

# CITY OF HIGH POINT

## AGENDA ITEM



**Title:** Authorize Agreement for Special Audit Testing Procedures  
Required by the State Treasurer's Office

**From:** Jeffrey A Moore, Financial Services Director      **Meeting Date:** May 7, 2018

**Public Hearing:** No

**Advertising Date /** N/A  
**Advertised By:**

**Attachments:** Engagement Letter

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### **PURPOSE:**

The NC Department of State Treasurer has directed the City to conduct a special audit of the payroll and participant information provided to the Local Government Retirement System as part the Retirement System's audit and report.

### **BACKGROUND:**

The State Treasurer's Office annually selects units of local government who participate in the Local Government Employees Retirement System at random for the required special testing procedures in order to comply with current governmental pension accounting standards and reporting. The City was notified in early March that we had been selected for testing and directed that this work be performed by the City's auditors.

The Financial Services Department staff have reviewed the proposed scope of engagement and the proposed fees appear in line to those of other units of government.

### **BUDGET IMPACT:**

The contract will be funded from the Financial Services Department budget for FY 2018-2019. Staff has requested budget funding for these special audit services and it will be included in the City Manager's Recommended Budget.

### **RECOMMENDATION / ACTIONS REQUESTED:**

City Council is requested to authorize the City Manager to approve the attached Engagement Letter for the examination and testing of participant data and related payroll records with Cherry Bekaert LLP in the amount of \$6,000.

April 10, 2018

The Honorable Mayor and Members of the City Council  
City of High Point  
P. O. Box 230  
High Point, NC 27261

Ladies and Gentlemen:

This engagement letter between City of High Point (hereinafter referred to as the “City” or “you” or “your”) and Cherry Bekaert LLP (the “Firm” or “Cherry Bekaert” or “we” or “our” or “us”) sets forth the nature and scope of the services we will provide, the City’s required involvement and assistance in support of our services, the related fee arrangements, and other Terms and Conditions, which are attached hereto and incorporated by reference, designed to facilitate the performance of our professional services and to achieve the mutually agreed-upon objectives of the City.

## **SUMMARY OF SERVICES**

We will examine data reported to the Local Governmental Employees' Retirement System (“LGERS”) in ORBIT related to members who were employees in ORBIT related to members who were employees of the City during the year ended December 31, 2017. The objectives of our examination are to (1) obtain reasonable assurance about whether the criteria or assertions below are free from material misstatement based on the criteria and (2) to express an opinion as to whether determination of eligibility, reporting of demographic data required by ORBIT, completeness of reporting of eligible members, timing of contribution payments to LGERS, and accuracy of calculation of member and employer contributions are presented in all material respects in accordance with State law or appropriate records maintained by the employer applicable to required input fields in ORBIT OR whether the assertions listed below are fairly stated, in all material respects.

## **Assertions**

1. Employees reported to LGERS during the year ended December 31, 2017 are eligible (as General or Law Enforcement Officer, and correctly identified as such) in accordance with requirements of State law.
2. Employee census data reported in ORBIT on eligible members (e.g., Date of Birth and gender) during the year ended December 31, 2017 is complete in accordance with required fields identified in ORBIT input screens and accurate in accordance with information provided by the respective employees as documented in their personnel files or other appropriate records maintained by the employer.
3. All employees eligible for participation in LGERS during the year ended December 31, 2017 (including re-hired retirees) are reported to LGERS in accordance with requirements of State law.
4. Member and employer contributions during the year ended December 31, 2017 are paid timely to LGERS in accordance with requirements of State law.

5. Member and employer contributions paid to LGERS during the year ended December 31, 2017 are accurately calculated in accordance with requirements of State law, including being based on compensation which appropriately includes and excludes elements of compensation identified in the January 1, 2017 LGERS Employer Manual on page 11.

Our examination will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Accordingly, it will include examining, on a test basis, your records and other procedures to obtain evidence necessary to enable us to express our opinion. We will issue a written report upon completion of our examination. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the examination or are unable to form or have not formed an opinion, we may decline to express an opinion or may withdraw from the engagement.

