

REQUEST FOR BOARD ACTION

HENDERSON COUNTY BOARD OF COMMISSIONERS

MEETING DATE: February 7, 2011

SUBJECT: Audit Services Proposal

ATTACHMENTS: Martin, Starnes & Associates, CPAs, P.A. Proposal

SUMMARY OF REQUEST:

Our current external auditors, Martin, Starnes & Associates, CPAs, P.A., is offering the attached proposal to extend audit services to Henderson County for the next five fiscal years. In light of the current economic environment, they have proposed a flat (no increase) fee of \$52,000 to conduct the County's FY2011 audit. Their proposed increase in fees for FY2012, FY2013 and FY2014 is less than three (3) percent annually and no increase in fees for the FY2015 audit.

As the Board was made aware during its budget planning workshop, Martin, Starnes & Associates provides audit services to 37 counties in the state as well as a number of municipalities, school boards and other authorities. Their firm is highly recognized as a leader in providing audit services to local governments across the state.

BOARD ACTION REQUESTED:

Staff recommends that the Board accept the proposal submitted to perform Henderson County's annual financial and compliance audit for the next five (5) fiscal years at the stated fees.

Suggested Motion:

I move the Board accept the audit services proposal from Martin, Starnes & Associates, CPAs, P.A. to conduct the County's annual financial and compliance audit for fiscal years ending June 30, 2011 through 2015 at the stated fees.

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

December 15, 2010

Henderson County Finance Department
Attn: J. Carey McLelland, Finance Director
Historic Courthouse Annex
113 N. Main Street
Hendersonville, North Carolina 28792

Dear Mr. McLelland

It has been a pleasure to provide audit services to Henderson County for the past several years. We are looking forward to a long relationship with the County that will allow us to become more efficient in our procedures and offer even better management suggestions as a result of our knowledge of the County's operations.

The audit relationship is much more than a commodity product, therefore, the Local Government Commission does not require the services to be re-bid at the end of a service agreement. We are proud of the level of service we offer and believe that to be the reason we have a near 100% renewal rate with our government clients. We would rather negotiate a three or five-year extension of our agreement rather than subject the relationship to the bidding process. If the County is pleased with the service, then fees are the only variable, and I am certain we can come to terms as it relates to fees.

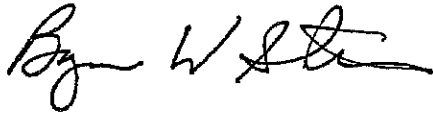
In the past few years, much talk has been made about mandatory auditor rotations. This concept, in fact, is related to the audit team, not the audit firm. We are required by our auditing standards to maintain our independence, and we can assure the County that Martin Starnes & Associates takes compliance with the independence standard seriously. We rotate our audit teams as a normal course of business due to staff growth. We re-invent the audit process on each year during the planning stage to make sure we are addressing the pertinent risk areas of the County's audit. Quite frankly, we study trends, and, therefore, a long audit relationship, if managed properly, is a great benefit to the County.

Our fees for the fiscal years ending June 30, 2011 – 2015 are proposed as follows:

2011	\$ 52,000
2012	\$ 53,500
2013	\$ 55,100
2014	\$ 56,700
2015	\$ 56,700

I am looking forward to your acceptance of our service extension agreement.

Sincerely,



Bryan W. Starnes, CPA/ABV
Partner

If you agree with the service extension agreement above, please sign the enclosed copy of this letter in the space indicated and return it to our office.

Accepted by: _____

Title: _____ Date: _____

Accepted by: _____

Title: _____ Date: _____

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

December 15, 2010

Henderson County Finance Department
Attn: J. Carey McLelland, Finance Director
Historic Courthouse Annex
113 N. Main Street
Hendersonville, North Carolina 28792

We are pleased to confirm our understanding of the services we are to provide Henderson County, NC for the year ended June 30, 2011. We will audit the primary government's financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Henderson County, NC as of and for the year ended June 30, 2011. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Henderson County's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Henderson County's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: 1) Management's Discussion and Analysis and 2) the Law Enforcement Officer's Special Separation Allowance schedules (if applicable), and 3) Other Post-Employment Benefit schedules (if applicable).

Supplementary information other than RSI also accompanies Henderson County's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole: 1) the individual fund financial statements and schedules, 2) the combining nonmajor governmental statements, 3) the budgetary schedules, 4) the agency fund statements, 5) other supplemental schedules, and 6) the Schedule of Expenditures of Federal and State Awards.

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will not provide an opinion or any assurance: 1) the introductory information and 2) the statistical tables.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on –

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, non-compliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with compliance requirements, and for preparation of the Schedule of Expenditures of Federal and State Awards in accordance

with the requirements of OMB Circular A-133. As part of the audit, if we assist with the preparation of your financial statements, Schedule of Expenditures of Federal and State Awards, and related notes, you are responsible for making all management decisions and performing all management functions relating to the financial statements, Schedule of Expenditures of Federal and State Awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with the preparation of the financial statements and Schedule of Expenditures of Federal and State Awards and that you have reviewed and approved the financial statements, Schedule of Expenditures of Federal and State Awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any non-audit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Henderson County and the respective changes in financial position, and where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on the first day of interim fieldwork. You are responsible for the preparation of the supplementary information in conformity with U.S.

generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present supplementary information with the audited financial statements or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document (if applicable).

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or non-compliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures – Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other non-compliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material non-compliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Henderson County's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of Henderson County's major programs. The

purpose of these procedures will be to express an opinion on Henderson County's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and upload the Data Collection Form and audit report that summarizes our audit findings. We will approve for submission and submit to the federal clearinghouse after obtaining your approval. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Martin Starnes & Associates, CPAs, P.A. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Martin Starnes & Associates, CPAs, P.A. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the date the auditors' report is issued. If we are aware that a federal or state awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Bryan Starnes is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fees for these services are stated in the Contract to Audit Accounts. Our invoices for these fees will be rendered in four installments as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for non-payment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our reports. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The contract fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2009 peer review report accompanies our Contract to Audit Accounts.

We appreciate the opportunity to be of service to Henderson County and believe this letter along with our Local Government Commission contract accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

RESPONSE:

This letter correctly sets forth the understanding of Henderson County, North Carolina.

By: _____
Title: _____
Date: _____

BOYCE, FURR & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

SAMUEL A. BOYCE, PARTNER
BOBBIE W. FURR, PARTNER

SANDY P. NEWELL, CPA
JO ELLEN B. LOY, CPA
DAVID E. BOYCE, CPA
PATRICIA T. WAGNER, CPA
CHERYL W. GAZALEH, CPA

May 5, 2009

Martin Starnes & Associates, CPAs, PA and the
Peer Review Committee, North Carolina Association
of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Martin Starnes & Associates, CPAs, PA (the firm) in effect for the year ended December 31, 2008. 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. 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* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Martin Starnes & Associates, CPAs, PA in effect for the year ended December 31, 2008, 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*. Martin Starnes & Associates, CPAs, PA has received a peer review rating of *pass*.

Boyce, Furr & Company, LLP
BOYCE, FURR & COMPANY, LLP