

THE CITY OF PROVIDENCE
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RESOLUTION OF THE CITY COUNCIL

No. 381

Approved June 24, 1978

RESOLVED, That the City Council of the City of Providence does hereby accept and approve the accounting firm of Peat, Marwick, Mitchell and Co., 40 Westminister Street, Providence, Rhode Island, 02903, for the rendering of independent accounting services to the City of Providence in accordance with its proposal submitted to the Committee on Finance, and

BE IT FURTHER RESOLVED, That the City Council hereby approves the acceptance of the bid of Peat, Marwick, Mitchell and Co., in an amount not to exceed Twenty-Four Thousand, Five Hundred Dollars (\$24,500.00) for the fiscal year ending June 30, 1978 and that said report be submitted back to the City Council.

IN CITY COUNCIL
JUN 15 1978
READ AND PASSED

Ralph T. Lippert PRES.
Rose M. Mendenhall CLERK

APPROVED

MAYOR

Vincent A. Cianci, Jr.
JUN 24 1978

THE COMMITTEE ON

FINANCE

Approves Passage
The Within Resolution

Jose M. Mendonca
Clerk Chairman

June 9, 1978

QUALIFICATIONS
AND PROPOSAL
FOR
PROFESSIONAL SERVICES

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THE CITY OF PROVIDENCE

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Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
40 WESTMINSTER STREET
PROVIDENCE, RHODE ISLAND 02903

April 7, 1978

Ms. Carolyn Brassil
Finance Committee Chairman
City of Providence
City Hall
Providence, Rhode Island 02903

Dear Ms. Brassil:

We are pleased to present the following proposal to perform an examination of the financial statements of the City of Providence for the year ending June 30, 1978.

We have served as auditors for the City since 1970, and consequently have developed significant background in the City's operations, accounting procedures, and operating systems. Over the years, we have developed and constantly updated flowcharts on virtually all the revenue and disbursement systems. These flowcharts have served as a basis for the preparation of a tailored audit program of the examination of the City's accounts. We have also developed our own computer program to examine the City's automated records.

The proposed examination would be conducted in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants, and would cover the following funds and groups of accounts:

General Fund
School Fund
Capital Fund
Sinking Fund
Revolving Funds
Trust and Special Funds

The report would be similar to the report you have received in prior years. The Auditor General of the State of Rhode Island has recently promulgated new regulations with regard to reporting on Rhode Island Cities and Towns. The regulations are effective for years beginning on or after July 1, 1978. We do not propose to report on the new format, as we feel it will take considerable effort on the part of the Finance Department to reorganize the records, and consequently would probably cause an unacceptable delay in the issuance of the 1978 report. However, we would be available to assist City personnel to prepare for the required compliance for the year ended June 30, 1979.

Ms. Carolyn Brassil
Finance Committee Chairman
City of Providence
April 7, 1978
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The report would include, as in past years, comments and recommendations for improvement in the City's systems and procedures.

Peat, Marwick, Mitchell & Co. has a long-standing commitment to the government area of its practice, as evidenced by the government audit tools we have developed and made available to our personnel, and by our leadership role in the many efforts to resolve the financial reporting and operating problems facing government bodies. If we were appointed auditors for 1978, you can be assured we would work closely with your Committee to help resolve the many problems facing the City of Providence.

The audit team would be substantially the same group that served the City last year, with the addition of Anthony Pontarelli, who would assume the responsibility of engagement partner. I would continue to serve as client partner, and would be ultimately responsible for the successful completion of the engagement.

It has been our experience in the past that it may not be possible to complete our report by November 1. This is due to the City's inability to close its books and complete the necessary schedules and reconciliations in time for us to complete our field work and prepare the report within that time frame. However, I see no reason why we could not be in a position to notify you as to the audited results of the City's operations prior to that date.

We estimate that our fee to audit the various funds of the City of Providence as described above would not exceed \$24,500.

