

Date of Action:	4.27.14	
Approved <input checked="" type="checkbox"/>	Denied <input type="checkbox"/>	
By:	Komin	

CITY COUNCIL ACTION MEMORANDUM

AM No. 15-17: Awarding a three (3) year contract to BDO USA, LLP in the amount of \$229,450 for Financial Audit Services.

Originator: April Dwyer, Purchasing
 Date: 4/10/2015

Agenda of: 4/27/2015

Route to:	Department Head	Signature	Date
X	Chief of Police		4/16/15
X	Public Works Director		4/15/15
X	Recreation & Cultural Services Director		4/15/15
X	Finance Director		4.15.15
X	Deputy Administrator		4/15/15
X	City Clerk		4.16.15

Reviewed by Mayor Bert L. Cottle: 04:16:2015

Fiscal Impact: yes or no **Funds Available:** yes or no

Account name/number/amount:

001-4115-411-30-31	Professional Services/Accounting	\$57,770
220-4270-427-30-31	Professional Services/Accounting	370
310-4351-435-30-31	Professional Services/Accounting	4,526
320-4361-436-30-31	Professional Services/Accounting	5,190
330-4370-437-30-31	Professional Services/Accounting	3,749
340-4530-453-30-31	Professional Services/Accounting	<u>1,900</u>
		\$73,505

Attachments: RFP Combined Score Sheet (1 page)
 BDO USA, LLP Proposal (17 pages)

Summary Statement: In accordance with WMC 5.08.120, on February 20, 2015, the City of Wasilla issued a Request for Proposal 0220-0-2015/AD for Financial Audit Services.

Proposals were received from three (3) firms: KPMG, LLP, BDO USA, LLP, and Altman, Rogers, & Co. Following a complete review of the three proposals a committee of four (4) scorers (Director of Finance, Controller, Public Works Director, and the Executive Assistant to the Mayor) scored the proposals. Scores were based upon the firm experience, personnel experience, audit methodology/approach, and client services. Cost was scored by the Purchasing/Contracting Officer. BDO USA, LLP scored the highest with 279.5 combined points. KPMG, LLP scored 246 combined points and Altman, Rogers, & Co. scored 215 combined points.

The BDO USA, LLP proposal included pricing of \$73,505 for FY2015, \$76,445 for FY2016, and \$79,500 for FY2017. The total three (3) year contract price is: \$229,450.

Funds Available: The FY2016 Proposed Budget has proposed a \$62,345 total auditing budget based on continuance of the contract with KPMG, LLP. KPMG, LLP provided notice to the City that the cost originally proposed for the final year of their option to extend could not be exercised based on cost being too low. Therefore, the City had no option but to submit an RFP for a new contract. If AM No. 15-17 is approved, City Administration will submit a budget adjustment to Council for consideration as an amendment to the FY2016 Proposed Budget to cover the deficiency of \$11,160.

Staff Recommendation: Adopt AM No. 15-17.

City of Wasilla
RFP Scoring Sheet
RFP No.0306-0-2015/AD
Financial Audit Services
Due: April 1, 2015 @ 4pm

Proposals received from:

ALTMAN, ROGERS, &
CO.

	KPMG	BDO	ALTMAN, ROGERS, & CO.
1 Proposal received on time?	YES	YES	YES
2 Is there 1 original proposal marked "MASTER"?	YES	YES	YES
3 Is there 4 identical copies?	YES	YES	YES
4 Is the Cost Proposal separate from Narrative Proposal?	YES	YES	YES
5 Is page 2 completed and signed?	YES	YES	YES
6 Is Attachment A completed and signed?	YES	YES	NO
7 Verification of Licensure?	YES	NO	NO
8 Certificate of insurance included?	YES	YES	NO

Scoring for:

	KPMG	BDO	ALTMAN, ROGERS, & CO.
1 Firm experience (35 points)			
Evaluator 1	25	35	15
Evaluator 2	35	35	35
Evaluator 3	30	35	25
Evaluator 4	29	35	25

2 Personnel Experience (20 points)			
Evaluator 1	15	20	10
Evaluator 2	18	19	20
Evaluator 3	18	20	17
Evaluator 4	16	20	10

3 Audit Methodology/Approach (5 points)			
Evaluator 1	4	5	1
Evaluator 2	5	5	3
Evaluator 3	5	4.5	3
Evaluator 4	4	5	3

4 Client Services (5 points)			
Evaluator 1	5	3	4
Evaluator 2	4	5	3
Evaluator 3	4	5	3
Evaluator 4	5	5	3

Total of all Scores Without Cost:	222	256.5	180
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4 Cost (35 points)	24	23	35
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The lowest total cost is assigned 35 points.

The fee points are awarded based on the following formula. $\text{Lowest Sum Proposal} / \text{Proposer's Sum Proposal} \times 35 \text{ points} = \text{Fee Proposal Points}$

Total of all Scores With Cost:	246	279.5	215
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APRIL 2015

mdrew@bdo.com
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Anchorage, AK 99503
3601 C Street, Suite 600

