

Town of Blowing Rock

Request for Council Action

FROM: Nicole Norman, Finance Officer
SUBJECT: Financial Audit Contract Request for Proposals Responses
TO: Ed Evans, Town Manager, Mayor Lawrence and Members of Town Council
DATE: March 14, 2017
REQUESTED BY: Town Council

Public Hearing Yes No Will be required
Properly Advertised Yes No Will be required

BACKGROUND: A Request for Proposals (RFP) for Audit Services was e-mailed out to audit firms within a 50 mile radius of Blowing Rock, resulting in 15 firms being contacted. The request was disbursed on February 2, 2017 with responses due by February 24, 2017. Two audit firms submitted proposals including the Town's current auditors Combs, Tennant & Carpenter, P.C. and Boone auditor Misty D. Watson, CPA, P.A. Two firms declined submittal of a bid and the remaining 11 firms provided no response at all.

The proposed fee with basic firm information included below from the two firms that submitted proposals were as follows:

Combs, Tennant & Carpenter, P.C.

June 30, 2017 (Binding)	June 30, 2018 (Estimated)	June 30, 2019 (Estimated)
\$23,000	\$23,000	\$23,000

-Staff of 6 CPA certified accountants

-Located in Boone, NC

-Systems Peer Review Report Rating (pass, pass with deficiency(ies) or fail): Pass

-Firm has provided audit services to the Town for 20+ years

-Other Client History: Town of Boone 10+ years, Town of Crossnore 15+ years, AppalCART 5+ years, Watauga Board of Education 20+ years & Avery Board of Education 15+ years

Misty D. Watson, CPA, P.A.

June 30, 2017 (Binding)	June 30, 2018 (Estimated)	June 30, 2019 (Estimated)
\$18,400	\$18,400	\$18,400

-Staff of 2 CPA certified accountants, 1 clerical

-Location in Boone, NC

-Systems Peer Review Report Rating (pass, pass with deficiency(ies) or fail): Pass with self-reported deficiency

-Client History: **Watauga County 2 years (includes 2017 not yet complete), **Town of Lansing 3 years (includes 2017 not yet complete), **Jung Tao School of Classical Chinese Medicine 3 years, Town of Banner Elk Tourism Development Authority 2 years (includes 2017 not yet complete), Watauga County District U Tourism Development Authority 2 years (includes 2017 not yet complete), **Town of Beech Mountain Tourism Development Authority 3 years (includes 2017 not yet complete), Town of Banner Elk 3 years (includes 2017 not yet complete), Village of Sugar

Mountain 1 year (includes 2017 not yet complete), Village of Sugar Mountain Tourism Development Authority 1 year (includes 2017 not yet complete).

*** Prior work exists with these entities with the Misty Watson was working for a prior CPA firm.*

STATEMENT OF PLAN CONSISTENCY: N/A

ATTACHMENTS:

1. Audit Services Proposal Combs, Tennant & Carpenter, P.C.
2. Audit Service Proposal Misty D. Watson, CPA, P.A.

COUNCIL ACTION: Staff request Town Council make a choice of the Audit Service provider they would like to receive services from for the next three years based on service proposals received from Combs, Tennant & Carpenter, P.C. and Misty D. Watson CPA, P.C.

Section One

As referenced on page 206.6 of RFP

1. Indicate the number of people (by level) located within the local office that will handle the audit.

Senior partner	1	Billy Combs, CPA
Engagement partner	1	Jason Carpenter, CPA
Partner	2	Doug Tennant, CPA; Brady Combs, CPA
Other certified staff	2	Buddy Cardwell, CPA; Emily Reynolds, CPA

2. Provide a list of the local office's current and prior government audit clients, indicating the type(s) of services performed and the number of years served for each. Responsive firms should include any relevant information regarding audits performed on financial statements prepared under the new reporting model.

Governmental Unit	Years of Service	Services Provided
Town of Blowing Rock	20 +	Financial and compliance audits covering Federal, State and Local funding sources under Uniform Guidance and State Single Audit
Town of Boone	10 +	Financial and compliance audits covering Federal, State and Local funding sources under Uniform Guidance and State Single Audit
Town of Crossnore	15 +	Financial audits covering Federal, State and Local funding sources under General Governmental Auditing Standards and Yellow Book reporting
AppalCART	5 +	Financial and compliance audits covering Federal, State and Local funding sources under Uniform Guidance and State Single Audit

Governmental Unit	Years of Service	Services Provided
Watauga Board of Education	20 +	Financial and compliance audits covering Federal, State and Local funding sources under Uniform Guidance and State Single Audit
Avery Board of Education	15 +	Financial and compliance audits covering Federal, State and Local funding sources under Uniform Guidance and State Single Audit

3. Indicate the experience of the local office in providing additional services to government clients by listing the name of each government, the type(s) of service performed, and the year(s) of engagement.

