our audit procedures, related documentation and quality review will be segregated by each segment as follows based on our review of the City's prior financial statements, budgets, request for proposal, and other information available:

**Segment I - Planning and Interim Procedures**

**Segment II - Final Audit Fieldwork Procedures**

**Segment III - Review, Completion & Delivery Procedures**

**Segment I - Planning and Interim Procedures:**

- Obtain a signed engagement letter for the financial and compliance audit;
- Meet with City management to discuss the scope of the audit, timing of our work, and preparation of client schedules, and to address any concerns;
- Review previously issued and interim financial reports, comment letters, monitoring reports, and other supporting workpapers;
- Familiarize ourselves with the organizational structure of the City;
- Read minutes of Board meeting meetings;
- Review the City's current year budget, as adopted and revised;
- Review debt agreements, and other various documentation;
- Gain an understanding of the City's accounting policies and procedures, including the financial and other management information systems utilized by the City;
- Obtain an in-depth knowledge of the EDP equipment, software and systems in use;
- Perform analytical reviews to determine critical areas and assess risks;
- Perform a preliminary evaluation of the internal control structure at the account and assertion level;
- Make fraud inquiries and assessing the risks of material misstatement;
- Obtain a list of cash, investment, debt, and selected revenue accounts for confirmation purposes, as applicable;
- Determine audit strategies for balance sheet and operating statement accounts based on audit risk;
- Obtain a preliminary schedule of expenditures of Federal awards to initiate planning and internal control testing for the Single Audit;
- Prepare year-end audit programs;
- Meet with appropriate City personnel to discuss the results of our preliminary audit work.

**Segment II - Final Audit Fieldwork Procedures:**

- Conduct an analytical review of account balances based on closing balances;
- Test the valuation, restrictions and cut-offs of cash and investment balances, as applicable;
- Test receivable cut-offs and balances, including an analysis of subsequent receipts;
- Test cut-off and valuation of inventory;
- Review and testing supporting documentation for the allowance for doubtful accounts, prepaid items and other assets;
- Vouch capital asset additions and deletions, analyzing charges for appropriate accounting and testing depreciation;
- Test accounts payable cut-offs and balances, including an analysis of subsequent disbursements;
- Test accrued payroll, compensated absences, claims payable, and other accrued liability cut-offs and balances;
- Test debt balances and debt covenant compliance;
- Test compliance with applicable laws and regulations;
- Test the classification of net position (unrestricted, restricted and net investment in capital assets);
- Perform analytical procedures and substantive testing of revenues and expenditures/expenses;
- Obtain and auditing the final schedule of expenditures of Federal and State awards;
- Complete compliance tests for the major programs selected for testing as required by the Uniform Guidance and State Single Audit Act, as applicable;
- End of fieldwork exit conference.

**Segment III - Review, Completion & Delivery Procedures:**

- Review workpapers to ensure quality and thoroughness of audit procedures;
- Summarize the results of audit procedures;
- Obtain attorney letters;
- Evaluate commitments, contingencies and subsequent events;
- Propose audit adjustments;
- Summarize and evaluating passed audit adjustments;
- Evaluate compliance exceptions;
- Review draft financial statements and related note disclosures;
- Perform financial condition assessment procedures;
- Prepare drafts of audit reports and management letter;
- Deliver drafts of audit reports and letters to appropriate client officials;
- Finalize all reports and management letter;
- Obtain signed representation letter and the City's approval of the final financial statements;
- Draft the Data Collection Form and obtaining the City's approval;
- Prepare and provide the City a PDF document of the audited financial statements;
- Hold final exit conferences and presentations with appropriate City officials.
- Complete AFIR with City management.