MICHELLE DREW, CPA

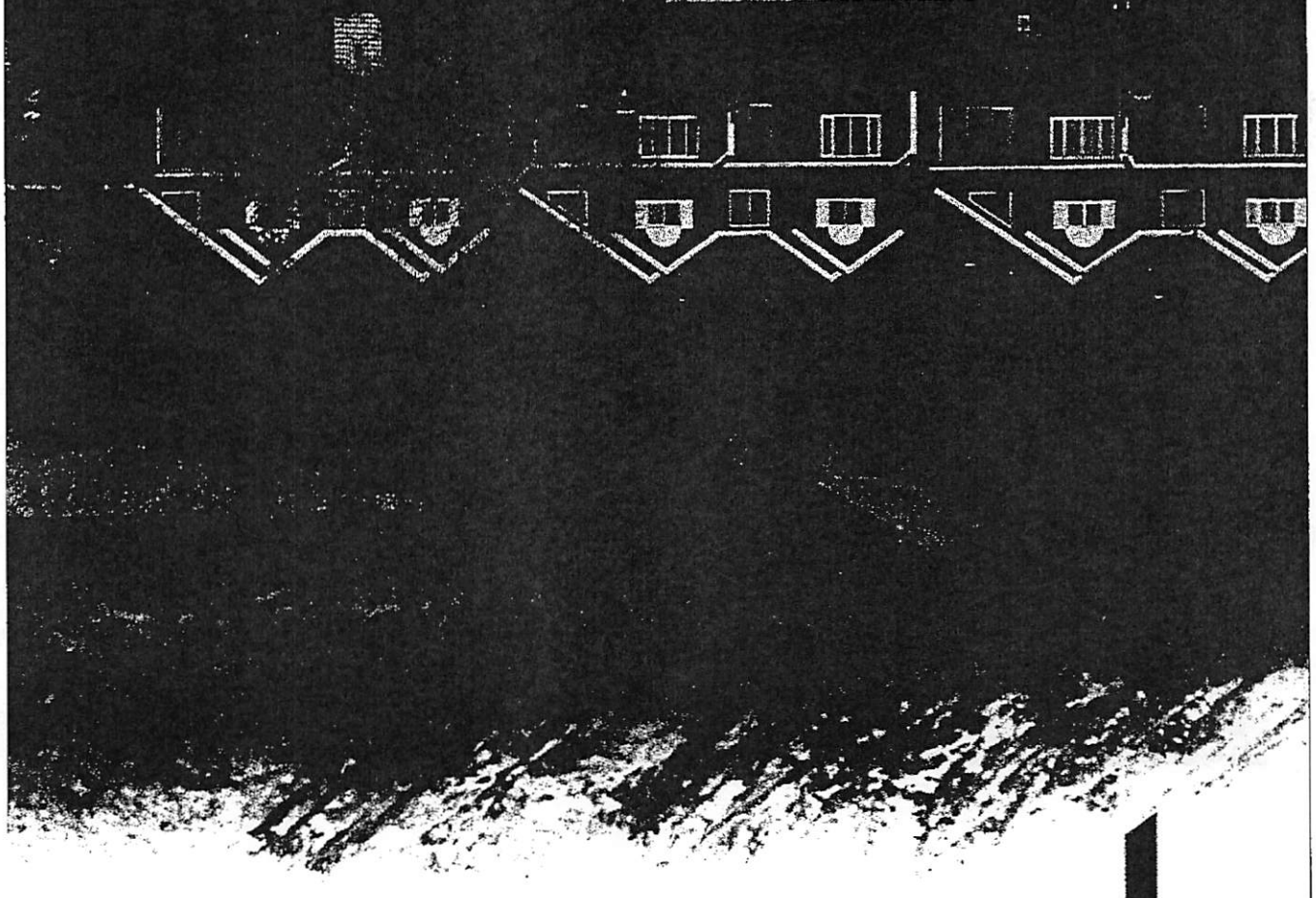
BDO USA, LLP

Request for Proposal: 0306-0-2015/AD

Professional Audit Services Years Ended June 30, 2015-17

CITY OF WASILLA

A PROPOSAL TO PROVIDE INDEPENDENT AUDIT SERVICES TO



CITY OF WASILLA

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Tel: 907-278-8879
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3601 C Street, Suite 600
Anchorage, AK 99503

April 3, 2015

City of Wasilla
Purchasing Officer
290 E. Heming Avenue
Wasilla, AK 99654-7091

Thank you for giving BDO USA, LLP ("BDO") the opportunity to present our proposal to meet the auditing needs of the City of Wasilla ("the City"). The firm selected to serve the City must demonstrate that it has the depth of resources required to perform this engagement in a timely fashion; experience in performing audits of similar size and complexity as the City's operations; familiarity with the laws and regulations that govern contracts; and the ability to understand and test internal controls, including compliance with laws and regulations. The BDO Team offers unmatched experience in relation to the services required by the City.

We will perform an audit of the City's basic financial statements in accordance with auditing standards generally accepted in the United States of America; Government Auditing Standards issued by the Comptroller General of the United States of America; the provisions of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996; U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Nonprofit Organizations (and/or its upcoming revisions and amendments); and the State of Alaska Single Audit Regulation 2AAC 45.010. We further understand that the Scope of Work includes auditor assistance in drafting the financial statements to include the elements needed for submission to the GFOA CAFR certificate program.

BDO USA nationally serves many government agencies, quasi-government agencies, non-profits, and utilities. The firm has 50 offices in the U.S. and global network of offices in 150 countries making BDO the fifth largest international accountancy network. The Anchorage office of BDO represents one of the largest CPA practices in Alaska and offers a long history of experience working directly with Alaska municipal governments. The BDO Team's depth of resources will be further complemented with the extensive experience gained from performing hundreds of OMB Circular A-133 and state single audits for various public sector organizations. As leaders in the municipal audit market, we stand ready to support the City in carrying out its fiscal responsibilities, with minimal disruption and learning curve.

The City of Wasilla will be a valuable client to the BDO Anchorage office and will receive the full attention of our senior resources. As in the past, we anticipate substantial audit participation from the audit partner, in addition to highly qualified technical reviewers. In this proposal, we have described our qualifications that we believe make us the best choice for the City. We are confident that the services we provide, our proactive service delivery approach, and our open communication style, all of which have helped us establish long-term relationships with hundreds of organizations similar to the City, are suitably matched to your needs.

We wish to again express our appreciation for the opportunity to present our proposal to serve as your independent auditors and accountants. We would welcome the opportunity to discuss our proposal in detail and answer any questions you may have. BDO has had no professional relationships with the City in the last five years, however, Mikunda Cottrell served as the City's external auditor in FY10. This presents no conflict with respect to this proposal. We are independent with respect to the City and its employees. This proposal for auditing services for the years ended June 30, 2015 - 2017 represents a firm and irrevocable offer. The undersigned is authorized to make representations regarding this proposal on behalf of the firm.