Because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with attestation standards.

We will plan and perform an examination to obtain reasonable assurance about whether data reported to the LGERS in ORBIT related to members who were employees is free from material misstatement based on State law or appropriate records maintained by the employer applicable to required input fields in ORBIT. Our engagement will not include a detailed inspection of every item supporting the assertion and cannot be relied upon to disclose all material errors, or known and suspected fraud or noncompliance with laws or regulations, or internal control deficiencies that may exist. However, we will inform you of any known or suspected fraud and noncompliance with the laws and regulations, internal control deficiencies identified during the engagement and uncorrected misstatements that come to our attention unless clearly trivial.

We understand that you provide us with the information required for our examination and that you are responsible for the accuracy and completeness of that information. We may advise you about appropriate criteria, but the responsibility for the subject matter remains with you.

You are responsible for the presentation of data reported to the LGERS in ORBIT related to members who were employees in accordance with the criteria or assertions described above; and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are also responsible for, and agree to provide us with, written assertions about whether determination of eligibility, reporting of demographic data required by ORBIT, completeness of reporting of eligible members, timing of contribution payments to LGERS, and accuracy of calculation of member and employer contributions are presented in accordance with State law or appropriate records maintained by the employer applicable to required input fields in ORBIT. Failure to provide such assertions will result in our withdrawal from the engagement.

You are also responsible for making all management decisions and performing all management functions; for designating an individual who possesses suitable skill, knowledge, or experience to oversee the services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

## **YOUR EXPECTATIONS**

The City recognizes that our professional standards require that we be independent from you in our examination and our accompanying report in order to ensure that our objectivity and professional skepticism have not been compromised. As a result, we cannot enter into a fiduciary relationship with you and you should not expect that we will act only with due regard to your interest in the performance of this examination and you should not impose on us special confidence that we will conduct this examination with only your interest in mind. Because of our obligation to be independent of you, no fiduciary relationship will be created by this engagement or examination.

The engagement will be led by Eddie Burke, who will be responsible for assuring the overall quality, value, and timeliness of the services provided to you.

## **THE CITY'S MANAGEMENT'S RESPONSIBILITIES RELATED TO THE EXAMINATION**

The City's management is responsible for:

- Providing us with the basic information required for our examination and for the accuracy and completeness of that information.
- If applicable, the fair presentation of the financial information included in the report in conformity with the acceptable financial framework or the criteria or assertion described on page one of the engagement letter.
- If applicable, the selection and application of accounting principles and the consistent application of those principles.
- Making all financial or other applicable records and related information available to us.
- Ensuring that all material information is disclosed to us.
- Granting unrestricted access to persons within the entity from whom we determine it necessary to obtain sufficient evidence to complete our examination.
- Identifying and ensuring that the City complies with the laws and regulations applicable to the criteria or assertion described on page one of the engagement letter.

The City's management is responsible for informing us of its views regarding the risk of fraud impacting the report at the City. The City's management must inform us of their knowledge of any allegations of fraud or suspected fraud affecting the City that was received in communications from employees, former employees, regulators, or others and for informing us about all known or suspected fraud affecting the City involving (a) Management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the report.

The City's management is responsible for the design, implementation and maintenance of programs and controls over the report and to prevent and detect fraud. Appropriate supervisory review procedures are necessary to provide reasonable assurance that adopted policies and prescribed procedures are adhered to and to identify errors and fraud or illegal acts.

At the conclusion of the engagement, the City's management will provide to us a representation letter that, among other things, addresses (1) the City's management's responsibilities related to the examination and confirms certain representations made to us during the examination, including, the City's management's acknowledgement of its responsibility for the design and implementation of programs and controls to prevent and detect fraud; (2) the City's management's responsibilities related to the monitoring of internal control over financial reporting; and (3) the City's management's knowledge, directly or from

allegations by others, of fraud or suspected fraud affecting the City. The Firm will rely on the City's management providing these representations to us, both in the planning and performance of the examination, and in considering the fees that we will charge to perform the examination.