Governmental Unit	Additional Services Provided	Years of engagement
Town of Blowing Rock	Drafting of financial statements Preparation of the SEFA Submission of the audit package to The Federal Audit Clearing House	20 +
Town of Boone	Drafting of financial statements Preparation of the SEFA Submission of the audit package to the Federal Audit Clearing House	10 +
Town of Crossnore	Drafting of financial statements Preparation of the SEFA Submission of the audit package to the Federal Audit Clearing House	15 +

AppalCART	Drafting of financial statements Preparation of the SEFA Submission of the audit package to the Federal Audit Clearing House	5 +
Watauga County Board of Education	Drafting of financial statements Preparation of the SEFA Submission of the audit package to the Federal Audit Clearing House	20 +
Avery County Board of Education	Drafting of financial statements Preparation of the SEFA Submission of the audit package to the Federal Audit Clearing House	15 +

4. Describe your audit organization's participation in AICPA-sponsored or comparable quality control programs (peer review). Provide a copy of the firm's current peer review.

Memberships:

- Governmental Audit Quality Center, sponsored by AICPA
- Participant in AICPA Peer Review Program, most recent report attached as Exhibit 1
- All engagement staff annually complete 40 hours of certified professional education in auditing and 20 hours of governmental and Yellow Book certification
- American Institute of Certified Public Accountants
- North Carolina Association of Certified Public Accounts

5. Describe the professional experience in governmental audits of each senior and higher level person assigned to the audit, the years on each job, and his/her position while on each audit.

Billy Combs, CPA: Senior Partner and Engagement Independent Reviewer

- Over 30 years' experience in governmental accounting, auditing, and compliance
- Sample of relevant engagement experience:
 - Town of Blowing Rock
 - Positions held: Engagement partner, senior partner
 - Years of service: 30 +
 - Watauga County Board of Education
 - Positions held: Engagement partner, senior partner
 - Years of service: 30 +
 - Appalachian Regional Library
 - Positions held: Engagement partner, senior partner
 - Years of service: 20 +

Jason Carpenter, CPA: Engagement Partner

- Firm's designated Governmental Audit Quality Control Partner which requires annual recertification
- Over 15 years' experience in governmental accounting, auditing, and compliance
- Sample of relevant engagement experience:
 - Town of Blowing Rock
 - Positions held: Staff, partner, engagement partner
 - Years of service: 10 +
 - Town of Boone
 - Positions held: Staff, partner, engagement partner
 - Years of service: 10 +
 - Watauga County Board of Education
 - Positions held: Staff, partner, engagement partner
 - Years of service: 10 +

6. Provide names, addresses, and telephone numbers of personnel of current and prior governmental audit clients who may be contacted for a reference.

Judy Arwood, AppalCART

P O Box 2357 - Boone, NC 28607

(828) 297-1300

Ly Marze, Watauga Board of Education

175 Pioneer Trail, Boone, NC 28607

(828) 264-7190

Amy Davis, Town of Boone Town of Boone

567 West King Street, Boone, NC 28607

828.268.6200

7. Describe the firm's Statement of Policy and Procedures regarding Independence under Government Auditing Standards (Yellow Book), July 2011 Revision. Provide a copy of the firm's Statement of Policy and Procedures.

See attached Exhibit 2.

8. Is the firm adequately insured to cover claims? Describe liability insurance coverage arrangements.

The firm maintains professional liability insurance coverage for all staff and all engagements.

9. Describe any regulatory action taken by any oversight body against the proposing audit organization or local office.

No regulatory actions have been taken by an oversight body against our firm.

SHARRARD, MCGEE & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS

1321 LONG STREET • POST OFFICE BOX 5869 • HIGH POINT, NORTH CAROLINA 27262

(336) 884-0410
FAX (336) 884-1680OFFICES
HIGH POINT
GREENSBOROSystem Review Report

May 19, 2015

To the Owners of
Combs, Tennant & Carpenter, P.C.
and the Peer Review Committee of the North Carolina Association of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Combs, Tennant & Carpenter, P.C. (the firm) in effect for the year ended March 31, 2015. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Combs, Tennant & Carpenter, P.C. in effect for the year ended March 31, 2015, 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*. Combs, Tennant & Carpenter, P.C. has received a peer review rating of *pass*.