Enclosed as Exhibit A is information regarding our approach to the examination and our qualifications.

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We look forward once again to serving the City of Providence, and would be ready to begin work immediately upon receipt of authorization to proceed. We are also prepared to discuss this proposal orally with you and your Committee at your convenience.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.


Karl F. Ericson, Partner

KFE:CCG
Enclosure

AUDIT APPROACH

As in the past, we propose to utilize the Systems Evaluation Approach (SEA) for this examination. The Systems Evaluation Approach to an examination of financial statements involves a thorough analysis and evaluation of the system of internal controls and the development and application of an audit program based on that evaluation.

Audit work is minimized in activities that have strong internal controls and where tests provide evidence that such controls are operating effectively. The result is that the audit becomes an in-depth analysis of the government's accounts, amounts, and transactions, rather than just a verification and assembling of numbers.

Other benefits of the approach are that the audit team can familiarize itself with the City's operations and historical financial data at the outset of the engagement; the examination thus will be conducted in the most effective and efficient manner. It enables us to utilize the advanced computer audit techniques developed by our Firm. It permits the audit procedures to be undertaken throughout the period being examined so that there will be an early recognition and resolution of any accounting problems, and the final report can be completed and issued promptly after the close of the period. Finally, the analysis and evaluation of the internal controls and operations of the City enables us to develop many meaningful comments and recommendations for inclusion in the management letter.

An overview and time schedule for how we would apply the Systems Evaluation Approach is presented following this introduction. The overview is followed by descriptions of the steps to be taken during each of the three phases of the examination and of the outputs from the audit.

AUDIT OVERVIEW AND TIME SCHEDULE

The following broad overview of the proposed audit and time schedule may be helpful in understanding and evaluating the audit process and the manner in which we propose to work with City personnel if selected as auditors for the period ending June 30, 1978:

<u>Estimated time period</u>	<u>General activity description</u>
<u>Upon notification of selection as auditors</u>	<ul style="list-style-type: none">• Conduct analytical review of budgets, financial statements, and other financial and statistical data and reports.• Discuss with City Director of Finance the proposed audit approach, and develop a cooperative plan and schedule for performance of the audit.• Review documentation with regard to internal controls and the accounting system in detail.

Estimated
time periodGeneral activity description

- . Develop an overall audit program, consisting of detail audit procedures, based on our evaluation of the strengths and weaknesses of internal controls and the accounting system. Determine the extent of audit tests, using statistical sampling techniques where applicable.
- . Perform detail "compliance" tests to determine whether or not controls and accounting systems are functioning effectively.
- . Identify audit working papers and analyses that could be prepared by City personnel.
- . Review previously developed System 2170 (the PMM&Co. computer audit package) programs to utilize pertinent data stored on City computer files in order to minimize audit clerical effort and costs.

May-
July

- . Perform interim audit tests.
- . Perform audits only of significant accounts, if existing internal controls are determined to be adequate in all other accounts.
- . Consult with City financial personnel to determine the status of audit working papers and analyses being prepared by them.
- . Discuss with City financial personnel all known accounting and auditing matters requiring resolution.
- . Discuss with City financial personnel the format of year-end financial statements, including notes to the financial statements.
- . Meet with Finance Committee to present and discuss interim audit findings and observations on internal controls and accounting system.

August-
October

- . Complete the examination of account balances.
- . Meet with City financial personnel and the Finance Committee to:
 - resolve any remaining accounting and auditing matters.
 - Resolve all matters relating to the draft financial statements and notes.

<u>Estimated time period</u>	<u>General activity description</u>
November	<ul style="list-style-type: none">. Finalize presentation and disclosure in financial statements and notes.. Issue accountants' report and letter on internal control.. Meet with Finance Committee to present and discuss overall audit findings.