#### **CONDITIONS SUPPORTING FEE**

As a result of our preliminary discussions, the City and the Firm have agreed to a fee, subject to the following conditions:

The estimated fee contemplates only the services described in the Summary of Services section of this letter. If Management requests additional services not listed above, we will provide an estimate of those fees prior to commencing additional work.

#### **FEES**

The following summarizes the fees for the services described above:

<b><u>Description of Services</u></b>	<b><u>Estimated Fee</u></b>
<b>Examination services</b>	
Examination of the data reported to the LGERS in ORBIT related to members who were employees:	\$ 6,000
1. Employees reported to LGERS during the year ended December 31, 2017 are eligible (as General or Law Enforcement Officer, and correctly identified as such) in accordance with requirements of State law.	
2. Employee census data reported in ORBIT on eligible members (e.g., Date of Birth and gender) during the year ended December 31, 2017 is complete in accordance with required fields identified in ORBIT input screens and accurate in accordance with information provided by the respective employees as documented in their personnel files or other appropriate records maintained by the employer.	
3. All employees eligible for participation in LGERS during the year ended December 31, 2017 (including re-hired retirees) are reported to LGERS in accordance with requirements of State law.	
4. Member and employer contributions during the year ended December 31, 2017 are paid timely to LGERS in accordance with requirements of State law.	
5. Member and employer contributions paid to LGERS during the year ended December 31, 2017 are accurately calculated in accordance with requirements of State law, including being based on compensation which appropriately includes and excludes elements of compensation identified in the January 1, 2017 LGERS Employer Manual on page 11.	
Total	<u><u>\$ 6,000</u></u>

The fees will be billed periodically. Invoices are due on presentation. A service charge will be added to past due accounts equal to 1½% per month (18% annually) on the previous month's balance less payments received during the month, with a minimum charge of \$2.00 per month.

**City of High Point**

**April 10, 2018**

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If the foregoing is in accordance with your understanding, please sign a copy of this letter in the space provided and return it to us. If you have any questions, please call Eddie Burke at 919-782-1040.

Sincerely,

**CHERRY BEKAERT LLP**

*Cherry Bekaert LLP*

ATTACHMENT – Engagement Letter Terms and Conditions

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**CITY OF HIGH POINT**

ACCEPTED BY: \_\_\_\_\_

TITLE: \_\_\_\_\_ DATE: \_\_\_\_\_

**Cherry Bekaert LLP**

**Engagement Letter Terms and Conditions**

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The following terms and conditions are an integral part of the attached engagement letter and should be read in their entirety in conjunction with your review of the letter.

**RESPONSIBILITIES OF CHERRY BEKAERT LLP**

In performing our examination we will be aware of the possibility that illegal acts may have occurred. However, it should be recognized that our examination will not include a detailed test of every item supporting the assertion or subject matter and provides no assurance that illegal acts generally will be detected and only reasonable assurance that illegal acts having a direct and material effect on the assertion (or subject matter) will be detected. We will inform you with respect to errors and fraud, or illegal acts that come to our attention during the course of our examination unless clearly inconsequential. In the event that we have to consult with the City's counsel or counsel of our choosing regarding any illegal acts we identify, additional fees incurred may be billed to the City. You agree to cooperate fully with any procedures we deem necessary to perform with respect to these matters.

Our examination will include procedures designed to obtain reasonable assurance that the assertion is in conformity with the criteria described above. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. For example, examinations performed in accordance with attestation standards are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitation that errors or fraud, if they exist, may not be detected.

**OTHER MATTERS**

**Access to working papers**

The working papers and related documentation for the engagement are the property of the Firm and constitute confidential information. We have a responsibility to retain the documentation for a period of time to satisfy legal or regulatory requirements for records retention. It is our policy to retain all workpapers and client information for seven years from the date of issuance of the report. It is our policy to retain emails and attachments to emails for a period of six months, except as required by any governmental regulation. Except as discussed below, any requests for access to our working papers will be discussed with you prior to making them available to requesting parties.