Sharrard, McGee & Co., P.A.

SHARRARD, MCGEE & CO., P.A.

CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS

1321 LONG STREET • POST OFFICE BOX 5869 • HIGH POINT, NORTH CAROLINA 27262

(336) 884-0410
FAX (336) 884-1680OFFICES
HIGH POINT
GREENSBOROSystem Review Report

May 19, 2015

To the Owners of
Combs, Tennant & Carpenter, P.C.
and the Peer Review Committee of the North Carolina Association of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Combs, Tennant & Carpenter, P.C. (the firm) in effect for the year ended March 31, 2015. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Combs, Tennant & Carpenter, P.C. in effect for the year ended March 31, 2015, 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*. Combs, Tennant & Carpenter, P.C. has received a peer review rating of *pass*.

Sharrard, McGee & Co., P.A.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Relevant Ethical Requirements Policy and Procedures

It is the firm's policy that all professional personnel be familiar with and follow 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 CPA Society in performing their professional responsibilities. 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, including any that may be more restrictive. 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 or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under *General Standards* and *Compliance with Standards Rules*) 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 Interpretations of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for Independence* and applying professional judgment to determine whether an independence breach exists. 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 an attest client's (or affiliate of a financial statement attest client's) business during the period of a professional engagement, 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 attest client (or the attest client's officers or directors, an affiliate, or any partner who has the ability to exercise significant influence over the client) that enables them to control 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:
 - (1) evaluating the performance or recommending the compensation of the attest engagement partner,
 - (2) directly supervising or managing the attest engagement partner and all of that partner's superiors,
 - (3) consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or
 - (4) 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:
 - (1) the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
 - (2) 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 an attest client, an affiliate, or attest 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 an attest client unless reasonable in the circumstances and approved by the managing partner.
 5. Certain family relationships between professional personnel and attest 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 partner's 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 CPA Society ethical requirements. All firm personnel have online access to a current copy of those ethical requirements. The firm expects its personnel to be familiar with those relevant ethical requirements.
2. All professional personnel who work on attest engagements and are required to be independent sign a representation when hired and annually thereafter acknowledging their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. The representation also lists known circumstances and relationships, if any, that may create a potential threat to independence or violate the firm's relevant ethical requirements policy.
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 office personnel in conjunction with the managing partner and changes to the list are communicated on a timely basis orally by the managing partner or other designated partner. When hired (and annually thereafter), all professional personnel are required to sign a representation, as stipulated in Procedure 2 above, that confirms this responsibility.

4. Ethics training is provided for professional personnel at least annually as required by the State of North Carolina Board of Accountancy. Additional training is provided as needed (or required) that covers the firm's relevant ethical requirements policy and procedures and the independence and ethical requirements of all applicable regulators.
5. To ensure that independence is properly addressed at the engagement level, as part of the acceptance and continuance decision, the engagement partner obtains and considers relevant information about the engagement and evaluates circumstances and relationships that could cause a potential threat to independence, if any. In addition, for audit engagements, the engagement partner forms a conclusion on compliance with independence requirements. In evaluating potential independence threats, any familiarity threat related to senior personnel recurring on an 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.
6. All professional personnel remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the engagement partner or managing 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.
7. If a potential threat to independence is identified, the managing partner or other designated partner accumulates and communicates relevant information to appropriate personnel so (a) the 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 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.
8. 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.

9. 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 or her 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 partner has secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
10. 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, individually or in the aggregate, threaten 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*. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure.
11. 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.
12. 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 governmental and enterprise funds, internal service fund, fiduciary fund, or blended 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.
13. The managing partner has 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.
14. The managing 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 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. The managing partner is responsible for obtaining the employee independence representation letters, reviewing them for completeness, and accumulating relevant information relating to identified threats in relevant ethical requirements matters (including questions from the representation letters and those from other sources). In determining a resolution, the managing partner considers the AICPA's *Code of Professional Conduct*, including the *Conceptual Framework for Members in Public Practice* and the *Conceptual Framework for Independence*, and, when necessary, consults the AICPA or the State of North Carolina CPA Society for assistance in interpreting independence rules. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent workpaper files. The managing partner 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.
16. If a breach of independence is identified, the breach and the required corrective actions are promptly communicated to (a) the managing partner, (b) the engagement partner, who (along with the firm) needs to address the breach, and (c) 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 managing partner when required corrective actions related to the independence breach and noncompliance with these policies and procedures have been taken.
17. At least annually, the managing partner reviews the firm's relevant ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the monitoring policy and procedures for performance of the monitoring element of the firm's QC system.