Sincerely,

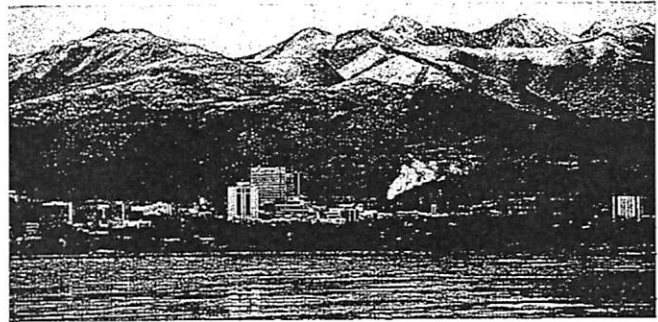
Michelle Drew, Assurance Partner
Engagement Partner
907-278-8878
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Anchorage Office

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Phone: 907-278-8878
Fax: 907-278-5779

Partners:

Michelle Drew, Assurance
Alex Beckman, Assurance
Eric Campbell, Assurance
Jim Hasle, Assurance
Lia Patton, Assurance
Tracy Hartung, Tax
Kevin Van Nortwick, Tax



FIRM INFORMATION

BDO USA has more than 100 local professionals and staff in our Anchorage office. We provide audit, tax and advisory services to local companies in a range of industries. Our partners and professionals are actively involved in the community through our business and professional affiliations, and our BDO Counts! Corporate volunteerism program.

The Anchorage office of BDO was formed on July 1, 2013 through the close-out and merger with Mikunda, Cottrell and Co. BDO Anchorage brings more than 38 years of local Alaska experience to the market with the backing of the 7th largest firm in the U.S. and the 5th largest firm on the globe having over 58 offices in the US and the support of nearly 3,000 professional staff. BDO, Anchorage currently includes over 100 personnel with seven partners focusing on audit, tax and advisory services to organizations in a range of industries, including a large number of local government clients. We serve the region with a proud focus on local, Alaska-based clients.

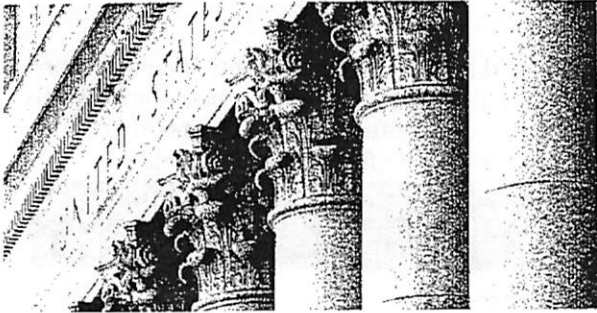
We are the accountants for more Alaska local government entities than any other firm in or out of state. Your engagement will be staffed with personnel from our Anchorage office and all senior personnel will be well experienced in the associated reporting industry.

We anticipate staffing your engagement with one manager and two staff. The partner will be available as needed and will likely spend two full days on-site. Additional staff will be used on a part-time basis as needed to fill in for routine administrative tasks such as mailing confirmations and footing reports. Overall we anticipate this engagement to take 450 hours with approximately 300 hours on-site in Wasilla.

SERVING THE PUBLIC SECTOR - WE KNOW YOU

BDO's public sector professionals have an in-depth knowledge and understanding of applicable state and local government rules and regulations, federal and industry accounting and auditing standards and requirements, financial management rules and requirements and information technology system auditing standards. Our approach is designed to deliver repeatable and reliable processes that help clients achieve their goals, facilitate communications, assure accurate and timely reporting, and enable effective operations.

Nationally, BDO is a valued business advisor to approximately 2,000 agencies in the public sector. Our professionals deliver hands-on experience and technical skills to address each of our clients' distinctive needs. Locally, you will be served by our best resources headquartered in our Anchorage office. The Anchorage office provides accounting and consulting services for more than 75 clients in the government sector. These include state agencies, municipal governments, school districts, tribal government, and other special purpose governments such as public utilities, health care organizations, and quasi-government agencies.



We have performed all aspects of the services outlined in your request for proposal for numerous government entities.

Our Alaska clients range in size from single fund organizations to multi-fund structures having annual operating budgets from as little as \$300,000 to as high as \$800 million annually.

BDO provides audits to numerous organizations that must comply with the various OMB Circulars and State Single Audit regulations. Over the past several years, BDO has performed literally hundreds of audits in compliance with OMB Circular A-133. We are also intimately familiar with OMB Circulars A-21, A-87, A-110, A-122, and federal acquisition regulations. As we write this proposal, we are in process of adopting in house policy and procedures and developing training related to the new "SuperCircular" which will replace all of the above referenced Circulars. In Alaska alone we conduct roughly 150 single audits each year. Based on our past successes and experience, we are prepared and are well-qualified to perform the City's Single Audits and prepare all of the reports required by the City in a coordinated and integrated manner that meets your needs for accurate reporting and prompt delivery.

NEW ACCOUNTING PRONOUNCEMENTS

We have the experience to help you implement new accounting pronouncements. As you know, the GASB has been incredibly prolific, having issued 28 separate new statements since 2004. This is in addition to numerous technical pronouncements, implementation guides, and other reference documents. The AICPA has also been on overdrive, issuing 18 new statements on auditing standards since 2006 and the OMB has just released the most comprehensive changes to the single audit rules and regulations since its inception in 1984.

It is our primary goal to help you succeed. While the independence rules mandate that management take responsibility for knowing and following the upcoming rules; we strive to be valued business advisors in this area. In order to stay ahead of the changing rules and regulations, our teams regularly attend industry specific training on what's just around the corner.

DATA PROCESSING & ACCOUNTING SYSTEMS

As a firm fully invested in your industry, we have the experience working with virtually every software and accounting program used in the Government sector. If it processes fund accounting, we have probably worked with it in the past. Although our staff do not process data in these programs on a day to day basis, we have become adept at "data dumping" into Excel, or Adobe programs which can be transferred directly to our audit software.

