

TECHNICAL MEMORANDUM

No. TM-80-02

SELECTION OF THE INDEPENDENT AUDITOR

TWO PART REQUEST FOR PROPOSAL FOR AUDITING SERVICES

BY

-COUNTIES-

-MUNICIPALITIES-

PUBLIC AUTHORITIES-

-SCHOOL ADMINISTRATIVE UNITS-

OF

NORTH CAROLINA

State and Local Government Finance Division
North Carolina Department of State Treasurer

For further information, refer to Section 70 of the
North Carolina Department of State Treasurer Policies Manual

Note: Terms in the following document have been updated to conform to GASB Statement 34.

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The (governing board) of (name of governmental unit) (hereinafter called the “unit”) invites qualified independent auditors (hereinafter called “auditor”) having sufficient governmental accounting and auditing experience in performing an audit in accordance with the specifications outlined in this Request for Proposal (RFP) to submit a proposal.

There is no expressed or implied obligation for the (name of governmental unit) to reimburse firms for any expenses incurred in preparing proposals in response to this request.

The specific details shown herein shall be considered minimum unless otherwise shown. The specifications, terms, and conditions included with this RFP shall govern in any resulting contract(s) unless approved otherwise in writing by the (name of governmental unit). The bidder consents to personal jurisdiction and venue in a state court of competent jurisdiction in (name of county), North Carolina.

Type of Audit

The audit will encompass a financial and compliance examination of the unit’s Comprehensive Annual Financial Report (CAFR). [If the unit does not issue a CAFR, the above should be changed to the basic financial statements, supplementary information and compliance reports.] in accordance with the laws and/or regulations of the State of North Carolina, which include requirements for the minimum scope of the audit. The financial and compliance audit will cover federal, state, and local funding sources in accordance with generally accepted auditing standards; *Government Auditing Standards*; the Single Audit Act of 1984; the Single Audit Act Amendments of 1996; the provisions of OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including revisions published in *Federal Register* June 27, 2003; the State Single Audit Implementation Act; and all other applicable laws and regulations.

Period

The unit intends to continue the relationship with the auditor for no less than three years on the basis of annual negotiation after the completion of the first year contract. Each year after negotiation has taken place an annual contract documenting the terms of the audit will be signed. Since one governing board may not obligate future governing boards, the remaining years of the agreement are subject to annual governing board approval. The (name of governmental unit) reserves the right to request proposals at any time following the first year of this contract. Thus, prepare proposals for the following years, with Year one being the only obligated year:

July 1, 20X7 to June 30, 20X8

July 1, 20X8 to June 30, 20X9

July 1, 20X9 to June 30, 20X10

Requirements

The audit must be conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget Circular No.A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the State Single Audit Implementation Act, and any other applicable procedures for the audit of a government's financial statements prepared in accordance with GAAP.

The Auditor will prepare most year-end adjusting journal entries. The auditor will be ultimately responsible for the preparation, typing, proofing, printing, and copying of the Basic Financial Statement, supplementary information and compliance reports. The (name of governmental unit) Finance Officer will be actively involved in the MD&A, and other schedules section preparation. The auditor will submit a draft of the Financial Statement to be reviewed in detail by the Finance Officer. This draft should be submitted to the (name of governmental unit) in time to allow ample review and corrections. **The timing of this should insure final completion of the Financial Statements no later than the annual October 31st deadline.**

The (name of governmental unit) prefers interim fieldwork be completed in early June. Year-end fieldwork should begin in mid August and be completed by September 15th. **An agreed upon post-closing trial balance must exist by September 30th.** The Finance Officer will expect a listing of requested information needed for the audit at the preplanning conference, periodic conferences during the conduct of the audit, as well as an exit conference prior to the completion of fieldwork.

The audit must be completed and reports rendered four months following the fiscal year end (October 31).

A preliminary draft of the audit and required journal entries must be submitted to the Finance Director (or Audit Committee if applicable) by October 1 for proofing and reconciliation to the unit's records.

