



CITY of NOVI CITY COUNCIL

Agenda Item H
April 5, 2010

SUBJECT: Approval of recommendation from Consultant Review Committee to award a contract for annual audit services to Andrews Hooper & Pavlik PLC for a two year term and one year renewal option and adoption of associated fees (attached hereto as Attachment B – Part 1: Schedule of Professional Fees for the Audit Financial Statements, Alternative #1, Alternative #2, and Alternative #3) and charges effective May 1, 2010.

SUBMITTING DEPARTMENT: City Manager's Office *AA*

CITY MANAGER APPROVAL: *[Signature]*

BACKGROUND INFORMATION:

The City of Novi recently issued a request for proposal (RFP) to secure the services of an independent audit firm to provide professional auditing services in accordance with generally accepted auditing standards. The State of Michigan Uniform Budgeting and Accounting Act, PA 2 of 1968 requires a local unit of government having a population of 4,000 or more to obtain an audit of its financial records, accounts and procedures on an annual basis.

Four firms were selected for staff interviews based on their level of expertise and experience within the municipal sector as well as their response to the mandatory elements included within the RFP. The staff review team included members from Finance, Engineering and IT and were represented by Suzanne Moreno, Sue Morianti, Brian Coburn, Chris Blough and Marina Neumaier. The five submittals were evaluated by staff using the Qualifications Based Selection (QBS) process, with an emphasis on each firm's experience and understanding of the scope. The results of the staff review of qualifications are as follows:

Firm	Staff Review Score	Proposal Rank
Plante & Moran, PLLC	1800	1
Andrews Hooper & Pavlik PLC	1250	2
Rehmann Robson	1050	3
Abraham & Gaffney	900	4

Based on the results of the staff team interviews and input from the City Manager's Office, three firms were selected for consideration by the Consultant Review Committee (CRC) based on an evaluation of the firm's qualifications, experience and audit approach:

1. Plante and Moran, PLLC;
2. Andrews Hooper & Pavlik PLC; and
3. Rehmann Robson.

The CRC convened on this matter on March 15 and 22, 2010. Additional information related to the review, fees and reference checks reviewed by the CRC are attached. After the firm interviews and deliberation, the CRC selected Andrews Hooper & Pavlik as the firm to be recommended to the City Council for consideration of the award of a two-year contract, with an option for a third year, beginning May 1, 2020.

Total fees for the two year engagement are as follows:

<i>Services</i>	<i>06/30/10 Audit</i>	<i>06/30/11 Audit</i>
Audit Services, CAFR, etc.	\$67,500	\$68,200
Alternative #1: Level II Technology Audit	7,700	7,800
Alternative #2: Additional Transactional & Security Reviews	2,300	2,325
Alternative#3: Additional Payroll, Vendor Payments, etc.	5,500	5,580
Total	\$83,000	\$83,905

RECOMMENDED ACTION: Consideration of recommendation from Consultant Review Committee to award a contract for annual audit services to Andrews Hooper & Pavlik PLC for a two year term and one year renewal option and adoption of associated fees (attached hereto as Attachment B – Part 1: Schedule of Professional Fees for the Audit Financial Statements, Alternative #1, Alternative #2, and Alternative #3) and charges effective May 1, 2010.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Gatt				
Council Member Crawford				
Council Member Fischer				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Staudt				



BEST PRACTICE

Audit Procurement (1996 and 2002)

Background. The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

Recommendation. GFOA makes the following recommendations regarding the selection of auditing services:

- The scope of the independent audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units. The cost of extending full audit coverage to the financial statements of individual funds and component units can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits should make their decision concerning the appropriate scope of the audit engagement based upon their particular government's specific needs and circumstances, consistent with applicable legal requirements.
- Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
- Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.

- Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.
- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

References

- *CPA Audit Quality: A Framework for Procuring Audit Services*, General Accounting Office, August 1987.
- *Audit Management Handbook*, Stephen J. Gauthier, GFOA, 1989.
- *An Elected Official's Guide to Auditing*, Stephen J. Gauthier, GFOA, 1992.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA.
- Model Audit RFP Diskette, GFOA.

Approved by the GFOA's Executive Board, October 25, 2002

Audit Firm Interview Questions
Consultant Review Committee
March 15, 2010

1. What advantages does your firm offer over other comparable audit firms?
2. What types of value-added services does your firm include as part of a standard financial statement audit?
3. Please describe the extent and timing of partner and senior manager supervision on the audit engagement. Also, please briefly describe the experience of those who will work on the audit on a daily basis
4. Describe your process/procedure for determining what issues to bring to the attention of the legislative body and which to handle "administratively."
5. What experience does your firm have auditing government entities?
6. How do you determine if additional work will be required to complete the financial statement audit, resulting in additional fees?
7. What is your firm's biggest weakness...and how do you plan on remedying it?"
8. Is there anything else you'd like to add about the firm or your experience?



To: Kathy Smith-Roy, Finance Director
From: Marina Neumaier, Assistant Finance Director
Date: March 5, 2010
Subject: Auditing Services Contract

The City of Novi recently issued a request for proposal (RFP) to secure the services of an independent audit firm to provide professional auditing services in accordance with generally accepted auditing standards. The State of Michigan Uniform Budgeting and Accounting Act, PA 2 of 1968 requires a local unit of government having a population of 4,000 or more to obtain an audit of its financial records, accounts and procedures on an annual basis. A summary of each of the six firms who submitted proposals is as follows:

	Plante & Moran	Yeo & Yeo	Gregory Terrell & Co	Andrews Hooper & Pavlik	Rehmann Robson	Abraham & Gaffney
MANDATORY ELEMENTS						
1a. Independence/licensing	✓	✓	✓	✓	✓	✓
1b. CPE	✓	✓	✓	✓	✓	✓
1c. Conflicts of interest	✓	✓	✓	✓	✓	✓
1d. Quality control report	✓	✓	✓	✓	✓	✓
1e. RFP instructions	✓	✓	✓	✓	✓	✓

Four firms were selected for staff interviews based on their level of expertise and experience within the municipal sector as well as their response to the mandatory elements included within the RFP. The staff review team included members from Finance, Engineering and IT and were represented by Suzanne Moreno, Sue Morianti, Brian Coburn, Chris Blough and Marina Neumaier. Based on the results of the staff team interviews, two firms were selected for consideration by the consultant review committee based on an evaluation of the firm's qualifications, experience and audit approach.