Section Two - Cost Estimate

As referenced on page 206.7 of the RFP

1 Information that will be contained in the management letter:

Information contained in the management letter will include significant deficiencies and material weaknesses in internal control over financial reporting and instances of noncompliance with laws, regulations, contracts and grant agreements and other matters.

2 Assistance expected from the Town of Blowing Rock's staff, if other than outlined in the RFP:

Assistance outlined in the RFP appears to be sufficient. If other assistance is deemed necessary, we will discuss with management at that time.

3 Tentative schedule for completing the audit within the specified deadlines of the RFP:

We would like to complete interim field work in the last half May, commence field work in mid-July, complete field work by October 1, and deliver a draft of the financial statements to Town management by October 15. We will send the approved audit report to the Local Government Commission by the October 31 deadline.

4	June 30, 2017	June 30, 2018	June 30, 2019
	(Binding)	(Estimated)	(Estimated)
Personnel costs	\$ 23,000	\$ 23,000	\$ 23,000
Travel	-	-	-
Costs of supplies	-	-	-
Other costs	-	-	-
Total	<u>\$ 23,000</u>	<u>\$ 23,000</u>	<u>\$ 23,000</u>

Note regarding personnel costs: We do not bill for audit services on a per-hour basis. As such, firm personnel are not assigned per-hour billing rates for audit services. This RFP has been prepared assuming a fixed-fee contract.

Year to year increases in audit costs are assessed on levels of funding and activity of the Town as well as the condition of the records as noted in the most recent audit period.

5 Please list any other information the firm may wish to provide:

We appreciate our relationship with the Town of Blowing Rock and look forward to continuing it on an ongoing basis.

SUMMARY OF AUDIT COST SHEET

1. Base Audit Includes Personnel costs, travel, and on-site work	\$ <u>18,500.-</u>
2. Financial Statement Preparation	\$ <u>4,500.-</u>
3. Extra Audit Service \$ _____ per hour	\$ <u>Ø</u>
4. Other (explain) _____	\$ <u>Ø</u>
5. Other (explain) _____	\$ <u>Ø</u>
<u>TOTAL</u>	\$ <u>23,000.-</u>

COMBS,
TENNANT & CARPENTER, P.C.
Certified Public Accountants

2348 Hwy. 105, Suite 5
P.O. Box 1098
Boone, NC 28607
828-264-6700
Fax: 828-264-7756

311 Linville Street
P.O. Box 1480
Newland, NC 28657
828-733-0066
Fax: 828-733-8689

Billy G. Combs, CPA
Douglas M. Tennant, CPA
Jason D. Carpenter, CPA
Brady L. Combs, CPA
Tanya L. Singleton, CPA
Harry B. Cardwell IV, CPA
Emily W. Reynolds, CPA

February 20, 2017

Nicole Norman
Finance Officer
Town of Blowing Rock
PO Box 47
Blowing Rock, NC 28605

Subject: RFP for audit services

Dear Nicole,

We are very pleased to submit COMBS, TENNANT & CARPENTER, P.C.'s proposal in response to your RFP to provide audit services. The enclosed documents outline our proposed approach to the audit and addresses the information requirements that were outlined in the RFP.

With over 35 years of experience, our firm has the in-depth knowledge and experience to undertake this initiative on behalf of the Town of Blowing Rock – and to complete it effectively: on time and on budget. Our staff consists of Certified Public Accountants who have a proven track record of providing these services to organizations in the area of governmental auditing.

We would be pleased to answer any questions that you might have regarding our submission.

Thank you for the opportunity to submit our proposal for your consideration.

Sincerely,



Billy G. Combs, CPA

COMBS, TENNANT & CARPENTER, P.C.

MISTY D. WATSON, CPA, P.A.