(Number) copies of each audit report, management letter, and other applicable reports must be supplied to the Finance Director (or audit committee if applicable) within the time frame cited above. In addition, the auditor is responsible for submitting the required two (three copies if unit is a Council of Government) to the staff of the Local Government Commission (LGC). Any other copies required will be charged on an as needed basis in addition to the quoted fee.

The financial audit opinion will cover the financial statements for the governmental activities, the business-type activities, the financial statements of the aggregate discretely presented component units, each major fund, and the remaining fund information, which collectively constitutes the basic financial statements. The combining and individual financial statements, schedules, and related information are not necessary for fair presentation, but will be presented as additional analytical data. This supplemental information, as required by GASB 34, will be subjected to the tests and other auditing procedures applied in the audit of the basic financial

statements, and an opinion will be given as to whether the supplemental information is fairly stated in all material respects in relation to the basis financial statements taken as a whole. The auditor shall also express an opinion on the budgetary comparison information for the general fund, the major funds, and any annually budgeted special revenue funds. An opinion will not be given on the Management Discussion and Analysis.

The working papers shall be retained and made available upon request for no less than three years from the date of the audit report.

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

Audit Contract & Payment of Audit Fees

The audit contract must be approved by the staff of the Local Government Commission. Invoices are subject to approval by the LGC staff and the appropriate Grantor Agency, if applicable, prior to processing by the (type of unit). If grant funds will be used to pay for the audit, the grant agreement may require the Grantor Agency's approval before the invoice may be paid. Interim or progress billings will be accepted up to 75% of the total fee prior to submission of the audited financial statements to the staff of the Local Government Commission and their approval of the audited financial statements.

Other Services

The auditor will prepare, type, and print the audited financial statements (or Comprehensive Annual Financial Report – if applicable). The auditor will submit a draft for review by the Finance Director (or audit committee if applicable). The Finance Director will return the draft with proposed revisions within 10 working days.

(Any special condition that would require additional time and cost to the auditor should be mentioned here. Examples of special conditions are:

1. Capital asset records which have not been audited previously;
2. Assistance to management's efforts to obtain the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting;
3. Assistance with the preparation of any schedules or budget compilation which may be required of the unit by SEC Ruling 15c2-12 which deals with secondary market disclosures;
4. Assistance with the preparation of the Annual Financial Information Report (counties and municipalities only) required to be filed with the staff of the Local Government Commission.
5. Calculation of the Debt Service Coverage Ratio as required by certain revenue bond covenants. The bond covenants may also require the auditor to express an opinion on the unit's compliance with the debt service coverage ratio and other debt covenants.)

Description of Selection Process

(Number) copies of each section of the proposal should be submitted at the time and place indicated under the section entitled "Time Schedule for Awarding Contract."

Proposals will be submitted in two sections. The first section will be comprised of the audit firm's prior experience and qualifications of its personnel in performing governmental audits. The audit committee (or Finance Office staff) will evaluate the auditor/firm on educational and technical qualifications. The top five firms from the first section will have their second section opened and evaluated. The firm best meeting the (name of governmental unit) expectations for experience, audit approach, and cost requirements will be selected.

PLEASE KEEP IN MIND THAT COST, WHILE AN IMPORTANT FACTOR, WILL NOT BE A SOLE DETERMINING FACTOR. UNUSUALLY LOW BIDS THAT ARE OBVIOUSLY OUT OF LINE WITH OTHER BIDDERS OR ARE SIGNIFICANTLY LOWER THAN OUR CURRENT FEES WILL RAISE CONCERN. THE LOWEST BID WILL NOT AUTOMATICALLY BE AWARDED PREFERENTIAL CONSIDERATION.

The (name of governmental unit) requests that no (name of governmental unit) officials be contacted during this process. The Finance Officer may be contacted only to clarify questions concerning the RFP.