A summary of the staff bid evaluations is as follows:

Criterion:	Weight	Plante & Moran, PLLC	Andrews Hooper & Pavlik P.L.C.	Rehmann Robson	Abraham & Gaffney
Expertise & Experience	50	1,000	550	700	250
Audit Approach	25	475	400	225	150
Fees	25	325	300	125	500
		(\$75,940/635 hours = \$120/hour to complete 06.30.10 audit)	(\$67,500/600 hours = \$113/hour to complete 06.30.10 audit)	(\$54,500/418 hours = \$130/hour to complete 06.30.10 audit)	(\$67,964/684 hours = \$99/hour to complete 06.30.10 audit)
Totals		1,800	1,250	1,050	900

Summary of Rating Results:

Plante & Moran received the highest rating overall based on their vast experience within the governmental industry. They currently service over 280 governmental units within the State of Michigan. In addition, Joe Heffernan is the partner in charge of professional standards for Plante & Moran's governmental group. The engagement team has extensive governmental auditing experience and has estimated spending a total of 635 hours to complete our audit.

The next highest score was received by the firm of Andrews Hooper & Pavlik P.L.C. which was founded in 1993 by three partners in the Saginaw and Lansing offices of Ernst & Young. The firm employs over 120 professionals. Randy Morse is the partner responsible for the planning and technical execution of the firm and has over 20 years of auditing, accounting and financial reporting experience with Ernst & Young and AHP. The engagement team has extensive governmental auditing experience as well and has estimated spending a total of 600 hours to complete our audit.

Attached are copies of each of the two firm's proposals. Please let me know if you have any questions regarding this material.

City of Novi
QBS Group Tally for RFP Professional Auditing Services

	Plante Moran	Andrews Hooper Pavlik	Rehman Robson	Abraham & Gaffney	Total
Evaluator 1	350	250	225	175	1000
Evaluator 2	350	250	225	175	1000
Evaluator 3	375	225	225	175	1000
Evaluator 4	350	300	150	200	1000
Evaluator 5	375	225	225	175	1000
Total	1800	1250	1050	900	5000



To: Kathy Smith-Roy, Finance Director
From: Marina Neumaier, Assistant Finance Director
Date: March 16, 2010
Subject: Request for Proposals for Professional Auditing Services

The City of Novi recently issued a request for proposal (RFP) to secure the services of an independent audit firm to provide professional auditing services in accordance with generally accepted auditing standards. Attached is a compilation of client reference material provided for both Plante & Moran and Andrews Hooper & Pavlik P.L.C. In addition to the client referral information, each of the firms was also asked to provide a case study where they encountered a significant issue and how it was resolved. The following case studies were noted:

Andrews Hooper & Pavlic P.L.C. – client reference, **Oakland University**, FYE June 30, 2009. The William Beaumont School of Medicine was recently opened at the University and during the course of the fiscal year, the School received a significant pledge of \$14.3 million from a single donor to fund the operations of the School of Medicine. The audit partner noted during their review of the pledge documents that the pledge was predicated on the fact that the School be accredited or cease operations. The University's position was to record the pledge as revenue given the fact they were pursuing accreditation from the Liaison Committee on Medical Education. The partner contacted the Governmental Accounting Standards Board (GASB) to obtain an opinion. It was determined to record the pledge as revenue and disclose this information within the notes of the financial statements.

Plante & Moran, PLLC - client reference, **Oakland County**, FYE September 30, 2004. Plante & Moran acquired the Oakland County audit in 2004. During the evaluation of accounting principles used by the County, Plante & Moran noted a disagreement with the opinion of the predecessor auditor (a national auditing firm – PricewaterhouseCoopers). The issue was the accounting treatment of long-term capital-type special assessments at the government wide level. The prior auditor had expressed an unqualified opinion on the accounting treatment, which included deferral of the revenue recognition (a liability) at the government wide level. Plante & Moran's opinion was that this activity should have been recognized as revenue at the government wide level. Plante & Moran disclosed the accounting difference of opinion within the financial statements and several adjustments were made to prior period balances as noted both within their audit opinion and Note 20 of the attached financial statements.

Government Finance Officer Association (GFOA) Best Practice for Audit Procurement

As additional information, attached is a "Best Practice" commentary issued by the GFOA which addresses the selection of auditing services for state and local governments. A practice not addressed yet by the GFOA which has existed in the United States since the 1970's is the concept of audit partner rotation. The American Institute of Certified Public Accountants (AICPA) requires that audit partners in charge of Securities and Exchange Commission (SEC) audits be rotated at least once every seven years. This should not be confused with audit firm rotation and it is important to make the distinction. The Sarbanes-Oxley Act of 2002 (SOX) further strengthens this requirement by mandating a five-year rotation for the lead and concurring partners. The rules, as adopted, specify that certain other significant audit partners will be subject to a seven-year rotation requirement with a two-year "timeout" period. The rule provides an alternative for firms with fewer than five public audit clients and fewer than ten

partners. The alternative requires the Public Company Accounting Oversight Board (PCAOB) to review all of the firm's engagements subject to the rule at least once every three years. Further, the Sarbanes-Oxley Act requires the Government Accounting Office (GAO) to conduct a study of the effectiveness and implications of audit firm rotation. The GAO believes that mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record. The potential benefits of mandatory audit firm rotation are harder to predict and quantify, though the GAO is fairly certain that there will be additional costs.

Andrews Hooper & Pavlik P.L.C.