BDO RESOURCES

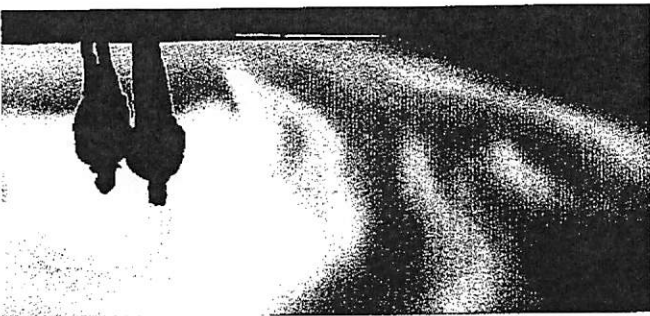
In addition to formal and informal training, our Firm subscribes to several leading industry technical guides and resources which provide reference materials at our fingertips. The resources include access to the CCH accounting research manager, PPC Checkpoint materials (probably the number 1 utilized resource in public accounting firms nationwide), as well as direct GASB subscriptions, GFOA technical guides and resources, as well as membership in the Government Audit Quality Center of the AICPA. Nationally, our firm has direct representation on the AICPA expert panel, a former FASB fellowship member in the nonprofit sector, as well as regular participation on focus groups, technical review and conference participation.

As specific examples of our proactive service commitment, we regularly communicate with our clients regarding these upcoming changes. For example, we provided training and assistance to many of our clients on the implementation of GASB 54 for fund balance reporting. In addition, we have assisted many clients with the implementation of GASB 63 and 65 with respect to deferred inflows and outflows. Upon the many permutations in the Alaska PERS system, we have provided information and workpaper templates to all of our governmental clients to aid in the calculation, reporting, and subsequent write-off of the net pension obligation, the on-behalf payment, and the associated footnote revisions. As we go into the new year, we are prepping to assist our clients with the GASB 68 PERS implementation.

SIMILAR ENGAGEMENTS

BDO Anchorage office serves as the independent auditing firm for more City and Municipal Governments than any other firm in Alaska, making us uniquely qualified to serve the City of Wasilla. The following partial list has been provided to demonstrate the breadth of our experience. Note, in the Client name column please note that (A) indicates that this client participates in the GFOA certificate program and (B) indicates that BDO drafts the financial statements.

Current Client Name	Years of Service	Client Contact	Phone Number
Municipality of Anchorage (A)	6	Tom Fink, finkTA@ci.anchorage.ak.us	343-6926
City of Barrow (B)	18	Mayor Bob Harcharek, Bob.harcharek@cityofbarrow.org	852-4048
Bristol Bay Borough (B)	19	David Scott, davidscott@bristolbayboroughak.us	246-4224
City of Cordova (B)	21	Jon Stavig, finance@cityofcordova.net	424-6200
City of Delta Junction (B)	16	Stephanie Prestwich, prestwich@ci.delta-junction.ak.us	895-4656
City of Homer (A/B)	16	Laurie Moore, lmoore@ci.homer.ak.us	235-8121
Kenai Peninsula Borough (A)	23	Craig Chapman, CChapman@kpb.us	714-2171
Ketchikan Gateway Borough (A)	7	Maureen Crosby, maureen@kgbak.us	228-6624
City of King Cove (B)	27	Gary Hennigh, ghennigh@kingcoveak.org	274-7555
City of Kodiak (A)	11	Karl Swanson, kswanson@ci.kodiak.ak.us	486-8659
City of Kotzebue (A)	25	Michael Cooper, MCooper@kotzebue.org	442-3401
Matanuska-Susitna Borough (A/B)	10	Tammy Clayton, Tammy.Clayton@matsugov.us	745-9630
Northwest Arctic Borough	9	Judy Hassinger, jhassinger@gci.net	442-2500
City of Palmer (B)	15	Esther Greene, egreene@palmerak.org	761-1303
Petersburg Borough (B)	16	Jody Tow, jtow@petersburgak.gov	772-4511
City of Sand Point (B)	9	Andy Varner, avarner@sandpointak.org	274-7561
City of Seward (A/B)	17	Kris Erchinger, kerchinger@cityofseward.net	224-3331
City of Valdez (B)	1	Brian Carlson, bcarlson@ci.valdez.ak.us	831-0837
City and Borough of Sitka	7	Jay Sweeney, jay@cityofsitka.com	747-1836
City and Borough of Wrangell (B)	23	Jeff Jabusch, manager@wrangell.com	874-2381
City and Borough of Yakutat (B)	23	Connie Klushkan, cklusshkan@yakutatak.us	784-3323
City of Kenai (A)	23	Terry Eubank, teubank@cikenai.ak.us	283-8227



QUALITY CONTROL

The quality of our work is key to our success and we have made a number of investments to ensure our professional services are performed to a high level of quality in accordance with BDO's policies and applicable professional and regulatory standards. These investments include approved continuing education for all staff, quality control and review of the firm's auditing practice, and continuing support of professional organizations. In addition to formal professional education programs, we routinely have audit staff meetings, lunch & learns, and other informal gatherings to discuss the latest industry updates and changes enacted and under consideration by regulatory agencies.

Under the guidelines established and controlled by the AICPA and the PCAOB, BDO's audits, workpapers, reports and all other areas concerning quality control are reviewed and examined through the AICPA peer review process and the PCAOB review process. A copy of our latest AICPA peer review letter is attached to this proposal as Exhibit B. It is also important to note that your local Anchorage office, prior to joining BDO, also participated in the AICPA peer review program (as the office of Mikunda, Cottrell & Co.). That office received clean/unmodified peer review reports since the peer review program began. In addition, as members of the AICPA Government Audit Quality Center, both BDO and prior MCC peer reviews specifically included a review of government engagements.

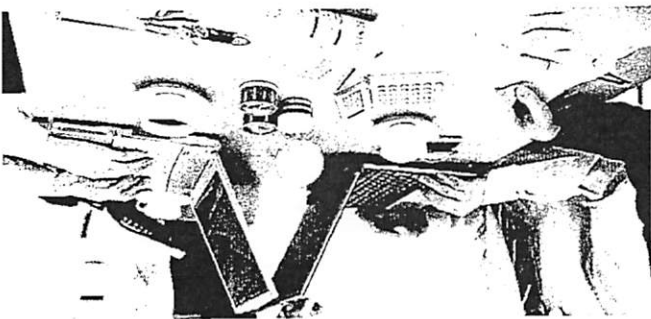
In addition to the outside peer review process, our office undergoes an annual "internal inspection" process. Under BDO, internal inspection is conducted by members of the national quality control team using industry experts from other BDO offices around the country. This inspection process is rigorous and incorporates all auditing standards, rules, regulations,

accounting processes, as well as adherence to internal policies and procedures. The results of the internal inspection are compiled across the firm and new trainings and workpaper templates are developed to immediately resolving any noted deficiencies or areas of weakness. The firm presents a weekly webcast "AQR" to ensure that information is disseminated to audit teams as quickly as possible.