The (type of unit) reserves the right to reject any or all bids, waive technicalities, and to be the sole judge of suitability of the services for its intended use and further specifically reserve the right to make the award in the best interest of the (type of unit).

Failure to respond to any requirements outlined in the RFP, or failure to enclose copies of the required documents, may disqualify the bid.

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.
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.
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.
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.
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. Indicate the percentages of time each senior and higher-level personnel will be on site. Again, relevant experience with the new reporting model should be clearly communicated.

6. Describe the relevant educational background of each person assigned to the audit, senior level and higher. This should include seminars and courses attended within the past three years, especially those courses in governmental accounting and auditing.
7. Describe the professional experience of assigned individuals in auditing relevant government organizations, programs, activities, or functions (e.g., utilities, solid waste, transit, airports, or health authorities and school systems).
8. Describe any specialized skills, training, or background in public finance of assigned individuals. This may include participation in State or national professional organizations, speaker or instructor roles in conferences or seminars, or authorship of articles and books.
9. Provide names, addresses, and telephone numbers of personnel of current and prior governmental audit clients who may be contracted for a reference.
10. Describe the firm's Statement of Policy and Procedures regarding Independence under Government Auditing Standards (Yellow Book), January 2007 Revision. Provide a copy of the firm's Statement of Policy and Procedures.
11. Is the firm adequately insured to cover claims? Describe liability insurance coverage arrangements.
12. Describe any regulatory action taken by any oversight body against the proposing audit organization or local office.

Second Section

Proposals should include completed cost estimate sheets and any other necessary cost information in a *separate, sealed* envelope marked – “Cost Estimate.” The (type of unit) 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. Type of audit program used (tailor-made, standard government, or standard commercial).
2. Use of statistical sampling.
3. Use of computer audit specialists.
4. Organization of the audit team and the approximate percentage of time spent on the audit by each member.
5. Information that will be contained in the management letter.
6. Assistance expected from the government's staff, if other than outlined in the RFP.

7. Tentative schedule for completing the audit within the specified deadlines of the RFP.
8. Use of internal audit staff (if applicable).
9. Specify costs using the format below for the audit year July 1, 20X6 to June 30, 20X7. For the two audit years, which follow, list the estimated costs. The cost for the audit year ending June 30, 20X7 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.
 - 1) Estimated hours – categorize estimated hours into the following: on-site interim work, year-end on-site work, and work performed in the auditor’s office.
 - 2) Rate per hour.
 - 3) Total cost for each category of personnel and for all personnel costs in total.
 - 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
10. Please list any other information the firm may wish to provide.
11. Please include the Summary of Audit Costs Sheet with your proposal.

Time Schedule for Awarding the Contract

Request for proposal packages will be mailed by **fill in date**.

Please acknowledge the receipt of this request for proposal and your intent to respond with a proposal by **fill in date**.

Proposals signed by authorized officials will be received by (name of Finance Director), Finance Director at (address where governmental unit receives mail or deliveries) until **fill in date** at 2:00 p.m. Envelopes containing proposals should be clearly identified on the front with the words “RESPONSE TO RFP FOR AUDIT SERVICES”. The Finance Office will review the proposals and make a recommendation to the Board of Commissioners on **fill in date** at which time the contract will be awarded.

A pre-proposal conference will be held on *fill in date* at 2:00 p.m. to answer any questions that might arise and to discuss general background information on the unit and its operations. Information covered at the conference will *not* be sent to audit firms not attending the conference.

(Small units that will not hold a pre-proposal conference may wish to insert the following: Any questions should be directed to (name of person and title), at (phone number). Appointments may be scheduled to discuss further any specific matters necessary in preparing your proposal. Please call (name and title of person) at (phone number) to schedule an appointment.)

Description of the Governmental Entity and Its Accounting System

Entity

(Name of governmental unit) is a (type of unit) in North Carolina with a population of approximately(number). The (type of unit) operates {name of enterprises fund(s)}. (List all proprietary funds of the unit).