	City of Clare <u>06/30/09</u>	City of Beaverton <u>03/31/2008</u>	Gladwin County <u>12/31/2008</u>	Oakland University <u>06/30/2009</u>
2000 Census Data				
Population	3,173	1,106	26,023	n/a
General Fund Information				
Fund balance	\$ 955,081	\$ 165,800	\$ 34,741	n/a
Total full-time employees	27	info not avail	96	info not avail
General Fund Expenditures:	06/30/2009	03/31/2008	12/31/2008	06/30/2009
	Budget	Budget	Budget	Actual
Total	\$ 3,319,921	\$ 581,084	\$ 7,024,603	\$ 222,770,711
# of years performing audit	8	(see * below)	13	3
Level of satisfaction with audit services (1 - 5) 1 = lowest; 5 = highest	high 4	(see * below)	5	5
Contact name	Steven Kingsbury Treasurer/Finance Director	Beverly Dodd-Miller City Clerk	Laura Bandon-Marveal County Clerk	Cheryl Verbruggen Vice-President/Controller
Contact number	248-656-4664	989-435-9343	989-426-7351	248-370-2297

* 06/30/2010 will be first year w/Andrews Hooper & Pavlik P.L.C. - previously with Burnside & Lang, P.C. who merged with Andrews in December 2009

Plante & Moran, PLLC

	City of Rochester Hills <u>12/31/08</u>	City of Farmington Hills <u>06/30/2009</u>	Waterford Township <u>12/31/08</u>	Oakland County <u>09/30/2008</u>
2000 Census Data				
Population	68,825	82,111	73,150	1,194,156
General Fund Information				
Fund balance	\$ 15,429,937	\$ 17,664,209	\$ 2,076,456	\$ 84,327,362
Total full-time employees	290	527	339	4,447
General Fund Expenditures:	12/31/2008	06/30/2009	12/31/2008	2009-10
	Budget	Budget	Budget	09/30/2008
Total	\$ 27,058,830	\$ 51,719,550	\$ 23,168,590	\$ 337,421,270
# of years performing audit	11	42	25	5
Level of satisfaction with audit services (1 - 5) 1 = lowest; 5 = highest	5	5	5	5
Contact name	Keith Sawdon	Bob Spaman	Carl Solden	Tim Soave Manager Fiscal Services Division
Contact number	248-656-4664	248-871-2446	248-674-6201	248-858-0807



CITY COUNCIL

CITY OF NOVI

Consultant Review Committee Meeting

Monday, March 15, 2010 | 5:15 P.M.

Manager's Conference Room | Novi Civic Center | 45175 W. Ten Mile Road

The work session portion of the meeting was called to order at 5:20 p.m. Interviews with the audit firm candidates began promptly at 5:45 p.m.

MEMBERS PRESENT: Council Members Crawford, Fischer and Gatt

OTHERS PRESENT: Pamela W. Antil, Assistant City Manager
Kathy Smith-Roy, Director of Finance

PURPOSE OF THE MEETING

Ms. Antil asked Director of Finance, Kathy Smith-Roy, to provide an overview of the Audit RFP process. Ms. Smith-Roy indicated that The City of Novi recently issued a request for proposal (RFP) to secure the services of an independent audit firm to provide professional auditing services in accordance with generally accepted auditing standards. The State of Michigan Uniform Budgeting and Accounting Act, PA 2 of 1968 requires a local unit of government having a population of 4,000 or more to obtain an audit of its financial records, accounts and procedures on an annual basis.

Four firms were selected for staff interviews based on their level of expertise and experience within the municipal sector as well as their response to the mandatory elements included within the RFP. The staff review team included members from Finance, Engineering and IT and were represented by Suzanne Moreno, Sue Morianti, Brian Coburn, Chris Blough and Marina Neumaier. Based on the results of the staff team interviews and input from the City Manager's Office, three firms were selected for consideration by the consultant review committee based on an evaluation of the firm's qualifications, experience and audit approach: Plante and Moran; Andrews, Hooper & Pavlik; and Rehmann Robson.

The purpose of the CRC's meeting is to interview the three firms and make a recommendation to the City Council for approval of one of the audit firms to conduct the work for the City.

At 5:45 p.m., the CRC began interviews with the three firms in this order:

- Andrews, Hooper & Pavlik
- Plante & Moran
- Rehmann Robson

The following questions were asked of all three firms:

1. What advantages does your firm offer over other comparable audit firms?

2. What types of value-added services does your firm include as part of a standard financial statement audit?
3. Please describe the extent and timing of partner and senior manager supervision on the audit engagement. Also, please briefly describe the experience of those who will work on the audit on a daily basis
4. Describe your process/procedure for determining what issues to bring to the attention of the legislative body and which to handle "administratively."
5. What experience does your firm have auditing government entities?
6. How do you determine if additional work will be required to complete the financial statement audit, resulting in additional fees?
7. What is your firm's biggest weakness...and how do you plan on remedying it?"
8. Is there anything else you'd like to add about the firm or your experience?

The Consultant Review Committee discussed all 3 firms after the interviews were completed. Member Fischer asked staff members Antil and Smith-Roy their opinion of the firms. Ms. Smith-Roy indicated that in her opinion and that of the staff review panel, Plante & Moran was clearly the most experienced municipal firm with the "deepest bench" of staff and partners who had the technical knowledge to answer any questions that might arise in the City's audit. Ms. Smith-Roy indicated that staff would follow whatever direction the Council determined to be the best course of action and would be able to work well with Andrews, Hopper & Pavlik. Finally, Ms. Smith-Roy stated that staff had concerns with Rehmann Robson due to the number of hours they bid for the audit (400 vs. 600 hours range) and that they were concerned they would ultimately be billed for extra hours since in her opinion it would be difficult to complete the City's audit in 400 hours.

Member Crawford then stated that while she agrees that Plante & Moran has the experience to continue to complete the City's audit. However, after 30 years it may be time for the City to have a "fresh pair of eyes" take a look at the City's financials. Also, Member Crawford stated that she thought Andrews Hooper appeared to have a "hunger" for the work in a way that she did not see in the Plante & Moran presentation. In this way, perhaps some new ideas and creativity may occur and the City could get a fresh perspective. Chair Gatt indicated that he agrees with Member Crawford and that clearly Plante & Moran and Andrews Hooper could do the work and maybe it is time for a change. Chair Gatt added that he would not be in support of the third firm, Rehmann Robson, as they did not appear to have the same level of enthusiasm and interest in the City of Novi. Without objection the CRC members agreed to eliminate Rehmann Robson from consideration.

Member Fischer then asked Ms. Antil if she thought a change could be made in audit firms at this time. Ms. Antil answered that while the City has the utmost respect for the work Plante & Moran has done through the years; staff would work with any firm the Council selected. She added that the partner in charge, Joe Heffernan was very well known in the accounting profession and is clearly the first choice of staff due to their expertise and experience, but Andrews Hooper appears to have the expertise needed as their partners appear to be from one of the original Big 8 accounting firms, Ernst & Whinney and she had no concerns about switching firms at this time.