Like virtually all national firms, BDO has been the subject of various government investigations with regard to client service work. However, none of these have resulted in sanctions against the firm. In addition, on a national level, some of our professionals are currently or have been under review in AICPA Ethics or other regulatory investigations, which are the normal consequences of litigation. We pride ourselves on our record as it is outstanding for a firm of this size.

With respect to audit contractual disputes, the firm is a defendant in a number of lawsuits that ask for damages as a result of losses reportedly incurred by plaintiffs. It is a normal level of litigation for a national accounting practice. The firm carries professional liability insurance to protect against such claims. Management believes that none of these cases will materially adversely affect the firm or our ability to serve clients.

The Anchorage office has had no significant contract disputes requiring mediation or arbitration, nor have we been the subject of any litigation. There has never been any disciplinary action or investigation against the Anchorage office of BDO, nor against Mikunda, Cottrell & Co. before joining BDO, nor any of the individual professionals in the Anchorage office. Additionally, Anchorage has had no external regulatory site reviews or desk reviews in the last three years.



INDEPENDENCE

Generally accepted auditing standards require that an auditor be independent in both fact and appearance. Independence is the cornerstone of the public accounting profession. Our firm and the specific personnel assigned to the engagement meet the independence standards of the Code of Professional Ethics of the AICPA, the Government Accountability Office (GAO) Independence rules, and as defined by Government Auditing Standards with respect to City of Wasilla.

BDO represents and covenants that our firm is independent with respect to the City and that the firm and all staff of the firm shall remain independent with respect to the City for the duration of the contract. Should any other professional relationships be entered into between BDO and the City of Wasilla, we shall provide notice to the City in writing.

A Final Note on Independence:

The Scope of Work requested by the city includes auditor participation in drafting the financial statements to meet the GFOA certificate program requirements. It is important to note that, while assistance with this task is an allowable activity for auditors, it is, by definition, considered a non-audit service and is subject to the independence rules specified by Government Auditing Standards. Under these rules, although the auditor can assist in the completion of this task, the City must take full responsibility for the underlying data, as well as the completeness and accuracy of the end product. This rule will apply regardless of which firm you ultimately select.

SUPPLEMENTAL RESOURCES AVAILABLE TO ASSIGNED PERSONNEL

BDO commits significant resources to keep our Assurance professionals up-to-date on current and evolving accounting, reporting, and auditing developments. Our training includes monthly web-based programs covering current accounting and auditing topics. Managers and partners attend national conferences conducted by BDO's top technical professionals annually. Level-specific training sessions are conducted nationally and locally and address the needs of our professionals at various points in their careers.

GFOA CERTIFICATE OF EXCELLENCE

Your assigned audit partner is a special reviewer in the GFOA Certificate Program, providing much experience in this area. As part of the audit process, we will utilize a GFOA Certificate program disclosure checklist to assist in verifying that all of the criteria are met. In addition, we will ask management to provide us with copies of any feedback or comments noted in the prior year submission. While we are primarily concerned with making sure that the City corrects any noted deficiencies in its own review, we also take efforts to correct or modify areas that we have seen comments in our other CAFR clients throughout the year. Management will, of course, be responsible to develop the responses and complete the application and submission forms to GFOA; however, we are happy to answer questions or review the responses as requested by the City. The Anchorage office of BDO has never had a client apply for the certificate where it was not awarded.

PERSONNEL INFORMATION

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE

The audit team that BDO will provide has the necessary experience and knowledge to provide superior service, work well with the City's management and each other, communicate with City personnel on an ongoing basis regarding progress and the status of all activities and report preparation, and maintain the enthusiasm and commitment to complete all tasks, and deliver all audit reports and other deliverables. We are confident that our audit team will both meet and exceed the City's expectations.

Following we have listed the key personnel we will assign to perform the proposed engagement and described each of their relevant roles and experience. We believe that their significant knowledge, experience, and understanding of their clients' management, financial operations, and information systems make them extremely well-qualified to provide the requested audit services and will translate into direct benefits for City of Wasilla.

All of our Anchorage based leadership team are licensed CPAs in Alaska. Patricia Duperron, with the national technical review office is licensed in Michigan.

Responsibilities of the Engagement Partner

Michelle Drew

The engagement partner will maintain an intimate knowledge of the engagement – its objectives, requirements, and processes – so that the management review and deliverables can be completed in a timely manner. She will perform the partner review and will be working actively with you and the engagement team to ensure the success of the engagement. She will also be available to assist the engagement team in resolving technical issues.

Responsibilities of the Quality Control Reviewers

John Bost & Patricia Duperron

The Quality Control Reviewer and Technical Director will ensure compliance of the audit with various applicable standards developed by the AICPA and Government Auditing Standards issued by the Government Accountability Office, and provide additional support throughout the engagement. If management review is determined deficient, the Quality Control Reviewer and Technical Director will consult with the engagement partner to determine how to correct the noted deficiency. The managers responsible for the fieldwork will correct the deficiency.

Responsibilities of the Manager

Sam Thompson

For this engagement, the manager will assist the engagement partner by directly supervising the audit team. He will be primarily responsible for compliance with applicable regulations and applicable auditing standards. The manager will perform on-site reviews, as well as office reviews. In addition, he will ensure that the audit is completed promptly in accordance with the scheduled completion dates.

Responsibilities of the Seniors and Staff

Audit seniors and staff will have experience in performing audits of governmental entities and internal control and compliance reviews. Audit seniors will also have the technical skills to perform any of the audit steps independently, as well as conduct entrance and exit conferences. Both groups will be on-site daily to coordinate daily requests and oversee the teams, as applicable.