We may be requested to make certain documentation available to regulators, governmental agencies (e.g., SEC, PCAOB, HUD, DOL, etc.) or their representatives ("Regulators") pursuant to law or regulations. If requested, access to the documentation will be provided to the Regulators. The Regulators may intend to distribute to others, including other governmental agencies, our working papers and related documentation without our knowledge or express permission. You hereby acknowledge and authorize us to allow Regulators access to and copies of documentation as requested. In addition, our Firm, as well as all other major accounting firms, participates in a "peer review" program covering our examination and accounting practices as required by the American Institute of Certified Public Accountants. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If you object to having the work we do for you reviewed by our peer reviewer, please notify us in writing.

### **Electronic transmittals**

During the course of our engagement, we may need to electronically transmit confidential information to each other, within the Firm, and to other entities engaged by either party. Although email is an efficient way to communicate, it is not always a secure means of communication and thus, confidentiality may be compromised. You agree to the use of email and other electronic methods to transmit and receive information, including confidential information between the Firm, the City and other third-party providers utilized by either party in connection with the engagement.

### **Subpoenas**

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for you, you will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expense, as well as the fees and expenses of our counsel, incurred in responding to such a request at standard billing rates.

### **Dispute resolution procedures**

If any dispute, controversy, or claim arises in connection with the performance or breach of this agreement, either party may, on written notice to the other party, request that the matter be mediated. Such mediation would be conducted by a mediator acceptable to both parties. Both parties would exert their best efforts to discuss with each other in good faith their respective positions in an attempt to finally resolve such dispute, controversy, or claim.

### **Waiver of Trial by Jury**

In the event the parties are unable to successfully mediate any dispute, controversy, or claim, the parties agree to WAIVE TRIAL BY JURY and agree that the court will hear any matter without a jury.

### **Independent Contractor**

Each Party is an independent contractor with respect to the other and shall not be construed as having a trustee, joint venture, agency, or fiduciary relationship.

### **TERMS AND CONDITIONS SUPPORTING FEE**

The estimated fees set forth in the attached engagement letter are based on anticipated full cooperation from your personnel, timely delivery of requested examination schedules and supporting information, timely communication of all significant information, the assumption that unexpected circumstances will not be encountered during the examination, as well as working space and clerical assistance as mutually agreed upon and as is normal and reasonable in the circumstances. We strive to ensure that we have the right professionals scheduled on each engagement. As a result, sudden City requested scheduling changes or scheduling changes necessitated by the agreed information not being ready on the agreed-upon dates can result in expensive downtime for our professionals. Any last minute schedule changes that result in downtime for our professionals could result in additional fees. Our estimated fee does not include assistance in bookkeeping or other accounting services not previously described. If for any reason the City is unable to provide such schedules, information, and assistance, the Firm and the City will mutually revise the fee to reflect additional services, if any, required of us to achieve these objectives.

The estimated fees are based on attestation standards effective as of the date of this engagement letter and known to apply to the City at this time, but do not include any time related to the application of new attestation standards that impact the City for the first time. If new attestation standards are issued subsequent to the date of this letter and are effective for



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the period under examination, we will estimate the impact of any such standard on the nature, timing, and extent of our planned examination procedures and will communicate with you concerning the scope of the additional procedures and the estimated fees.

The City agrees to pay all costs of collection (including reasonable attorneys' fees) that the Firm may incur in connection with the collection of unpaid invoices. In the event of nonpayment of any invoice rendered by us, we retain the right to (a) suspend the performance of our services, (b) change the payment conditions under this engagement letter, or (c) terminate our services. If we elect to suspend our services, such services will not be resumed until your account is paid. If we elect to terminate our services for nonpayment, the City will be obligated to compensate us for all time expended and reimburse us for all expenses through the date of termination.

This engagement letter sets forth the entire understanding between the City and the Firm regarding the services described herein and supersedes any previous proposals, correspondence, and understandings whether written or oral. Any subsequent changes to the terms of this letter, other than additional billings, will be rendered in writing and shall be executed by both parties. Should any portion of this engagement letter be ruled invalid, it is agreed that such invalidity will not affect any of the remaining portions.