Member Fischer asked if references had been conducted and Ms. Smith-Roy indicated that most of the referencing had been completed, but more could be done. Member Fischer inquired if the CRC could meet again to review the references and make a final decision. Without objection Chair Gatt asked staff to make arrangements for the Committee to meet again prior to the March 22nd City Council meeting to review the final references and make a

recommendation to the City Council. Ms. Smith-Roy confirmed that the final recommendation would appear on the April 5th agenda. The CRC agreed that the timing would work for the April 5th agenda.

Moved by Fischer, supported by Crawford: CARRIED UNANIMOUSLY: To authorize staff to proceed with final referencing on Plante & Moran and Andrews, Hooper & Pavlik and report on findings to the CRC on March 22nd at 6:15 p.m.

There being no further business or discussion, the meeting was adjourned.

Meeting was adjourned at 8:51 p.m.

Approved: March 22, 2010

OUR PROPOSAL TO SERVE



PROFESSIONAL AUDITING SERVICES TECHNICAL PROPOSAL

Andrews Hooper & Pavlik P.L.C.

691 N. Squirrel Road, Suite 280
Auburn Hills, Michigan 48326
(248) 340-6050

Roger Hitchcock
Partner

February 12, 2010

EXECUTIVE SUMMARY

On behalf of the entire Andrews Hooper & Pavlik (AHP) organization, thank you for the opportunity to provide this proposal for audit services. The City of Novi will have a true advantage by selecting AHP, as we deliver big firm expertise, traditional service, and timely, cost-effective results. Our goal is a long-term relationship, with you receiving exceptional value, creative solutions, and excellent service. We understand our role as a trusted advisor and will pledge our support through involvement in various city events.

AHP has focused on governmental and non-profit entities since our inception in 1993. We currently serve numerous cities and townships, public and private colleges and universities, community colleges, and an impressive array of other governmental entities and non-profits across the state of Michigan. Detail on a sampling of these client relationships is included within this proposal.

We are appropriately staffed to successfully serve the City of Novi along with our other clients in your industry. Randy Morse and I will lead your service teams as engagement executives. Additional AHP personnel will provide independent review, information technology services, and support. In total, your service team represents over 100 years of experience. You will have direct access to our executives and senior management and will receive outstanding service from a consistent team of highly-trained professionals with notable credentials and industry experience.

Collaboration among AHP's six offices and 123 professionals is an everyday occurrence as we serve clients in all areas of Michigan. The City of Novi can rest assured AHP will deliver top-shelf service in a timely manner in every instance. We strongly encourage you to contact our client references to discuss their satisfaction with our professionals and our firm. You will like what you hear.

We would take great pride in welcoming the City of Novi as a client. You will experience an unwavering commitment from each and every AHP professional with your satisfaction being the priority. We believe AHP is the right choice for the City of Novi and commit to providing the following:

1. **Your Satisfaction**—Your satisfaction is our primary responsibility. We therefore commit to delivering big firm expertise, traditional service, and unsurpassed quality within your budgets and schedules...every time.
2. **Dedication to Your City**—You can rest assured we will work diligently. Our industry experts are local to you and will offer sound advice and respect your decisions at all times.
3. **Integrity of Financial Reporting**—You can trust our experience in financial reporting is backed by an unblemished record. Our practices are sound, and we will protect your confidentiality with utmost seriousness.
4. **Broad Service Offering**—You will work with a highly trained team of AHP professionals—many of them recognized as experts in their fields—who offer broad capabilities in accounting and finance.
5. **Attention from Experienced Executives**—Your business will be valued. AHP executives and senior management will continue to interact with you throughout the course of our work and are available to you at any time.
6. **Continuity of Staff**—You can count on AHP professionals to remain focused on the efficient and consistent delivery of services. We experience very little turnover, unlike many of our competitors.
7. **Competitive Fees**—You will enjoy customized service and fees comparable to or better than those offered by our competitors. We don't charge for every phone call because service and quality are first and foremost on every engagement.

EXECUTIVE SUMMARY (CONTINUED)

8. **Timely Service**— Helping you meet your goals within your timeframe is a priority for every AHP team member. We will be proactive and responsive to your needs while working diligently every step of the way. Calls will be returned within 24 hours...period.
9. **Hassle-Free Transition**—You will experience a smooth, hassle-free transition from your existing service provider, and we will continually strive to make working with us a pleasure.
10. **Access to a Worldwide Network**—Your access to expertise is extended via our membership in PKF International, which provides a network of highly trained professionals from firms serving thousands of businesses across the globe. The industry and service-specific knowledge base of our fellow PKF firms is at your disposal.

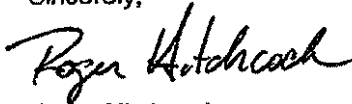
This proposal covers the audit work as described in Section II-B of the City's request for proposal and includes:

- 1) Annual Audit including an A-133 audit
- 2) Level II Information Technology Audit (Alternate #1)
- 3) Transactional and Security Log Review (Alternate #2)
- 4) Additional Work (Alternate #3)

This proposal represents a firm and irrevocable offer for a period of 90 days.

Please feel free to contact me at 248.340.6050 at any time during your review process. We look forward to your decision and thank you for the opportunity to propose our firm and services.

Sincerely,



Roger Hitchcock
Partner

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INDEPENDENCE

- AHP is independent of the City of Novi as defined by the United States General Accounting Office's *Governmental Auditing Standards* (Revised 2007).
- AHP is independent of all agencies, component units, and contracted service providers of the City of Novi as defined by those same standards.
- AHP has had no professional relationships involving the City of Novi or any of its agencies, component units, or contracted service providers for the past five years.
- AHP will provide the City of Novi written notice of any professional relationships entered into during the period of this agreement.

LICENSE TO PRACTICE IN MICHIGAN

- AHP is registered to practice in the State of Michigan and is a member of the Michigan Association of Certified Public Accountants. All key professional staff members are properly licensed to practice in the State of Michigan.

DEBARMENT, SUSPENSION, INELIGIBILITY, AND VOLUNTARY EXCLUSION

- AHP is in compliance with the provisions of 24 CFR Part 24 and neither the firm nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this contract. Additionally, the firm will not use, directly or indirectly, any of the funds provided by this contract to employ, award contracts to, or otherwise engage the services of, or fund any contractor/subcontractor during any period that the contractor/subcontractor is debarred, suspended or ineligible under the provisions of 24 CFR Part 24.