**Response to
Town of Blowing Rock, North Carolina
Request for Proposal
Audit Services**

**Submitted By:
Misty D. Watson, CPA, P.A.
Misty Watson, CPA
Phone: (828) 263-1100
Email: misty@mistywatsoncpa.com**

MISTY D. WATSON, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 2122
BOONE, NORTH CAROLINA 28607
TELEPHONE (828) 263-1100
FAX (888) 361-6553

IN RESPONSE TO:
TOWN OF BLOWING ROCK, NORTH CAROLINA
REQUEST FOR PROPOSAL

AUDIT SERVICES

First Section

The first section should address the requested information below. The corresponding responses should begin with the number below for the requested information.

1. Indicate the number of people (by level) located within the local office that will handle the audit.
 - *Misty Watson, CPA – In-charge*
 - *Lisa Rees, CPA – Manager*
 - *Sharon Caldwell – Clerical*
2. Provide a list of the local office's current and prior government audit clients, indicating the type(s) of services performed and the number of years served for each. Responsive firms should include any relevant information regarding audits performed on financial statements prepared under the new reporting model.

Current government audit clients:

Watauga County – performing annual governmental audit in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance for fiscal years ending June 30, 2015-June 30, 2017.

Town of Lansing – performing annual governmental audit in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), preparing the financial statements and submitting the AFIR for fiscal years ending June 30, 2014 – June 30, 2017.

Jung Tao School of Classical Chinese Medicine – performing annual non-profit audit in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) for fiscal years ending December 31, 2014 – December 31, 2016.

Town of Beech Mountain – performing annual governmental audit and preparing the financial statements for fiscal years ending June 30, 2014 – June 30, 2017.

Town of Banner Elk Tourism Development Authority – performing annual governmental

audit and preparing the financial statements for fiscal years ending June 30, 2015 – June 30, 2017.

Watauga County District U Tourism Development Authority – preparing annual governmental audit for fiscal years ending June 30, 2015 – June 30, 2017.

Town of Beech Mountain Tourism Development Authority – preparing annual governmental audit and completing the financial statements for fiscal years ending June 30, 2014 – June 30, 2017.

Town of Banner Elk– performing annual governmental audit, preparing the financial statements and submitting the AFIR for fiscal years ending June 30, 2015 – June 30, 2017.

Village of Sugar Mountain – performing annual governmental audit and preparing the financial statements for fiscal years ending June 30, 2016 – June 30, 2017.

Village of Sugar Mountain Tourism Development Authority – performing annual governmental audit and preparing the financial statements for fiscal years ending June 30, 2016 – June 30, 2017.

Prior government audit clients:

These were all performed while working for prior CPA firm in Boone, NC

Watauga County – tested property taxes, grants, debt and other audit services. Assisted in completing and reviewing the annual audited financial statements. I served this client from 2009-2013.

Town of Lansing – performed an annual governmental audit, completed the audited financial statements and the AFIR report to submit to the LGC. I served this client from 2011-2013.

Town of Beech Mountain – tested property taxes, debt and other audit services. Completed the audited financial statements and the AFIR report to submit to the LGC. I served this client from 2009-2013.

NC Psychology Board – tested revenues, fixed assets and other audit services. Completed the audited financial statements. I served this client from 2009-2012.

Beech Mountain TDA – performed an annual governmental audit, completed the audited financial statements, and submitted to the LGC. I served this client from 2009-2012.

Jung Tao School of Classical Chinese Medicine – performed an A-133 audit and wrote the financial statements for the client. I served this client from 2009-2013.

3. Indicate the experience of the local office in providing additional services to government clients by listing the name of each government, the type(s) of service performed, and the year(s) of engagement.

We perform agreed-upon procedures for the local fire departments and rescue squads annually as requested by Watauga County.

4. Describe your audit organization's participation in AICPA-sponsored or comparable quality control programs (peer review). Provide a copy of the firm's current peer review.

Misty D. Watson, CPA, PA is enrolled in the AICPA sponsored peer review with the most current peer review in 2014 and upcoming peer review in 2017. During 2016, the firm notified the AICPA that an audit was unintentionally omitted from the firm's first peer review. The AICPA notified the firm the peer review needed to be updated to reflect the audit and therefore was reissued in 2016, as noted on the updated review.

5. Describe the professional experience in governmental audits of each senior and higher level person assigned to the audit, the years on each job, and his/her position while on each audit.