Based on the criteria set forth in GASB Statement 14, the following organizations will be included in the audit:

Carolina County Tourism and Development Authority (discrete component)

Carolina Airport Authority (discrete component)

Regional Library (joint venture without equity interest)

Soil and Water Conservation District (blended component)

(The above are examples of component units and joint ventures for a county. List all component units, joint ventures with and without equity interest, and related organizations for the unit.)

Funds

The (name of unit) maintains the following funds: (the following are examples; include all funds of the unit)

Governmental Funds

General Fund, including Debt Service Fund

Special Revenue Funds:

Schools Reserve Fund

Fire Districts Fund

Revaluation Fund

Emergency Telephone System Fund

CDBG Fund

Capital Projects Funds:

Schools Expansion Fund

Human Services Building Fund

Jail Construction Fund

Annex Building Fund

Airport Improvements Fund

Permanent Funds:

Cemetery Perpetual Care Fund:

Proprietary Funds

Enterprise Funds:

Solid Waste Fund

Solid Waste Construction Fund

Internal Service Fund:

Hospitalization Fund

Fiduciary Funds:

Private Purpose Trust Fund

Agency Funds:

Social Services Trust Accounts

Fines and Forfeitures Fund

Motor Vehicle Tax Fund

Budgeted revenues, excluding project amounts, are estimated at (dollar amount) in FY 20X6/20X7. In addition, outstanding debt totaled (dollar amount) as of June 30, 20X7. The (type of unit) continues to maintain a (insert bond rating) bond rating from Standard & Poor's Corporation and (insert bond rating) from Moody's Investors Service and plans to hold a bond referendum in (date, if any bond referendum). We expect to issue (type of bonds, if any) in FY 20X7 to fund (type of project, if any).

Grants, Entitlements, and Shared Revenues

A copy of the Schedule of Expenditures of Federal and State Awards for the year ended June 30, 20X7 is enclosed with this RFP. Also included is a Summary of Auditor's Results showing the major programs for the prior year.

Budgets

The unit budgets all funds on the modified accrual basis of accounting as required by North Carolina law. Appropriations are made at the departmental level. (Indicate level at which the budget is adopted.) The unit also maintains an encumbrance system. Both the budgetary and encumbrance systems are integrated with the accounting system to provide easy comparison with actual expenditures. *(Modify to match your unit's method of budgeting.)*

Accounting Records

The (name of unit) maintains all its accounting records at the finance office located at (physical address). (If other organizations are to be audited under GASB Statement 14, the location of accounting records and financial staff should be provided.) The governmental unit maintains its cash receipts journal, cash disbursements journal, general ledger, and accounts receivable ledger on (type of computer system). The software is (name of software).

Assistance Available to Auditor

The unit will make available to the auditor sufficient help to pull and re-file records, and prepare and mail all necessary confirmations. A trial balance with budgeted amounts will be made available via computer diskette (or hard copy, e-mail, etc.) on Friday September 7, 20X7. The following accounting procedures will be completed and documents prepared by the unit's staff no later than Friday September 7, 20X7 *(The unit is aware of and understands the need to provide this assistance to the auditor and will make every attempt to meet these deadlines. Smaller units may be able to provide this information at a much earlier date. Adjust dates if necessary.)*:

The books of account will be fully balanced.

All subsidiary ledgers will be reconciled to control accounts.

All bank account reconciliations for each month will be completed.

The unit's personnel will prepare the following items (delete any that the unit will not prepare; and add additional schedules which would reasonably increase the efficiency and effectiveness of the audit):

General

1. Working Balance Sheet for each fund.
2. Working Statement of Revenues, Expenditures, and Transfers for each fund.
3. General Ledger transaction detail report for each account. (List any exceptions)
4. A copy of the original budget, all amendments, and the final budget as of June 30, 20X7.
5. A copy of all project ordinances and all amendments for active projects during the audit period.
6. A copy of the operating and capital lease schedules itemizing contracts in force during the audit period as well as access to the lease files maintained in the (location) office.
7. A copy of board policies, including travel and investment policies.
8. Copies of all correspondence with the staff of the Local Government Commission, including semiannual Cash and Investment Reports (LGC-203), unit letters, faxes regarding the audited financial statements and compliance reports for the previous year.
9. Management's Discussion and Analysis
10. Required supplementary information, e.g. actuarial information of the Law Enforcement Officers' Separation Allowance