AHP FIRM OVERVIEW

AHP was founded in 1993 by three partners in the Saginaw and Lansing offices of Ernst & Young. Jim Andrews, Mark Hooper, and Kim Pavlik established the firm's mission, put a team of 26 into place, and began a quest to deliver Big 4 audit, tax, accounting, and consulting services at the local level.

Our firm experienced steady organic growth throughout the late 1990s and also merged with established regional accounting firms that complemented the AHP mission, principles, and work ethic. Our footprint was broadened with the addition of offices in Auburn Hills and Bay City, and our service offering grew to include financial management, information technology consulting, and employee benefit plan administration. In January 2003, our fifth office opened in Grand Rapids and December 2009 marks the integration of our sixth office in Midland.

Today, our team of over 120 provides a full suite of professional services to clients throughout Michigan and beyond. With three affiliated companies, AHP Benefits L.L.C., AHP Consulting L.L.C., and AHP Financial Services Inc., we remain committed to delivering superior services at the local level. We have become the firm of choice for businesses and individuals looking for a partner focused on their success.

We are registered with the Public Companies Accounting Oversight Board (PCAOB) and are members of the AICPA's Center for Public Company Audit Firms. Our most recent peer review was completed in 2007, and we received an unmodified report with no comments, which is the highest level achievable. Included within the 2007 peer review report were governmental engagements.

AHP Affiliate Overview

- **AHP Benefits L.L.C.**—Our industry professionals are here to assist you with the design, implementation, and on-going support of a plan that addresses the unique needs of your business and employees. Our depth of experience and commitment to providing highly trained professionals means you can count on us to meet your needs and exceed your expectations.
- **AHP Consulting L.L.C.**—Our extensive range of technology services is designed to assist you in identifying and organizing the information pertinent to your business, safeguarding that information from unauthorized users, and regenerating the information should a disaster occur. We provide highly trained professionals for every client engagement, which means you can count on us to provide peace of mind and security for you and your business.
- **AHP Financial Services Inc.**—We commit ourselves to a higher standard of quality in everything we do for you by dedicating our energies, intellect, and industry knowledge to helping you achieve your financial dreams. As an independent registered investment advisor, we welcome the opportunity to talk with you about the broad range of investment and financial planning options available today. Tell us where you want to go and we'll do everything we can to get you there.

PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE

People make the difference in any professional relationship. Your AHP team has a proven and successful track record of delivering high quality services to non-profit organizations and governmental entities similar to the City of Novi. Our firm continually invests in resources to ensure excellence in business counsel, technical advice, and responsiveness for the benefit of our clients.

Your AHP team attends specialized continuing education programs, meets regularly to stay current on issues relevant to institutions of higher education and non-profit organizations, and refers to several industry-specific publications and newsletters covering a wide range of topics, including governmental and non-profit accounting and reporting standards. They also will monitor issues or potential concerns pertaining to the City of Novi and communicate all matters of relevance. We experience nominal turnover as a firm and ensure your dedicated service team will be of the highest caliber. In the unlikely event changes to your service team need to be made, we will contact you immediately to collaborate.

The City of Novi deserves open, frequent, and effective communications. The AHP philosophy stresses the responsibility and authority of key professionals and ensures a direct line of communication and immediate access to our resources. We will propose meeting with your management team regularly to discuss accounting, reporting, tax, operating issues, and potential problems. We will keep you informed of the status of our services and provide you with innovative and progressive ideas to help you take advantage of opportunities, strengthen controls, and improve operating efficiencies.



**Randy Morse, CPA – Partner, AHP Saginaw
Engagement Executive**

Randy will serve as the engagement partner with responsibility for planning and technical execution of all AHP services. He will ensure appropriate levels of staffing for your engagement, monitor your satisfaction, and manage regular communication with your executive leadership and board.

Professional History:

- Over 20 years of auditing, accounting, and financial reporting experience with Ernst & Young and AHP
- Heads AHP's education seminars as education coordinator
- Leads AHP's governmental audit practice
- Serves institutions of higher education, non-profit organizations, governmental entities, publicly traded companies, manufacturers, and financial institutions

Education:

- University of Arkansas at Little Rock

Other Activities:

- American Institute of Certified Public Accountants (AICPA)
- Michigan Association of Certified Public Accountants (MACPA)
- MACPA Financial Institution Task Force
- PKF International Financial Institution Committee
- Bay Area Chamber of Commerce
- Rotary Club of Bay City
- American Red Cross Board and Finance Committee Member
- Essexville-Hampton Community Baseball and Basketball Coach



**Roger Hitchcock, CPA – Partner, AHP Auburn Hills
*Independent Review Partner***

Roger will manage the overall relationship, including frequent interaction with your officers and board members. Roger serves in a similar role on our engagements with other governmental clients.

Professional History

- Over 25 years of experience
- Serves governmental and non-profit organizations, institutions of higher education, manufacturers, and industries including retail, wholesale, and service

Education

- Michigan State University

Other Activities

- American Institute of Certified Public Accountants (AICPA)
- Michigan Association of Certified Public Accountants (MACPA)
- Rotary Club of Rochester



**Angela Gwizdala, CPA – Senior Manager, AHP Midland
*Engagement Senior Manager***

Angela will serve as the engagement senior manager for the City of Novi. She will have primary responsibility for planning and executing audit services. Angela will ensure the proper availability of resources and will manage regular communication with your financial executives. She serves in a similar role on engagements with the City of Clare, the City of Beaverton, Gladwin County and numerous other local municipalities.

Professional History

- Over 10 years of auditing, accounting, and financial reporting experience with Rehmann and AHP
- Extensive experience with governmental entities, including A-133 audits and CAFR preparation/review

Education

- Northwood University

Other Activities

- American Institute of Certified Public Accountants (AICPA)
- Michigan Association of Certified Public Accountants (MACPA)
- Treasurer, Hidden Harvest



**Katie Jiles, CPA – Manager, AHP Auburn Hills
Engagement Manager**

Katie will serve as the engagement manager for the City of Novi. She will have primary responsibility for planning and executing audit services. Katie will ensure the proper availability of resources and will manage regular communication with your financial executives. She serves in a similar role on numerous other governmental engagements including Oakland University and Michigan Unemployment.