Note: Individual resumes are located at Exhibit A



PARTNER INVOLVEMENT

Senior management will be actively involved in project planning, identifying key issues, developing strategy, and day-to-day project execution. Our partners and managers represent approximately 30% of the total time spent on your engagement. This means that our partners and managers are more involved in serving you. The engagement work plan will be developed to ensure that each deadline is met. Front line reviews will be performed on-site during fieldwork so that any questions or issues can be addressed and resolved on a timely basis. We find that the partner review of our staff's work at our clients' offices minimizes the time spent in the review process, increases the supervision of our staff, results in fewer hours, increases the partners' understanding of the issues, and, most important, provides opportunity for increased partner-client interaction.

TEAM ACCESSIBILITY AND INTERACTION WITH THE CITY

The City would be a valuable client to BDO and would receive the full attention of our senior personnel in the Anchorage office. We are also very interested in meeting with your staff and governance. We feel this is a very important interaction and are well versed in communicating financial results.

COMMITMENT TO YEAR-ROUND ACCESSIBILITY

BDO's approach to client service rests on the principle that successful professional relationships are built on close communication. Equally important is the participation of service team members who understand your organization. These two factors – communication and experience – will ensure the timely delivery of efficient professional services to the City. Your client service team is available to consult with you throughout the year, whenever questions or issues arise.

NOTIFICATION OF CHANGES IN KEY PERSONNEL

As indicated earlier, we understand the benefits to be gained both for our clients and our own team in maintaining a consistent senior project team and we make every effort to achieve continuity. Planning for staff availability is an essential element in the operational processes of our business and we can confirm that the team outlined in this document is the team you will see and work with for the duration of this assignment.

We recognize that on occasions team changes are inevitable. Should this arise, we will discuss the options with you and enable you to meet the potential new team members in advance. We will ensure any new resources are appropriately experienced and fully briefed. Any time spent briefing the new team member would, of course, be at our cost.

AUDIT METHODOLOGY



AUDIT APPROACH AND WORKPLAN

BDO USA, LLP is invested in the municipal government industry. As such, we have refined our Governmental Audit Methodology to a degree that is unmatched in Alaska. Accordingly, we have developed our own governmental audit approach which encompasses the required risk assessment standards and is responsive to the ever changing rules and regulations.

Our audit approach, as outlined below, is applicable to both initial and continuing audits. We obtain documentation supporting the audit approach for an initial audit and update it annually for subsequent audits. Our scope may vary from one year's audit to the next, depending on changes in the City's requirements and operations and the results of each year's risk analysts.

The following outlines our preliminary detailed workplan:

- ▶ **Planning Phase:** Establish a foundation for the audit and for coordination with City Management. Perform entity-wide risk assessment procedures, including preparation of the audit prep list and obtaining management's updates to the internal control processes in place at the City.
- ▶ **Audit Fieldwork Phase:** Document and "walk-through" the noted controls and flow of transactions through the accounting system. Perform preliminary review of federal and state financial assistance

- ▶ **Engagement Review & Wrap-Up:** Although much of the workpaper review is completed during the fieldwork and report drafting phases, engagement review continues all the way through issuance date and includes all workpapers, external deliverables, and any technical review comments. This phase also includes finalization of the single audit reports, required communications to council and management letter comments. It will also include completion and filing of the Data Collection Form required by the Office of Management and Budget as part of the federal single audit, if required.
- ▶ **Report Drafting:** Development of the financial statements to include the footnotes, GASB 34 conversion, and various consolidation supporting schedules related to the enterprise activities. Preparing draft auditors reports, management letters, and other required deliverables. Clear discussion of any journal entries, reported findings, or other report information with management.
- ▶ **Engagement Review & Wrap-Up:** Although much of the workpaper review is completed during the fieldwork and report drafting phases, engagement review continues all the way through issuance date and includes all workpapers, external deliverables, and any technical review comments. This phase also includes finalization of the single audit reports, required communications to council and management letter comments. It will also include completion and filing of the Data Collection Form required by the Office of Management and Budget as part of the federal single audit, if required.

AUDIT PROGRAMS

Auditing standards require that each engagement begin with risk assessment procedures to identify the areas of audit concentration and focus. These initial procedures culminate in risk-focused and individually tailored audit programs that are naturally unique to each government taking into consideration our understanding and analysis of the external and internal environment. Our risk analysis approach enables us to design the most effective and efficient audit program by evaluating and including audit tests in relation to the size and the probability of the risks of material error, while at the same time improving audit effectiveness by concentrating our audit work in the areas of greatest importance. We are not locked in to "standardized" boilerplate audit programs, but customize these steps to each client.

STATISTICAL SAMPLING

BDO USA, LLP uses statistical sampling in selecting items for testing controls and/or substantive transaction testing where it is determined to be cost beneficial to sample the population. Our audit methodology manual contains procedures for the control and evaluation of sampling risk, selection of samples and evaluation of sample results. The methodology also prescribes approved sample sizes based on the level of assurance required, the strength or importance of the control or item being tested, and other relevant factors resulting in a statistically valid sampling unit.

Statistical sampling normally used in our government audits to perform four kinds of tests:

- ▶ Internal controls testing - account balance and assertion level
- ▶ Substantive account balance testing
- ▶ Internal controls testing - compliance level - Single Audit
- ▶ Substantive compliance testing - Single Audit

For the audit of the City's financial statements, we anticipate that statistical sampling will be used to on payroll expenditures, non-payroll cash disbursements, various billing, cash receipting, and revenue accounts. Actual sample sizes will vary depending on the inputs noted above.

RISK ANALYSIS AND INTERNAL CONTROL

One of the most important aspects of the audit process is the proper analysis of your risk environment. To decide how audit resources can be used in a cost-effective and efficient manner, we will work with the City to complete a risk assessment of the business activities of your organization including understanding your internal controls.

Your internal control structure consists of three primary elements: control environment, accounting system and control procedures. As part of the audit process, we will determine the design of policies and procedures and whether or not they have been placed in operation. Our review of these controls will be made early in the audit process and will then provide a basis for determining the nature and extent of our remaining audit procedures.