AUDIT PHASES AND STEPS

We propose to divide the audit into three phases - planning, systems evaluation, and testing. The following general description of each phase and the steps within are intended to illustrate the broad area of work which will be performed during that phase, rather than specific audit procedures. We believe each of these phases is essential to an efficient, effective audit, and to a responsive relationship among the Finance Committee, the pertinent City officials, and the independent auditors.

. Planning Phase

The purpose of the planning phase is to provide the framework of the audit. It encompasses the following steps:

- Understand the City; that is, expand our understanding of the City and its finances through a review of the financial statements, budgets, and minutes, as well as discussions with appropriate officials.
- Identify major areas of audit concern, based on the understanding achieved above, prepare analytical reviews.

Analytical reviews entail a comparative, evaluative study of the budgets, financial statements and other financial reports, as well as the identification of unusual trends and relationships between significant items in the financial statements. It also involves an identification of high risk areas, such as delinquent taxes and Federal and state grants, in which audit procedures should be extended.

- Define the major audit objectives in the identified major areas of audit concern. Examples of audit objectives are the accuracy of tax billings in relation to assessments and tax rates, the actual occurrence of recorded revenues and expenditures, the physical existence of assets, and the adequacy of encumbrances.

Systems Evaluation Phase

Having established the audit framework in our planning phase, we will then determine the extent to which the existing internal controls and accounting system can be relied upon to produce reliable and timely data. This is a critical part of the "systems evaluation" approach.

- Obtain an in-depth understanding of the City's internal controls and accounting system, particularly in the major areas of audit concern identified in the planning phase. This is accomplished through discussions with City officials and by flowcharting the significant accounting cycles.

This step will also include a review of the data processing controls, since a significant portion of the City's accounting is accomplished by computer processing. The review will include evaluating the computer input, output, program processing, and file controls, and ascertaining that they are functioning properly.

- Identify the internal control strengths and weaknesses in the accounting system, particularly those that have a bearing on the audit objectives.
- Develop a tailored audit program that is responsive to the areas of audit concern and reflects our evaluation of the internal controls. In developing the tailored audit program, each auditor assigned to the examination will utilize our Audit Program Preparation Guide for State and Local Governments.

The purpose of the Audit Program Preparation Guide is to provide our personnel with reference material to use in developing tailored audit programs that focus on the primary purpose of the governmental entity - namely, to provide services to its citizenry within the established laws, rather than to earn a profit or return on investment. More specifically, the Guide identifies the unique transaction cycles and audit areas that exist in a governmental entity and defines related audit objectives and suggested internal control features for each cycle. With this guidance, and using the results of the planning and systems evaluation phases, the auditors will be able to identify the audit procedures that will best accomplish each audit objective.

The audit program and audit timetable will be discussed with City personnel in order that they may understand our work, ascertain the materials and data they will have to provide, and monitor our progress.

. Testing Phase

Since the City of Providence utilizes a computer to process its accounting data, the auditor must have the capability to use the computer to perform a wide variety of audit procedures on the computerized data.

In our audit test work, we will utilize System 2170, a computer audit package that we developed several years ago and have tailored to audits of local governments. System 2170 is designed to significantly reduce manual checking of the voluminous data that is generated by the City's automated accounting system and related data processing applications.

Our audit tests will involve:

- Tests of internal control ("compliance" tests) to verify that the expected significant strengths within the system are functioning as described to us.

Generally, transactions to be tested will be selected by statistical sampling methods, using Statistical Sampling Guidelines for Governmental Entities published by our Firm. Further, we will utilize statistical sampling techniques to determine the characteristics of the data we are examining and to select objectively the minimum number of transactions that will permit us to formulate reliable conclusions. As an example, statistical sampling can be utilized in the examination of the purchase order system to determine, among other things, that proper procedures were followed.

- Tests of the financial data ("substantive" tests) to provide reasonable assurance of the validity of the information produced by the accounting system. Such tests include confirmation with taxpayers of balances on the tax rolls and review of invoices supporting payments. We will encourage City personnel to prepare working papers and analyses for our use in order to minimize the clerical activities required in conjunction with the audit.