Misty Watson has been performing governmental auditing since 2009. She has tested internal controls as well auditing the trial balance. She has prepared the financial statements ensuring all footnotes, schedules, and MD&A are inclusive to the financials as a whole. She will be in charge of the audit and be on-site for the entire duration of time. Misty Watson has audited municipalities including, the Town of Lansing, Town of Beech Mountain, Town of Banner Elk and Village of Sugar Mountain. She has also audited Watauga County, Town of Lansing and Jung Tao School of Classical Chinese Medicine under the Uniform Guidance. She will communicate with management and Town Council. Lisa Rees has been performing governmental auditing since 2001. She has primarily focused on testing internal controls, payroll and ensuring grants are in compliance.

6. Provide names, addresses, and telephone numbers of personnel of current and prior governmental audit clients who may be contacted for a reference.

*Beth Johnson, Finance Officer, Town of Lansing
159 King St.; West Jefferson, NC 28694
(336) 246-9944*

*Margaret Pierce, Finance Officer, Watauga County
814 West King St.; Boone, NC 28607
(828) 265-8007*

*Rick Owen, Town Manager, Town of Banner Elk
200 Park Avenue; Banner Elk, NC 28604
(828) 898-5398*

*Dana Roten, Financial Aid Director, Jung Tao School of Classical Chinese Medicine
207 Dale Adams Rd; Sugar Grove, NC 28679
(828) 297-4181*

7. Describe the firm's Statement of Policy and Procedures regarding Independence under Government Auditing Standards (Yellow Book), July 2011 Revision. Provide a copy of the firm's Statement of Policy and Procedures.

It is our 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 North Carolina State Board of Certified Public Accountants in discharging their professional responsibilities.

It is the policy of our firm that, for engagements subject to Government Auditing Standards and other applicable regulatory agencies, all professional personnel will be familiar with and adhere to the relevant ethical requirements in those standards, and that personnel will always act in the public interest.

It is our policy that when the firm and its professional personnel encounter situations that potentially threaten independence but 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 a breach of independence 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 to eliminate the breach.

Prohibited Transactions and Relationships

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

- 1. Borrowing from or loans to a client, or client's personnel during the period of a professional engagement by any employee of the firm.*
- 2. Accepting or offering gifts or entertainment from or to a client unless reasonable in the circumstances and approved by the managing owner.*
- 3. Certain family relationships between professional personnel and client personnel. Consult the managing owner for a ruling on such relationships.*

The firm ensures compliance with these policies by implementing the following procedures:

- 1. 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 policies and procedures, particularly regarding 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 to professional personnel at least every three years, and is provided more often if required by licensing entities in other states in which the firm conducts engagements. The training covers the firm's relevant ethical requirements policies and procedures, and the independence and ethical requirements of all applicable regulators.*
- 2. All professional personnel review the current client list in conjunction with completing the representation letter for identifications of threats to, or breaches of independence. The current client list is maintained by the managing owner. Additions to the firm's client list are communicated to all personnel on a timely basis by memorandum from the managing owner.*
- 3. If a potential threat to independence is identified, the managing owner accumulates and communicates relevant information to appropriate personnel so:*
 - a. the firm and the engagement manager can determine whether they satisfy independence requirements,*

- b. *the engagement manager 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.*
4. *All personnel have ready access to the relevant ethical requirements the firm is subject to. Current copies of applicable independence, integrity and objectivity requirements are maintained in the firm's office.*
5. *The engagement partner has the primary responsibility for determining:*
- a. *Compliance with relevant ethical requirements on each new and recurring clients, including independence.*
 - b. *a consideration of unpaid fees, an annual confirmation of the independence of another accountant performing work on a segment of an audit, review or attestation (including forecast and projection) engagement, appropriate reporting on compilations in which the firm is not independent, a consideration of whether actual or threatened litigation has an effect on the firm's independence with respect to the client, and a determination of whether all professional personnel are independent of the reporting entity, if the firm is engaged as the principal auditor to report of the basic financial statement of the financial reporting entity.*
 - c. *Whether the firm's relationship with entities in the governmental financial statements has an effect on independence.*
 - d. *Whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.*
 - e. *The work programs and standard forms in the accounting and auditing manuals used by the firm include steps that ensure compliance with this procedure.*
6. *The engagement manager has the primary responsibility to identify all nonattest services performed for an attest service client, and for determining if the nonattest services impair their independence. 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 nonattest 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.*
7. *The managing owner is responsible for obtaining the representation letters, reviewing them for completeness, and accumulating relevant information relating to identified threats in relevant ethical requirements matters, including questions from the representation letters and those from other sources. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's work paper files.*
8. *The managing owner is 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.*
9. *The managing owner is responsible for monitoring the firm's independence of attest*

clients at which the owner or 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.