Professional History

- Over 7 years of auditing and financial reporting experience
- Extensive experience with governmental and non-profit organizations, colleges and universities, insurance companies, financial institutions and retail companies

Education

- Central Michigan University

Other Activities

- American Institute of Certified Public Accountants (AICPA)
- Michigan Association of Certified Public Accountants (MACPA)



**Gregory H. Soule, CPA, CFE – Senior Accountant, AHP Auburn Hills
Engagement Senior**

Greg will provide valued support to the City of Novi engagement. He will be in the field supervising staff daily. He serves in a similar role with other engagements.

Professional History

- Over 4 years of public accounting experience
- Serves governmental entities, non-profit organizations, agriculture, and insurance companies

Education

- Central Michigan University

Other Activities

- American Institute of Certified Public Accountants (AICPA)
- Michigan Association of Certified Public Accountants (MACPA)
- Association of Certified Fraud Examiners (ACFE)
- Rochester/Auburn Hills Community Coalition
- Toastmasters International



**Dean Brown, MCSD, CSSLP, ISSMP, CISSP – Information Systems Manager, AHP
Saginaw
Information Systems Services**

Dean will serve as a valuable resource as you review your information systems staffing, processes, equipment, and efficiencies. On previous engagements, Dean has assisted clients with Sarbanes-Oxley compliance and performed various information technology audits.

Professional History

- Over 20 years of experience in the technology field
- Provides IT consulting services and performs IT audits and systems integrity testing
- Microsoft Certified Solution Developer (MCSD)
- Certified Security Software Lifecycle Professional (CSSLP)
- Information System Security Management Practices (ISSMP)
- Certified Information System Security Professional (CISSP)

Education

- Concordia Teachers College

Other Activities

- Holy Cross Lutheran Church Foundation Committee Chair
- Constitutional Revision Committee Chair

SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES

While AHP serves clients in a number of industries, a significant percentage of our business is dedicated to supporting the work of governmental entities, non-profit organizations and institutions of higher education. The City of Novi service team understands the unique opportunities and challenges you face and are versed in the detailed compliance requirements of the Single Audit Act. Each member has met or exceeded the educational requirements to perform these types of audits.

The following AHP clients are a sampling of those served by the individuals assigned to your engagement:

Entity	Michigan Unemployment
Date	2004 to present
Scope of Work	A-133
Engagement Executives	Roger Hitchcock, Jeff Fineis, Randy Morse
Total Hours	Approximately 2,800
Principal Client Contact	Ms. Debbie Ciccone (313) 456-2507

Entity	Oakland University
Date	1994-2003, 2007 to present
Scope of Work	Audit, NCAA Agreed Upon Procedures, A-133
Engagement Executives	Randy Morse, Roger Hitchcock
Total Hours	Approximately 800
Principal Client Contact	Ms. Cheryl Verbruggen (248) 370-2297

Entity	City of Clare
Date	Over 10 years of service
Scope of Work	Audit and A-133
Engagement Executives	Mark Freed, Angela Gwizdala
Total Hours	Approximately 150
Principal Client Contact	Mr. Steven Kingsbury (989) 386-7541

Entity	City of Beaverton
Date	Over 10 years of service
Scope of Work	Audit and A-133
Engagement Executives	Mark Freed, Angela Gwizdala
Total Hours	Approximately 150
Principal Client Contact	Ms. Beverly Dadd-Miller (989) 435-9343

SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES (CONTINUED)

Entity	Gladwin County
Date	Over 10 years of service
Scope of Work	Audit and A-133
Engagement Executives	Mark Freed, Angela Gwizdala
Total Hours	Approximately 300
Principal Client Contact	Ms. Laura Brandon-Maveal (989) 426-7351

SPECIFIC AUDIT APPROACH

All audits will be performed in accordance with appropriate professional standards. The AHP audit approach entails a thorough, up-to-date understanding of your operations and business. The benefits are two-fold: a cost-effective audit tailored to your circumstances and a knowledgeable audit team capable of advising you about your financial, operating, and administrative business issues. Our approach focuses on the combined impact of your operating environment, the effectiveness of your internal controls, and your financial and operating results. We audit what is important. After designing the audit plan, we will coordinate the completion of the work during the interim and year-end periods. We will communicate with you continuously to ensure we are meeting your needs and will update you as to the status of the work being completed. Key features of our audit approach are provided below:

- **A systematic approach to planning the audit** involves our most experienced people. In conjunction with City of Novi personnel, we review operating routines and how operating results are evaluated and gain an understanding of the elements of your business essential to our work.
- **Our integrated audit approach** allows us to incorporate the knowledge gained while reviewing your information systems, examining internal controls, and fulfilling the requirements of *Government Auditing Standards* and OMB Circular A-133. We are therefore able to effectively tailor our audit plans to focus on the areas where the risk of material misstatement is the greatest. This approach ensures our audit is conducted as efficiently as possible and reduces your overall professional service cost and disruptions to your staff.
- **Early and ongoing communication** with management keeps you informed and enables anticipation of audit issues. Last-minute surprises are avoided.
- **Avoiding unnecessary disruptions** to normal operations ensures maximum utilization of your internal resources. We integrate analyses performed by your staff into our audit approach to avoid disrupting City of Novi staff. We will make this a priority and perform our procedures at your convenience.
- **Evaluating internal controls** from a business perspective allows us to focus on what the accounting system is designed to do and how well it functions. This process directs us to areas of greatest risk.
- **Utilizing substantive analytical procedures** enables a review of financial information and operating trends to determine whether relationships make sense. Effective use of these procedures reduces time-consuming, detailed tests of transactions required in a conventional audit.
- **Focusing on account balances** enables us to quickly identify significant accounts and high-risk areas.
- **Thoroughly reviewing computer processing and controls** over operations is an integral part of our audit approach. The results of this review are incorporated into our audit approach to provide the most efficient combination of substantive audit procedures and computer processing reliance.

Financial Statement Audit

AHP places a strong emphasis on the importance of information systems auditing. We demonstrate our commitment by ensuring our auditors are appropriately trained and have the necessary resources to effectively review the most complex systems. We will initially determine the extent to which your systems are automated and identify factors related to the processing environment, including the organizational structure and segregation of duties, the nature of the hardware and system software used, the structure of your networks, and an indication of the controls in place. This information will be considered when assessing the overall control environment and will enable us to determine the information systems audit resources needed during the audit.