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It is important that City officials be fully cognizant of what is occurring as the audit progresses. We suggest, therefore, that we meet with members of the Finance Committee at least twice during the course of the examination to discuss both progress and findings. Problem areas would be identified at that time in order that they can be resolved as far in advance of the completion of the examination as possible. The meetings would also provide the opportunity to discuss possible formats for the financial statements. Finally, they would afford the Committee members an opportunity to inquire into matters of concern to them.

OUTPUTS OF THE EXAMINATION

The examination will have three basic outputs. They are -

- . The basic financial statements accompanied by our opinion as to whether the statements fairly present the City's financial condition and results of operations in accordance with generally accepted accounting principles.
- . Supplementary data containing pertinent information for supplementary analysis purposes. It is our intent that the accountants' report would encompass these data, as well as the basic statements.
- . A management letter report citing the weaknesses in internal control and suggesting how to eliminate the weaknesses, and also recommending ways to improve the effectiveness and efficiency of the accounting system. We believe that the management letter can be an extremely powerful vehicle for upgrading the City's accounting and related systems, when it is based on:
 - Our use of the systems evaluation approach as the means to identifying accounting strengths and weaknesses;
 - Our analysis of the financial statements to be made during the analytical reviews; and
 - The familiarity with local government operations that we have gained as a result of our extensive government consulting practice.

CAPABILITIES AND QUALIFICATIONS

Peat, Marwick, Mitchell & Co. was organized in 1897. It is a large diversified, international accounting firm that provides auditing, management consulting, and tax services to governmental, institutional, financial, industrial and commercial clients. At the present time, approximately 16,000 professional staff members, operating out of 100 offices in the United States and 150 offices overseas, devote full time to the auditing, consulting, and tax needs of an array of governmental clients, as well as not-for-profit and commercial organizations. One of these offices is the Providence office. Our Providence office, with 8 partners and 60 professional employees, has served clients in Rhode Island for many years.

STATE AND LOCAL GOVERNMENT DEPARTMENT

The Firm achieved its size by being responsive to the needs of clients. As early as 1907, we recognized that certain unique industries have special needs. Accordingly, we began the establishment of specialized industry departments and staffed each department with persons who virtually spend their full time servicing that industry. The State and Local Government Department is one of those departments. Individuals in the Department maintain an awareness of the latest developments, including accounting needs and auditing techniques. They have quick access to the numerous specialized manuals, programs, guidelines, etc., the Firm publishes as support for persons participating in the audits of governmental units. Examples are the State and Local Government Accounting and Auditing Manual, the State and Local Government Practice Guide, and State and Local Government Bulletins. Finally, these individuals attend training courses designed to increase a person's knowledge of state and local government operations, the fundamentals of governmental accounting, and the specific requirements of governmental auditing.

LOCAL GOVERNMENT CLIENTS

As a result of this approach (i.e., the National office develops substantial techniques and tools for the audits of governmental units and then trains individuals in each operating office in their use) the Firm serves as auditors for literally hundreds of cities and counties throughout the United States. Among the cities, counties, and special districts to which we have provided audit services that may be of interest to Providence officials, are:

- New York, New York
- Jacksonville Port Authority, Florida
- Coral Gables, Florida
- Miami, Florida
- Jackson, Mississippi
- Greenville County, South Carolina
- Guilford County, North Carolina
- Roanoke, Virginia
- Houston Independent School District, Texas
- Des Moines, Iowa
- Omaha, Nebraska

Montgomery County, Maryland
Salt Lake County, Utah
Albuquerque, New Mexico
Los Angeles, California
Los Angeles County, California
Palo Alto, California
San Diego County, California
Anchorage, Alaska

In Rhode Island, we have audited in the recent past the following governmental units:

City of Pawtucket
Town of Scituate
Town of Narragansett
Town of Bristol

As indicated, Peat, Marwick, Mitchell & Co. also provides extensive management consulting services to governments.

