

**Carson City Board of Supervisors
Agenda Report**

Date Submitted: February 21, 2014

Agenda Date Requested: March 6, 2014

Time Requested: 5 minutes

To: Mayor and Supervisors

From: Purchasing and Contracts

Subject Title: For Possible Action: To approve Task No. 3 for Contract No. 1112-148 with Kafoury Armstrong & Co. to provide auditing services for FY 2013/2014 and to designate Kafoury, Armstrong & Co. as the auditing firm for FY 2013/2014. *(Kim Belt)*

Staff Summary: Carson City is required to designate an auditor on an annual basis per NRS 354.624.

Type of Action Requested: (check one)

☐ Resolution ☐ Ordinance
☒ Formal Action/Motion ☐ Other (Specify)

Does This Action Require A Business Impact Statement: ☐ Yes ☒ No

Recommended Board Action: I move to approve Task No. 3 for Contract No. 1112-148 with Kafoury Armstrong & Co. to provide auditing services for FY 2013/2014 and to designate Kafoury, Armstrong & Co. as the auditing firm for FY 2013/2014. *(Kim Belt)*

Explanation for Recommended Board Action: NRS 354.624 Annual audit: Requirements; designation of auditor; scope and disposition; dissemination; prohibited provision in contract with auditor.

Applicable Statute, Code, Policy, Rule or Regulation: NRS 354.624

Fiscal Impact: \$101,500.00 plus \$25,000 (if needed) for a total of \$126,500.00.

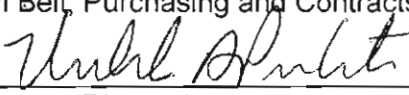
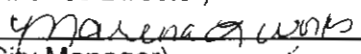
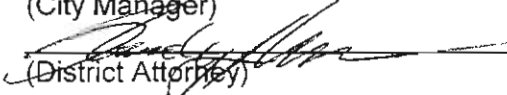
Explanation of Impact: If approved, the below referenced funds could be decreased by the following:

Funding Source:

General Fund	101-0701-415-0312	\$ 54,395.00
Group Medical Insurance	570-0706-415-0312	2,530.00
Workers' Compensation	580-0704-415-0312	2,530.00
Fleet Management	560-3025-419-0312	2,530.00
Insurance Fund	590-0745-415-0312	2,530.00
Water Fund	520-3502-435-0312	25,300.00
Sewer Fund	510-3201-434-0312	25,300.00
Ambulance Fund	501-2525-422-0312	3,795.00
Cemetery Fund	530-5067-443-0312	1,265.00
Building Permit Fund	525-3014-424-0312	2,530.00
Landfill	101-6804-441-0312	2,530.00
Storm Water Drain	505-3702-437-0312	1,265.00
		<u>\$126,500.00</u>

Supporting Material: Kafoury Armstrong engagement letter.

Prepared By: Kim Belt, Purchasing and Contracts Manager

Reviewed By:  Date: 2/25/14
(Finance Director)
 Date: 2/25/14
(City Manager)
 Date: 2/25/14
(District Attorney)

Board Action Taken:

Motion: _____ 1) _____ Aye/Nay
2) _____

(Vote Recorded By)



KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Serving our clients since 1941.

February 11, 2014

Ms. Marena Works, Interim City Manager
Carson City
201 N. Carson Street, Suite 3
Carson City, Nevada 89701

Dear Ms. Works:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for Carson City, Nevada.

We will apply the agreed-upon procedures which the management of Carson City, Nevada has specified, listed in the attached schedule, to the Municipal Solid Waste Landfill (MSWL) operating record of Carson City, Nevada (the City) for the year ended June 30, 2014. This engagement is solely to assist management in evaluating the financial tests for assurances, of Chapter 444 of Nevada Administrative Code, Proposed Temporary Regulation of the Nevada State Environmental Commission, Petition 97001. Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached schedule either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures listed in the attached schedule do not constitute an examination, we will not express an opinion on the MSWL operating record or on the City's compliance with the record keeping and reporting requirements of Chapter 444 of Nevada Administrative Code, Proposed Temporary Regulation of the Nevada State Environmental Commission, Petition 97001. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of management and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are responsible for the presentation of the MSWL operating record in accordance with Chapter 444 of Nevada Administrative Code, Proposed Temporary Regulation of the Nevada State Environmental Commission, Petition 97001; and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are responsible for assuming all management responsibilities and for overseeing any nonattest services we provide by designating an individual, preferably within senior management, who possesses suitable skill, knowledge,

ELKO

FALLON

LAS VEGAS

RENO

Ms. Marena Works, Interim City Manager
Carson City
February 11, 2014
Page 2

and/or experience. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results of such services.

We plan to begin our procedures during October 2014 and, unless unforeseeable problems are encountered, the engagement should be completed by November 30, 2014. At the conclusion of the engagement, we will require a written representation letter from management that, among other things, will confirm management's responsibility for the presentation of the MSWL operating record in accordance with Chapter 444 of Nevada Administrative Code, Proposed Temporary Regulation of the Nevada State Environmental Commission, Petition 97001.

Dan Carter is the engagement shareholder and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

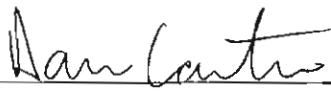
Our fees for these services will be at our standard hourly rates including out-of-pocket costs (such as typing, postage, etc.). We estimate the fee to be \$1,830. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. 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.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. In addition, it is our policy to assess a finance charge of 1.5% per month on all accounts past due more than 30 days. This represents an annual percentage rate of 18%. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to assist you and believe this letter 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. If the need for additional procedures arises, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

Very truly yours,

KAFOURY, ARMSTRONG & CO.