Cash and Investments

1. All bank reconciliations for each month
2. List of outstanding checks by account, showing check number, date, and amount.
3. Schedule of all investments for all funds at the audit date, showing book value and estimated market value at fiscal year end.

Receivables

1. Listing of unpaid tax bills in detail totaled by year as of fiscal year end.
2. Listing of outstanding (name of fund) receivables by account as of the fiscal year end.
3. Listing of outstanding (name of service) receivables in detail as of the fiscal year end.
4. Schedule of miscellaneous receivables booked as of the fiscal year end.

Other Assets

1. Schedule of insurance coverage.

Capital Assets

1. Printout of all capital asset acquisitions made during the audit year.
2. Printout of all capital asset dispositions made during the audit year.
3. Access to printout containing calculations used in balancing the Capital Assets subsystem to the government-wide statements.
4. Printout of depreciation expense posted for the audit year.
5. If infrastructure is being recorded on the government-wide statements for the first time, access to the records used to determine the appropriate value for the (type of unit) infrastructure assets.

Current Liabilities

1. Schedule of accounts payable including batch printouts.

Long-Term Debt

1. Computation of vested vacation payable as of the audit date.
2. Debt Schedule for each debt issue and related payments.

Grants

The following will be compiled for each grant:

1. Grant agreement.
2. Budget.
3. All financial reports.
4. Correspondence with the grantor agency, including monitoring reports.
5. CFDA # and/or pass-through grant #.

Conversion

1. Entries to convert from fund to government-wide statements
2. Working Statement of Net Assets
3. Working Statement of Activities
4. Allocation of depreciation among functional areas
5. Computation of additions and retirements of compensated absences
6. Reconciliation of fund and government-wide statements
7. Worksheet for determination of major funds
8. Worksheet of combining statements for non-major funds

Size and Complexity of Unit

Personnel/Payroll

Number of employees	_____
Frequency of payroll	_____
Number of payroll direct deposit advises	_____

Property Tax (disclose if collected by another agency)

Number of tax bills issued (without motor vehicles)	_____
Number of motor vehicle tax bills issued	_____
Total dollar amount of most recent year's collections	_____
Total dollar amount of levy	_____

(Name of enterprise fund) Billing

Number of statements each month	_____
Average number of delinquent accounts at month end	_____

Purchasing

Number of purchase orders issued	_____
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Bank Accounts

Number of bank accounts _____
Number of escrow accounts _____
Average monthly activity in main accounts _____
 Number of deposits (Central Depository) _____
 Number of checks: _____
 Central Depository _____
 Payroll (direct deposit) _____

Management Information Systems:

Number of PCs on the premises _____
Core storage of the central processing unit _____
Total disk capacity of the system _____
Number of employed programmers capable of modifying
the operating system and the applications programs _____

The following financial applications are on the computer system:

General Ledger
Accounts Payable
Grants/Project Accounting
Payroll
Capital Assets
Accounts Receivable
Taxes Receivable
(Add or delete any of the above depending on the unit's actual system)

The following financial application is on a separate computer system

(List any applications on a separate PC system)

Special Conditions (list any special conditions; below are some possible items)

Does the unit collect taxes for others?
Does the unit perform fiscal or accounting functions for others?
Does the grantor agency or unit require any additional statements or schedules?

New Conditions (list any recent or upcoming changes)

Describe new debt authorizations or sales.
Describe new capital projects.

Contact information:

Name:

Title:

(name of governmental unit)

Address:

City, NC zip:

Phone:

Fax:

Email:

SUMMARY OF AUDIT COSTS SHEET

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