LOCAL GOVERNMENT LEADERSHIP

Our clients and experience are not the only way we demonstrate our leadership position in governmental accounting, auditing, and management consulting. PMM&Co. has always been a key participant in the development of new governmental accounting, auditing, and management concepts, approaches, programs, and the like. For instance -

- . In 1974, the American Institute of Certified Public Accountants published its industry audit guide, Audits of State and Local Governmental Units, which sets forth accounting principles and auditing procedures for state and local government units. The Firm had two partners on the committee that developed this guide.
- . The Municipal Finance Officers Association (MFOA) has reconstituted the National Council on Governmental Auditing to be the authoritative body in the field of governmental accounting and financial reporting. A PMM&Co. partner is currently a member of that Council and of its Executive Committee.
- . Federal Revenue Sharing is one of the biggest developments affecting local government in recent years. A retired PMM&Co. partner prepared the Revenue Sharing Audit Guide for the Office of Revenue Sharing. The Firm helped MFOA prepare a Revenue Sharing accounting manual for its members.

- . Another major development impacting local government was publication by the U. S. General Accounting Office (GAO) in 1972 of Standards for Audit of Governmental Organizations, Programs, Activities and Functions. These standards suggest that a governmental audit should include a review of efficiency, economy, effectiveness, and compliance, not just financial results. A PMM&Co. partner represented the American Institute of Certified Public Accountants in the development of those standards, and then participated in the formulation of an appropriate position for Certified Public Accountants vis-a-vis the standards. Furthermore, the Firm, in conjunction with the International City Management Association and GAO, developed what is generally considered the most meaningful approach for utilizing the standards as the basis for performance auditing at the local government level.
- . One of the greatest concerns in local governments today is the question of which information to disclose when issuing securities to the public. PMM&Co. has made a major effort to increase underwriters', attorneys', bankers', and other professionals' understanding of governmental accounting and financial reporting. One PMM&Co. partner participated in the development of the American Institute of Certified Public Accountants' reactions to the suggested disclosure guidelines published by MFOA. The AICPA has appointed another PMM&Co. partner to chair its Special Committee on Municipalities, a group established to consider proposals for new financial disclosure requirements in public offerings of municipal securities and to advise those concerned as to related technical auditing and financial reporting matters. PMM&Co. is acting as the public accountant faculty member for MFOA's seminars on disclosure for securities offerings.

AFFIRMATIVE ACTION PROGRAM

The last important indication of our qualifications is our Affirmative Action Program. PMM&Co., in recognition of its social, moral, and economic obligations to all minority groups, has, for many years, followed the policy that there shall be no discrimination because of race, color, religion, age, sex, or national origin with respect to economic opportunity in the Firm. It is the Firm's intent and desire that race, color, religion, age, sex, or national origin shall not be a factor in consideration of employment, promotion, transfer, recruitment rates of pay, or other forms of compensation, selection for training, demotion, or separation. Accordingly, all decisions in these areas are made without regard to the factors enumerated above. PMM&Co.'s continued commitment to equal employment opportunity is continuously affirmed, as the managing partner of each office is charged with the responsibility to ensure that equal employment is assured to all minority group members.

To further ensure the implementation of this policy and the achievement of tangible results from it, the Partner in Charge of Personnel has been designated the Director of Equal Employment Opportunity Programs for the Firm. This responsibility entails developing, implementing, monitoring, and maintaining the program. Each office then reports the results of activities semiannually to the Director of Equal Employment Opportunity Programs.

In many offices, the managing partner designates an individual to be responsible for implementing and maintaining the Equal Employment Opportunity Affirmative Action Program for his office. In Providence, Mr. Anthony Pontarelli, the person we have designated as engagement partner for the audit of the City of Providence, is the Affirmative Action Coordinator. The plan that Mr. Pontarelli administers is quite extensive and thus too voluminous to append to this proposal. A copy of that plan is available for inspection in our Providence office.