It is important to the note that while we gain an understanding and perform walk-through procedures to determine that reported controls are actually in place, the goal of this audit is not to render an opinion on the effectiveness of your internal controls. That service is a specialized time-intensive and very expensive engagement generally performed in a publicly-traded company pursuant to requirements by the PCAOB. Our audit of the City does not extend to that level of testing. However, in the course of performing our risk assessments and walk-through procedures, should we encounter a situation that appears to be a deficiency in internal control, we will report such items to management. If it is deemed that the deficiency represents a significant risk to the city, we will include that item as a finding in our written reports.

Although the Single Audit Act does not require statistical sampling, it does prescribe that a "representative sample" be selected from each major federal and state financial assistance program. We will use professional judgment in determining the methods, and extent, of sample selection. Our sample sizes will vary depending on inherent and control risk assessments in these areas. Testing of items with relatively smaller populations will employ a non-statistical approach. Our single audit methodology strictly follows the guidance prescribed in the AICPA audit guide.

INFORMATION SYSTEMS

An additional factor critical to our audit process is our evaluation of the City's data processing system and the identification of business risk associated with technology. Our concerns here are not only with basic input and output controls, but also with programming changes and system-generated transactions. Our professional responsibilities mandate an evaluation of these processes.

If needed, BDO's national Technology industry group will be available to provide computer audit specialists in a technical consulting capacity throughout the audit. We are committed to understanding electronic controls in a computerized environment. Our preliminary goal is to perform this portion of the audit initially with our existing on-site team. The team will interview your staff and IT personnel related to the controls and process activities. We have a number of forms and questionnaires to assist our staff with asking the right questions and documenting the City's response. As none of our assigned on-site team are considered specialists in this area, we would then obtain an external review of this information by the national technology group. By utilizing our BDO software, the technology group can access our workpapers in real time via remote access, giving you access to the true experts, while saving time and money in eliminating travel time and expenses.

TYPICAL ASSISTANCE EXPECTED FROM CITY STAFF

We will submit a detailed audit preparation package which will include items such as detail schedules, support for balance sheet accounts, grant documents as deemed applicable, selected invoices and time sheets, confirmations, budgets, bond documentation, etc., that we would like to have prepared and available when we begin the fieldwork. We have found that getting the client involved early in the engagement reduces questions, facilitates the audit process and allows for a more efficient working relationship between the client staff and our audit team because we know what to expect from each other. Prior to and

during fieldwork, typical assistance we expect from client staff includes preparing schedules, pulling and refining invoices and timesheets, typing confirmations, and copying documents.

Successful and timely completion of the audit fieldwork will be dependent upon completion of the items outlined in the audit preparation package. For example, our receiving the confirmations in sufficient time to send them out and be returned to us before fieldwork will expedite the audit process.

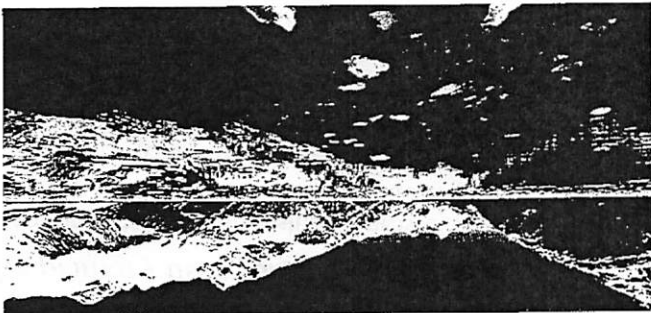
NEW GASB PRONOUNCEMENTS

GASB 68 will need to be implemented in 2015. We anticipate this statement to be challenging. BDO is currently in process of developing a workpaper template to assist in gathering the needed information from the City. In addition, BDO is already in process of developing a footnote template for this purpose as well.

SOFTWARE TO AID IN COMPLETING THE ENGAGEMENT

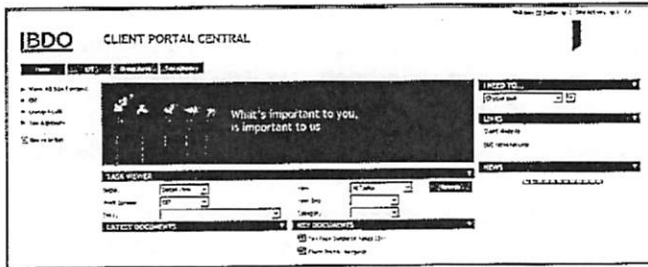
In addition to our proprietary software, sampling software tools, BDO can provide you with a secure client portal to support our relationship with robust web-based technology. This secure, encrypted web-based tool is designed to streamline the exchange of information and assist review and communication. For a number of our larger clients, the BDO Client Portal is used to exchange a significant amount of confidential electronic information between offices around the world. Your portal will only be accessed by registered, authorized users.

Users from the City, our Firm and, if necessary, any relevant third parties can contribute to the site. Different users are allocated access and editing rights appropriate to their role on this assignment. We will set up the portal to agreed requirements, reflecting the nature of the work we are carrying out for you.



The primary uses for the portal are:

- ▶ To support our relationship by providing ready access to all relevant data and documents.
- ▶ To assist with project management by tracking activities and milestones for the relevant processes.
- ▶ To provide a permanent record, if required, of the source information used for each process.
- ▶ To keep a record of other correspondence and our communications with you.



Project Management with the Portal

The use of the portal assists in the management of deadlines. We will agree to target deadlines with you for any tasks and these will trigger reminder emails when necessary. All of this will be supported by our discussions on the telephone and in person.

Key Benefits of the Portal

The role of the portal is to provide a structured support for our personal communication channels and brings the following benefits:

- ▶ Accessibility, regardless of time or location.
- ▶ Speed and simplicity of communication; alternative to email when exchanging large files and/or sensitive client information.
- ▶ Sharing of information and documentation.
- ▶ Transparency and monitoring of progress by all team members.
- ▶ A permanent file of relevant information.

LEVEL OF EFFORT

Included in the table below is a summary of our estimated workplan hours for completing this engagement.