- 10. If a breach of independence is identified, the firm promptly communicates the breach and the required corrective actions to the engagement manager, who, along with the firm, has responsibility to address the breach. The breach is also communicated to other relevant personnel in the firm, and those subject to the independence requirements who may have to take appropriate action. The engagement manager confirms to the firm when required corrective actions related to the breach and noncompliance with these policies and procedures have been taken.*
 - 11. To ensure that independence is properly addressed at the engagement level, as part of the acceptance and continuance decision, the engagement partner obtains and considers relevant information about the engagement and evaluates circumstances and relationships that could cause a potential threat to independence, if any. In addition, for audit engagements, the engagement partner forms a conclusion on compliance with independence requirements.*
 - 12. All professional personnel remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the engagement partner of any circumstances or relationships that may create a potential threat to independence, such as a prohibited transaction or an independence breach, so that appropriate action can be taken.*
 - 13. If the firm is engaged as a principal auditor and another firm is engaged to audit a subsidiary branch, division, governmental component unit, or to perform procedures on an element or account grouping, within a client's financial statements, the engagement team does not rely on the other auditor's work.*
 - 14. The managing owner is responsible for monitoring the firm at least annually, the managing owner reviews the firm's ethical requirements policy and procedures to determine if they are appropriate and operating effectively.*
8. Is the firm adequately insured to cover claims? Describe liability insurance coverage arrangements.

Professional Liability Errors and Omissions Coverage \$1,000,000

9. Describe any regulatory action taken by any oversight body against the proposing audit organization or local office.

None

MISTY D. WATSON, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 2122
BOONE, NORTH CAROLINA 28607
TELEPHONE (828) 263-1100
FAX (888) 361-6553

IN RESPONSE TO:
TOWN OF BLOWING ROCK, NORTH CAROLINA
REQUEST FOR PROPOSAL

Second Section

Proposals should include completed cost estimate sheets and any other necessary cost information in a *separate, sealed* envelope marked – “Cost Estimate.” The Town of Blowing Rock plans to evaluate the qualifications of all firms submitting proposals before considering the Cost Estimate.

This second section should consist of completed cost estimate sheets, which will include the following information:

1. Information that will be contained in the management letter.

The management letter conveys to management procedural and control deficiencies of a lesser significance usually the result of human error or oversight.

2. Assistance expected from the Town of Blowing Rock’s staff, if other than outlined in the RFP.

None

3. Tentative schedule for completing the audit within the specified deadlines of the RFP.

We will perform interim work in June and year-end work during August-September. We will issue a draft by October 6, 2017 and a final report by the LGC deadline of October 31, 2017.

4. Specify costs using the format below for the audit year July 1, 2016 to June 30, 2017. For the two audit years, which follow, list the estimated costs. The cost for the audit year ending June 30, 2017 is binding, while the second and third years are estimated costs. Cost estimates must indicate the basis for the charges and whether the amount is a “not-to- exceed” amount.

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

B. Travel – itemize transportation and other travel costs separately.

C. Cost of supplies and materials – itemize.

D. Other costs – completely identify and itemize.

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

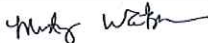
10. Please list any other information the firm may wish to provide.

Misty Watson has been performing auditing for 19 years working closely with management in all situations and a resident of Blowing Rock for twelve years. She has the upmost integrity and values each and every client she encounters. She has extensive knowledge with the LGC and governmental audits. Misty Watson also serves on Blowing Rock C.A.R.E.S. performing community service over the past six years. Our firm looks forward in working with you in the future.

11. Please include the Summary of Audit Costs Sheet with your proposal.

SUMMARY OF AUDIT COST SHEET

See sealed envelope

BIDDER NAME: <i>Misty Watson, CPA, PA</i>	Primary Contact: <i>Misty Watson</i>
Address: <i>P.O. Box 2122</i>	Telephone: <i>(828) 263-1100</i>
<i>Boone, NC 28607</i>	Fax: <i>(888) 361-6553</i>
	E-mail: <i>misty@mistywatsoncpa.com</i>
Authorized Signature: 	Date: <i>2/22/2017</i>



SYSTEM REVIEW REPORT

To the Owner of Misty D. Watson, CPA, P.A.
and the Peer Review Committee of the North Carolina Association
of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Misty D. Watson, CPA, P.A. (the firm) in effect for the year ended May 31, 2014. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

We noted the following deficiency during our review:

1. Deficiency- A single audit engagement was omitted from the firm's engagement summary for the May 31, 2014 peer review. This was the firm's sole single audit. The firm self reported this omission and the initial peer review was recalled. This was the first peer review for the firm and the firm mistakenly believed that only issued statements should be included on the engagement listing.