By 
Dan Carter, CPA, MAcc
Engagement Shareholder

DC:ts
Enclosures

Ms. Marena Works, Interim City Manager
Carson City
February 11, 2014
Page 3

RESPONSE:

This letter correctly sets forth the understanding of Carson City, Nevada.

By: Marena Works

Title: Interim City Manager

Date: 2-11-14

CARSON CITY AGREED-UPON PROCEDURES REPORT
ATTACHMENT

1. We will confirm that the City's bond rating satisfies the conditions of subsection 1(a) of Section 2 of NAC Chapter 444; therefore, testing of the financial ratios in subsection 1(b) of Section 2 of NAC Chapter 444 is not required.
2. We will report that we audited the financial statements of Carson City, Nevada for the year ended June 30, 2014, and that the financial statements were prepared in conformity with accounting principles generally accepted in the United States of America. We will further report that we issued an unqualified opinion on the financial statements.
3. Based on information contained in the financial statements of Carson City, Nevada for the years ended June 30, 2014 and 2013, we will determine if the City has operated at a deficit equal to five percent or more of total annual revenue in either of the past two fiscal years.
4. We will perform calculations using the audited financial statements of Carson City, Nevada as of and for the year ended June 30, 2014 to assist management in evaluating if the City's total revenue was adequate to assure the total estimated costs of closure and post closure.



KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Serving our clients since 1941.

February 11, 2014

Ms. Marena Works, Interim City Manager
Carson City
201 N. Carson Street, Suite 3
Carson City, Nevada 89701

Dear Ms. Works:

We are pleased to confirm our understanding of the services we are to provide Carson City, Nevada (Carson City) for the year ended June 30, 2014. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of Carson City as of and for the year ended June 30, 2014. We will not audit the aggregate discretely presented component units (Airport Authority of Carson City Nevada and the Carson City Convention and Visitors' Bureau) as the financial statements for these discretely presented component units will be audited by other auditors whose reports thereon will be furnished to us and upon which we will rely. 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 Carson City'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 Carson City'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:

- Management's Discussion and Analysis
- Schedule of Funding Progress
- Budgetary Comparison Schedules

We have also been engaged to report on supplementary information other than RSI that accompanies Carson City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such

ELKO

FALLON

LAS VEGAS

RENO

Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 2

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:

- The combining and individual fund statements and schedules, including budgetary comparisons,
- The Schedule of Expenditures of Federal Awards
- Other supplementary information

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information:

- The Introductory Section
- Statistical Section

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 financial statements as a whole. The objective also includes reporting on –

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance 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, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on

Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 3

compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

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 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. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. We will make reference to Kohn Colodny, LLP's audit of the Airport Authority of Carson City and The Carson City Convention and Visitors Bureau in our report on your financial statements. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will 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, schedule of expenditures of federal awards, 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 the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. You agree to assume all management responsibilities for any nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept 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 preparation and fair presentation of the financial statements 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 is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

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 confirming to us in the written 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 affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud 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 September 30, 2014.

You are responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon OR make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) that you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) that the methods of measurement or presentation have not changed from

those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, 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 include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to the users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

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.

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 6

Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. 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 the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management 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 any 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 require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

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 noncompliance 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 noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less

Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 7

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 or material weaknesses. 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 Carson City's compliance with provisions of applicable laws, regulations, 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* for the types of compliance requirements that could have a direct and material effect on each of Carson City's major programs. The purpose of these procedures will be to express an opinion on Carson City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Engagement Administration, Fees, and Other

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 the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. 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

Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 8

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 Kafoury, Armstrong & Co. 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 cognizant or oversight agency or its designee, 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 Kafoury, Armstrong & Co. 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 seven years after the report release or for any additional period requested by a cognizant agency, oversight agency, or pass-through entity. If we are aware that a federal 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.

We expect to begin our audit in May 2014 and to issue our reports no later than November 30, 2014. Dan Carter is the engagement shareholder and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as typing, postage, etc.) and our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. For the year ended June 30, 2014 we agree that our gross fee will not exceed \$101,500. This fee is based upon the assumption that Carson City will have two major programs subject to the audit provisions under the Single Audit Act Amendments of 1996 and OMB Circular A-133. If the City has additional major programs subject to audit, our fee will increase \$4,500-\$5,500 for each additional major program depending on the nature of the federal award program.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. 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. In addition, it is our policy to assess a financial charge of 1.5% per month on all accounts past due for more than 30 days. This represents an annual percentage rate of 18%.

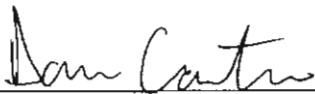
Ms. Merena Works, Interim City Manager
Carson City
February 11, 2014
Page 9

You have requested that we provide you with a copy of our most recent external peer review report and any subsequent reports received during the contract period. Accordingly, our 2013 peer review report accompanies this letter.

We appreciate the opportunity to be of service to Carson City and believe this letter 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,

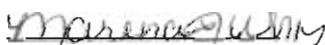
KAFOURY, ARMSTRONG & CO.

By: 
Dan Carter, CPA, MAcc
Engagement Shareholder

DC:ts
Enclosures

RESPONSE:

This letter correctly sets forth the understanding of Carson City, Nevada.

Management Signature: 

Title: Interim City Manager

Date: 2/21/14

System Review Report

To the Shareholders of
Kafoury, Armstrong & Co.
And the Nevada CPA Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Kafoury, Armstrong & Co. (the firm) in effect for the year ended December 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans

In our opinion, the system of quality control for the accounting and auditing practice of Kafoury, Armstrong & Co., in effect for the year ended December 31, 2012, 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*. Kafoury, Armstrong & Co. has received a rating of *pass*.

Postlethwaite - Netterville

Baton Rouge, Louisiana
May 23, 2013