Audit efforts will be focused on the City of Novi's significant application systems. We will obtain an understanding of specific application transaction processing to identify where errors could occur. We then identify and test the controls the City of Novi relies on to prevent or detect errors. As many of the controls reside within the computer processing environment, we also identify and test controls over the computer processing itself—primarily controls over program changes and access to data files. By identifying and testing these controls, we are able to implement the most effective and efficient combination of audit procedures as they relate to computer operations. The depth of the review is balanced against the risk, complexity, and significance of the applications.

We recognize many organizations require a higher level of data processing expertise to evaluate controls in more complex environments. We have trained professionals who provide this expertise. To implement this computer-based audit process, our computer consultants are auditors first and computer technicians second. They have received intensive education on information systems through our internal training programs, computer manufacturers' and university courses, and rigorous on-the-job training and experience.

In addition to our review of your information systems, we will review controls over significant processes, such as cash receipts, cash disbursements, payroll, and the overall financial reporting process. We will select certain transactions to walk through the financial reporting process from original source documentation to the general ledger. This provides us with detailed knowledge of the process controls in place to ensure transactions are processed appropriately and allows us to develop effective audit plans to address the risk of material misstatement.

As a result of these procedures, which are performed during the planning and interim phases of the audit process, our audit plans utilized during final fieldwork will focus on tests that are specific to the City of Novi and carefully developed based on our knowledge of your operations and our assessment of the risk of material misstatement. Our sample sizes for internal control testing and statistical sampling strategies will vary depending on our assessments of risk. Our review of your systems, processes, and controls also gives us the unique ability to provide ideas on how the City of Novi might improve its business operations, whether through improving efficiencies, strengthening controls, or enhancing business processes. In addition, if conditions are discovered during the course of our audit which we believe are material errors or weaknesses in the system of internal controls, or if defalcations or other irregularities are found, we will promptly advise management and/or the Board of Trustees of our findings or concerns. We will also be watchful for matters that, even though not material to the financial statements, may be of interest to the City of Novi.

At or near the conclusion of our audit procedures, we will prepare draft financial statements based on trial balances and information provided by management. After completion, we will meet with management to review the financial statement presentation, discuss any potential management letter comments, and address any questions or concerns.

OMB Circular A-133 Audit

A primary consideration in developing an audit strategy for federal programs is the identification of your federal awards and the coordination of audit effort with federal auditors historically responsible for auditing city-related activities. Accordingly, we propose the following steps in conjunction with the OMB Circular A-133 audit:

- **Coordinate meetings with internal auditors, key management personnel, and appropriate federal audit representatives, if desired.** The principal objectives of these meetings are to identify compliance exposure areas, discuss planned reporting, and allocate and/or coordinate audit efforts.
- **Perform internal evaluation of risk areas** including summarization of all major awards subject to audit under OMB Circular A-133.
- **Identify all federal funding sources and finalize major program risk-based classification.**
- **Prepare audit programs** and test the City of Novi's compliance with requirements applicable to each major program.
- **Meet with management** to discuss the results of our OMB Circular A-133 audit procedures and prepare the draft auditors' report, including any compliance exceptions identified.

Major phases of an examination under OMB Circular A-133

Information Gathering

Our objective during this phase is to confirm our understanding of your operations, the flow of financial data among the significant account groups, the reporting process, and the internal accounting and administrative controls that are related to your federal award programs. We will also identify all federal awards, evaluate risk classification for each award, and identify major programs and the compliance requirements to be tested. To the extent possible, these procedures will be performed in conjunction with the planning and preliminary work for the annual financial statement audit.

We will then develop an efficient plan for integrating the substantive testing required for the OMB Circular A-133 audit with that performed in conjunction with the annual financial statement audit.

Control Systems Evaluation

OMB Circular A-133 requires us to determine the adequacy of accounting and administrative systems of internal control, the extent of compliance with applicable federal laws and regulations, and the appropriateness of the reports submitted to federal program officials and/or pass-through entities.

These objectives require us to evaluate and test the systems of internal control using methods similar to those used for an annual financial statement audit. However, our focus in this phase will be on compliance with laws and regulations for federal awards. Our evaluation of the City of Novi's controls over compliance serves as the basis for determining the extent of our substantive testing of compliance with requirements applicable to each major program.

In addition, we will use several other references to determine the specific audit requirements including *Government Auditing Standards*; OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*; OMB Circular A-21, *Cost Principles for Educational Institutions*; OMB Circular A-133 Compliance Supplement; and grant documents.

Substantive Tests for Compliance with Laws and Regulations

Our substantive tests, which will be based on audit plans developed during the information gathering and control systems evaluation phases, will include procedures to determine compliance with the requirements of each major federal award program. These tests will include tests of transactions to determine compliance with allowable costs and cost principles, eligibility of recipients, matching, levels of effort and earmarking requirements and limitations, the appropriateness of federal financial reports and requests for reimbursement, and other tests, as appropriate. Whenever possible, we will determine compliance with these provisions using sampling methods on selected transactions, reports, and other documents.

Audit Conclusion

We will meet with the City of Novi's management to discuss the results of the OMB Circular A-133 audit. If any exceptions related to noncompliance are noted, we will seek your comments concerning the exceptions as well as provide recommendations to ensure the exceptions do not re-occur.

At the end of the federal programs audit, we will meet all reporting requirements of OMB Circular A-133 through the issuance of our final reports which will include:

- Independent Auditors' Report on the Financial Statements and the Schedule of Expenditures of Federal Awards
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Management Letter, including significant deficiencies and material weaknesses, if any

SPECIFIC AUDIT APPROACH (CONTINUED)

Proposed Hours

<u>Audit and Single Audit</u>	Total	Staff	Senior	Mgr.	Sen. Mgr.	Partner	Admin
<u>Planning</u>							
Total Planning	108	40	24	18	12	12	2
<u>Fieldwork</u>							
Cash and Investments Including Restricted Assets	16	16					
A/R	16		16				
Capital Assets	16	16					
Other Postemployment Benefits	8		8				
A/P and Accrued Liabilities	16	16					
Noncurrent Liabilities	16	16					
Net Assets	24	24					
Revenue	20	20					
Expense	20	20					
A-133	80	60	20				
Supervision and Review of Fieldwork	96			40	32	24	
Total Fieldwork	328	188	44	40	32	24	0
<u>Report</u>							
Total Report and General Items	164	4	68	28	24	25	15
Total Hours	600	232	136	86	68	61	17

The following hours may vary based on the direction of management as far as sample sizes and depth of testing.