## 8. Audit Costs and Proposed Fees

CITY OF HENDERSONVILLE, NORTH CAROLINA SCHEDULE OF PROFESSIONAL FEES AND EXPENSES FOR THE AUDIT OF THE 2021 FINANCIAL STATEMENTS						
	On-site Interim	On-site / Fieldwork	M&J Office	Total	Hourly Rates	Total
Partners	20	40	20	80	\$260	\$ 20,800
Manager	20	60	20	100	155	15,500
Professional Staff	20	80	20	120	125	15,000
Subtotal	60	180	60	300		51,300
Out-of-pocket expenses:						
Meals and lodging						3,200
Transportation						1,800
Mauldin & Jenkins discount from standard fees and expenses						(23,300)
Total all-inclusive maximum price for 2021 financial audit						<u>\$ 33,000</u>

Fiscal year-end	Price
June 30, 2022	\$ 34,000
June 30, 2023	35,000

*Please see "Important Notes to be Considered" beginning on the top of the following page for additional information regarding our all-inclusive fees as quoted above for each year covered by the RFP.*

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## 9. Important Notes to be Considered

**Note (1) – Unlimited Correspondence:** It is Mauldin & Jenkins’ policy to not charge for simple discussions and conversations that occur between the governmental entity and Mauldin & Jenkins that are only simple discussions (i.e., a phone call to ask certain questions that do not require additional research). Our view is that we would rather deal with an issue, understand it, and – in essence – audit it as it occurs and is fresh in your mind, rather than wait until the end of the year and revisit an old issue and audit the details at that time. We view this as auditing year-round and thus, providing this advice is a part of the audit cost as presented in this section and would not necessitate additional billings.

**Note (2) – Free Periodic/Quarterly Continuing Education:** As noted in our technical proposal, we provide free quarterly continuing education classes to our clients. This could amount to approximately \$3,000 of annual savings for the City’s estimated finance department per person.

**Note (3) – Additional Services:** If it should become necessary for the City to request Mauldin & Jenkins to provide any additional services (such as bond insurances, etc.), then such additional work shall be performed only if set forth in an addendum to the contract between the City and Mauldin & Jenkins.

**Note (4) – No Hidden Fees or Costs:** The pricing schedules contain all pricing information relative to performance of the audit as required by the City including all reimbursement for travel, lodging, communications, etc. Our estimated number of hours and the associated fee estimate indicated are based on our professional judgment and experience with similar governmental entities. So long as there are no significant changes in the operations, major funds, or the number of major programs of the City and or the scope of services requested or significant problems requiring additional time, our quoted fees will not change.

**Note (5) – Single Audit:** We have significant experience performing both federal and State of North Carolina single auditing procedures and based on our review of the City’s prior year reports, the programs we would be auditing are consistent with many of our other governmental clients. Our all-inclusive maximum price includes consideration for the performance of a single audit on one major program.

## 10. Summary of Audit Costs Sheet

### SUMMARY OF AUDIT COSTS SHEET --FIRM NAME: Mauldin & Jenkins, PLLC

	FY21	FY22	FY23
	<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	\$29,500	\$32,000	\$33,000
Financial Statement Preparation: Includes preparation and printing of CAFR	\$3,500	\$2,000	\$2,000
Extra Audit Services (if needed)	See Item 9	See Item 9	See Item 9
Other Costs: (Explain)	N/A	N/A	N/A
<b>TOTAL:</b>	<b>\$33,000</b>	<b>\$34,000</b>	<b>\$35,000</b>

### 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, # 60      Rate per hour \$190 (blended)

# of Hours -Year-end on-site work, # 180      Rate per hour \$190 (blended)

# of Hours -Work performed in the auditor's office # 60      Rate per hour \$190 blended

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.

## **Closing**

We appreciate the opportunity to serve the City of Hendersonville, North Carolina. We believe Mauldin & Jenkins is the “right” firm for the City. Our experience and knowledge will allow us to work with management in the interim audit period to make sure the audit gets off to a great start and that items are available and ready to exceed the deadlines noted in the City’s RFP. **We are committed to providing the resources and skills needed to ensure timely reporting in accordance with the State’s policy as well as the City’s RFP.** We would be very pleased to share our experience and understanding of governmental accounting and operations for the benefit of the City.

We would greatly appreciate you recommending us for your audit needs. Should you or anyone at the City have any questions with regards to this proposal or about Mauldin & Jenkins, please feel free to contact any of us.



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## **MAULDIN & JENKINS, LLC**

**508 Hampton Street, Suite 100  
Columbia, South Carolina 29201**

**(803) 799-5810 (phone)  
(866) 799-5810 (toll free)  
(803) 799-5554 (fax)**