2015 Audit	Planning & Interim Fieldwork	Fieldwork	Report Drafting (printing)	Review and Wrap-Up	Total
Technical Review	-	-	-	8	8
Audit Partner	8	16	4	18	46
Audit Manager	16	90	10	5	121
Staff Auditors	16	180	45	10	251
Clerical Staff	8	-	16	-	24
Estimated Total Hours	48	286	75	41	450

COMMITMENT TO CONTINUITY AND QUALITY OF STAFF OVER THE TERM OF THE AGREEMENT

- ▶ We believe there are significant benefits to BDO and to our clients in maintaining diversity and quality of staffing, and we do whatever we can to achieve that objective. Our historic turnover has been considerably lower than industry standards. Because of the benefits to both BDO and to our clients, we do not accept the theory that high turnover in our profession is inevitable. We believe that our rates of turnover will continue to be lower than industry standards due to:
- ▶ Our focus on a better work-life balance for our professionals;
- ▶ Our lower staff to partner ratio, which facilitates greater personal interaction between staff and partners;
- ▶ Our high growth rate, which translates to greater career opportunities for our professionals;
- ▶ Our entrepreneurial culture, which allows us to be creative in tailoring career opportunities and compensation to individual needs; and
- ▶ Our distributed decision-making, which translates to empowering our professionals locally.

While some staff turnover is inherent in the public accounting profession, our close partner involvement minimizes the impact to our clients. The hallmark of BDO's client service remains the same – to provide active, personal, and high level partner involvement. Our partners and managers typically represent approximately 30 to 35 percent of the total time spent on your engagement.

This means that our partners and managers are more involved in serving you. We find that the partner review of our staff's work at our clients' offices minimizes the time spent in the review process, increases the supervision of our staff, results in fewer hours, increases the partners' understanding of the issues and, most importantly, provides opportunity for increased partner-client interaction.

As a matter of policy, our BDO offices do not require systematic staff rotation, eliminating the concern about repeated learning curves. It is our goal, however, to foster career growth, encouraging staff members to take on increasing levels of professional responsibility within the scope of each engagement. As promotions occur, we try to maintain staff assignments within the engagement team in order to assure the client continuity and consistency.

OTHER SERVICES & SPECIFIC REFERENCES

We provide annual audit, state single audit, and federal single audit services to many school districts, cities, boroughs, municipalities, and health care organizations. Each of the client engagements noted below included audit, single audit, and for many, assistance drafting financial statements and CAFR certificate review.

In addition, over the years we have provided a variety of additional services to our audit clients, always mindful of the independence standards. Such services would include specialty audits for regulatory purposes (e.g. Construction audits for school building construction as required by Department of Education), internal controls documentation (note we are prohibited from “designing” your internal controls), various “agreed-upon procedures” engagements, such as annual meeting or elections vote counts, cost-certifications, as well as occasional on-site training related to audit preparation. Again, we accept all non-audit engagements with significant thought regarding the independence rules. We have frequently declined projects and work requests from clients where

independence would be breached. In these cases, we are happy to provide referrals to other firms or independent contractors that we trust will serve our clients well.

In 2008, our office was awarded the audit contract for the Municipality of Anchorage, which includes six separate component audits, approximately 15 engagement team members and over 2500 hours. Since inception of this audit, our office has never missed a deliverables deadline.

Closer in size and scope to the City of Wasilla, we present the following five client references. As is true for all of our engagements, our performance of the City’s Audit and Single Audits will be led by experienced personnel who will be heavily involved in the engagement, and staffed by professionals with the appropriate skill levels and industry knowledge to perform the requirements in an exemplary manner.

We have made it our mission to provide excellent client service and customer service. We are confident that whoever you ask, you will receive an excellent report.

Specific Client References	Years of Service	Engagement Hours	Contact Information
City of Kenai Terry Eubank, Finance Director	23	300	907-283-8227 teubank@ci.kenai.ak.us
City of Seward Kristen Erchinger, Finance Director	17	720	907-224-4064 kerchinger@cityofseward.net
City and Borough of Wrangell Jeff Jabusch, City Manager	23	350	907-874-2381 manager@wrangell.com
Ketchikan Gateway Borough Maureen Crosby, Controller	7	550	907-228-6624 maureen@kgbak.us
Matanuska-Susitna Borough Tammy Clayton, Finance Director	10	600	907-745-9630 tammy.clayton@matsugov.us



Although not specifically geared to the Public Sector Market, BDO proudly offers a number of educational and informational resources to our professional staff to ensure the latest information.

Some of these proprietary publications are made available to our clients via an online subscription service and some even provide complimentary CPE.

- ▶ **Tax Newsletters and Alerts** – Updates with respect to federal, state, local, expatriate, and international developments along with other specific tax planning and strategy considerations including specific practice areas such as compensation and benefits, private client and individual filer services, transfer pricing, Foreign Account Tax Compliance Act, etc.
- ▶ **Technical Research Tools** – BDO uses Accounting Research Manager™ (ARM) as a primary source of insightful interpretations on GAAP, GAAS and Securities and Exchange Commission rules. ARM is updated daily and is considered to be one of the timeliest and most comprehensive online databases of analytical interpretations of accounting, auditing and SEC matters. Access to ARM, and a number of other research tools provide each professional the technical research capability to enable immediate response to client-specific technical issues.
- ▶ **BDO Knows Flash Reports** – Provide briefs about select technical and regulatory developments and emerging issues are made immediately available to BDO professionals and to clients.
- ▶ **BDO Knows: Financial Reporting Letters** – Provide more in depth discussions and practical guidance on technical guidance affecting both public and private entities.
- ▶ **Industry Newsletters, Alerts, Reports, Proprietary Studies, and Surveys** – A variety of publications depicting specific industry issues, emerging trends and developments.

- ▶ – An education series designed to assist those charged with governance (e.g., Audit Committees) and financial executives in keeping up-to-date on the latest corporate governance, risk management and financial reporting developments. The program is multi-faceted and consists of complimentary CPE webinars and archived self-study courses, covering both broad and specific topics of interest, publications and links to various BDO and external resources. Visit: www.bdo.com/acsense
- ▶ **BDO Knowledge Tax Webinar Series** - A monthly series providing insights and perspectives on the tax issues most important to our clients and their business. Visit: www.bdo.com/bdoknows/tax-resource-center/tax-webinar.aspx

For additional information and links to various resources and tools, visit: www.bdo.com/bdoknows