Level II Information Technology Audit (Alternate #1)	44					4	2
Transactional and Security Log Review (Alternate #2)	12					2	1
Additional Work (Alternate #3)	40		4			2	2

Identification of Potential Audit Problems

- At this time we do not anticipate any potential audit problems. Should any arise, it is our policy to discuss and address any problems early to minimize the effect on the timely completion of the audit.

Report Format

- The City of Novi can continue to use the report format they are currently using. AHP's opinions will be the standard opinions as drafted by the appropriate standard setting bodies and modified for the specific situations of the City of Novi.

Appendix A
Peer Review Report



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

• 1200 BATH AVENUE • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
• Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

June 15, 2007

To the Members
Andrews Hooper & Pavlik P.L.C.
and the Center for Public Company
Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Andrews Hooper & Pavlik P.L.C. (the firm) applicable to non-SEC issuers in effect for the year ended December 31, 2006. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Andrews Hooper & Pavlik P.L.C. in effect for the year ended December 31, 2006 has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

Kelley, Galloway & Company, PSC
Kelley, Galloway & Company, PSC
Ashland, Kentucky

**Attachment to the Peer Review Report of Andrews Hooper & Pavlik P.L.C.
Description of the Peer Review Process**

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the "Center") Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objectives of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Andrews Hooper & Pavlik P.L.C., we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under Government Auditing Standards and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.

Appendix B

Certificate of Awardability

MICHIGAN DEPARTMENT OF CIVIL RIGHTS

CERTIFICATE OF AWARDABILITY

The Department of Civil Rights, having conducted a review of

Andrews Hooper & Pavlik P.L.C.

5300 Gratiot
Saginaw, MI 48603

certifies that this contractor meets the requirements of Section 209 of Public Act 453 and /or Public Act 220 of Public Acts of 1976. Unless this Certificate is revoked by the provisions outlined below, the contractor is awardable and eligible to do business with the state or transactions administered by the Department of Management and Budget, Office of Facilities Administration and Purchasing Operations; and /or various other state and local governmental units.

TUEBOR
THIS CERTIFICATE SHALL REMAIN VALID FOR ALL BIDS SUBMITTED BY THE COMPANY TO THE MICHIGAN DEPARTMENT OF MANAGEMENT AND BUDGET OFFICES OF FACILITIES ADMINISTRATION AND PURCHASING OPERATIONS; AND / OR VARIOUS OTHER STATE AND LOCAL GOVERNMENTAL UNITS, UNTIL

This Certificate may be revoked by the Department of Civil Rights and / or the Department of Management and Budget upon finding of Violation of Public Act 453 and / or Public Act 220 of Public Acts of 1976.

Issued at Detroit, Michigan, on

11/24/2008

By:

Clair Banks-Kneel
Contract Compliance Unit

Audit Fee Proposal

NON-RESCINDABLE THROUGH
MAY 15, 2010

presented to


City of Novi

Andrews Hooper & Pavlik P.L.C.

691 North Squirrel Road, Suite 280
Auburn Hills, Michigan 48326
(248) 340-6050

Certification

I certify that I am entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with the City of Novi.

Signature of Representative 

Typed or Printed Name Roger E. Hitchcock

Title Partner

Firm Represented Andrews Hooper & Pavlik P.L.C.

Date February 12, 2010



ATTACHMENT B

**CITY OF NOVI
RFP PROFESSIONAL AUDITING SERVICES**

**SCHEDULE OF PROFESSIONAL FEES FOR THE AUDIT
OF THE 2010, 2011, 2012, 2013, 2014, FINANCIAL STATEMENTS**

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Audit Services	\$ 47,600	\$ 48,100	\$ 48,600	\$ 49,100	\$ 49,600
Single Audit	\$ 11,900	\$ 12,000	\$ 12,100	\$ 12,200	\$ 12,300
Drafting the CAFR (optional)	\$ 8,000	\$ 8,100	\$ 8,200	\$ 8,300	\$ 8,400
TOTAL (NOT TO EXCEED)	\$ 67,500	\$ 68,200	\$ 68,900	\$ 69,600	\$ 70,300

	Hours		Hourly Rate		Total Audit Fee 6/30/2010
Partners	61	X	\$ 160	=	\$ 9,760
Managers	154	X	\$ 125	=	\$ 19,250
Supervisory Staff	136	X	\$ 90	=	\$ 12,240
Staff	232	X	\$ 75	=	\$ 17,400
Other (specify): Administrative	17	X	\$ 50	=	\$ 850
GRAND TOTAL (NOT TO EXCEED)					\$ 59,500

ALTERNATE #1 – LEVEL II INFORMATION TECHNOLOGY AUDIT (NOT TO EXCEED)

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Level II IT Audit	\$ 7,700	\$ 7,800	\$ 7,900	\$ 8,000	\$ 8,100

ALTERNATE #2 – TRANSACTIONAL AND SECURITY REVIEWS (NOT TO EXCEED)

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Monthly Review Services	\$ 2,300	\$ 2,325	\$ 2,350	\$ 2,375	\$ 2,400

ALTERNATE #3 – ADDITIONAL WORK (NOT TO EXCEED)

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
a. Payroll	\$ 1,500	\$ 1,520	\$ 1,540	\$ 1,560	\$ 1,580
b. Vendor Payments	\$ 1,000	\$ 1,015	\$ 1,030	\$ 1,045	\$ 1,060
c. General Ledger	\$ 1,000	\$ 1,015	\$ 1,030	\$ 1,045	\$ 1,060
d. Cash Disbursements	\$ 1,000	\$ 1,015	\$ 1,030	\$ 1,045	\$ 1,060
e. Utility Billings	\$ 1,000	\$ 1,015	\$ 1,030	\$ 1,045	\$ 1,060

Representative Name (printed) Roger Hitchcock

Title Partner

Signature Roger Hitchcock Date February 12, 2010

E-mail roger.hitchcock@ahpplc.com

Company (Legal Registration) Andrews Hooper & Pavlik P.L.C.

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