Recommendation- The firm should review PRP Section 4100 Instructions to Firms Having a System Review located in the peer review manual for engagements required to be included on the peer review engagement summary. Engagements to be included are all accounting and auditing engagements with periods ended during the year under review.

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Durham
3511 Shannon Road
Suite 100
Durham, North Carolina 27707

919 354 2584
919 489 8183 FAX

Pittsboro
10 Sanford Road
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

In our opinion, except for the deficiency previously described, the system of quality control for the accounting and auditing practice of Misty D. Watson, CPA, P.A. in effect for the year ended May 31, 2014, 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*. Misty D. Watson, CPA, P.A. has received a peer review rating of *pass with deficiency*.

Koonce, Wooten & Haywood, LLP

Koonce, Wooten & Haywood, LLP

June 1, 2016

MISTY D. WATSON, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 2122
BOONE, NORTH CAROLINA 28607
TELEPHONE (828) 263-1100
FAX (888) 361-6553

IN RESPONSE TO:
TOWN OF BLOWING ROCK, NORTH CAROLINA
REQUEST FOR PROPOSAL

Second Section

1. Specify costs using the format below for the audit year July 1, 2016 to June 30, 2017. For the two audit years, which follow, list the estimated costs. The cost for the audit year ending June 30, 2017 is binding, while the second and third years are estimated costs. Cost estimates must indicate the basis for the charges and whether the amount is a "not-to-exceed" amount.
 - A. Personnel costs – Itemize the following for each category of personnel (partner, manager, senior, staff accountants, clerical, etc.) with the different rates per hour.
 - B. Travel – itemize transportation and other travel costs separately.
 - C. Cost of supplies and materials – itemize.
 - D. Other costs – completely identify and itemize.
 - E. If applicable, note your method of determining increases in audit costs on a year to year basis
2. *For the period, July 1, 2016 to June 30, 2017*

	<i>Misty Watson</i>	<i>Lisa Rees</i>	<i>Sharon Caldwell</i>	
	<i>Partner</i>	<i>Manager</i>	<i>Clerical</i>	
<i>On-Site Interim Work</i>	35	-	-	
<i>Year-End Site Work</i>	60	10		
<i>Work Performed in Auditor's Office</i>	55	20	20	
<i>Total hours</i>	150	30	20	
<i>Rate per hour</i>	100	80	50	
	15,000	2,400	1,000	18,400
<i>Travel</i>				-
<i>Cost of supplies and materials</i>				-
<i>Other costs</i>				-
<i>The amount is not to exceed</i>				<u>\$ 18,400</u>

Misty Watson anticipates the estimated costs for the years ending June 30, 2018 and 2019 to remain consistent with the fee for June 30, 2017.

10. Please include the Summary of Audit Costs Sheet with your proposal.

SUMMARY OF AUDIT COST SHEET

COST ESTIMATE

(Per Year)

THREE YEAR CONTRACT

	FYE 2017	FYE 2018	FYE 2019
Base audit	13,400	13,400	13,400
Financial statement preparation	5,000	5,000	5,000
Other:			
<u>Total</u>	\$18,400	\$18,400	\$18,400

Basis/methodology of cost estimate:

The cost estimate is based on the detail schedule under item 9.

Basis for determining cost estimate after first year:

Based on previous experience working with the various municipalities, the firm feels the fee will not need to be increased.

BIDDER NAME: <i>Misty Watson, CPA, PA</i>	Primary Contact: <i>Misty Watson</i>
Address: <i>P.O. Box 2122</i>	Telephone: <i>(828) 263-1100</i>
<i>Boone, NC 28607</i>	Fax: <i>(888) 361-6553</i>
	E-mail: <i>misty@mistywatsoncpa.com</i>
Authorized Signature: <i>Misty Watson</i>	Date: <i>2/22/2017</i>