

CASEY PETERSON & ASSOCIATES, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

RAPID CITY, SOUTH DAKOTA
AND
GILLETTE, WYOMING



CASEY PETERSON & ASSOCIATES, LTD.
CPAS & FINANCIAL ADVISORS

February 22, 2011

To the City Council
City of Rapid City
300 6th Street
Rapid City, SD 57701

Dear City Council:

Thank you for the opportunity to offer a proposal for our services to the City of Rapid City. Based on your request for internal audit services, our experience within the governmental industry and past audit experience with the City of Rapid City, we have developed a proposal that we hope you will find is responsive to your needs.

We believe that Casey Peterson & Associates, Ltd. is your best choice for the services you are requesting, and we are committed to providing the valued services you expect. We look forward to continuing our strong partnership with the City of Rapid City being one of your business advisors assisting you in achieving your financial goals. You are a valued client of Casey Peterson & Associates, Ltd.

On the following pages, we will introduce you to our experience and qualifications related to the governmental industry, our service approach, your engagement team, the fee schedule for the proposed services, and other specialized services that may be of interest to you.

Please contact me at 605-348-1930 with any questions or to discuss other aspects of our proposed services.

Sincerely,

Casey Peterson & Associates, Ltd.

Mark Lyons, CPA
Shareholder, Vice President, Director of Audit



BRANDED BY TRUST™

RAPID CITY - P.O. Box 8127 - Rapid City, SD 57709 - 605.348.1930 | GILLETTE - 612 S. Douglas Hwy - Gillette, WY 82716 - 307.682.4795

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FIRM PROFILE AND QUALIFICATIONS

Firm Profile and Structure

Casey Peterson & Associates, Ltd. is a locally-owned Certified Public Accounting Corporation which has offices located in and Rapid City, South Dakota and Gillette, Wyoming. We have been satisfying the needs of businesses and individuals since our establishment in 1977. Our success is directly attributable to our commitment of providing quality service in a timely fashion. Our size allows us to build relationships with our clients that generate a personal interest in assisting our clients achieve their goals. We are very excited about the services we can offer you and look forward to helping you accomplish future success.

We are members of the American Institute of Certified Public Accountants (AICPA) - Private Companies Practice Section (PCPS). The membership requires a rigorous objective "peer review" of our accounting and auditing practice. We successfully completed our most recent review in March 2008 and received our seventh "clean opinion." A copy of our most recent opinion is attached.

At Casey Peterson & Associates, Ltd., we strive to be more than your accounting firm. The moment you join our team of professionals, we begin working to exceed your expectations. You can expect personalized service and expert advice.

In 2007, Casey Peterson and Associates, Ltd. became an independent member of the BDO Seidman Alliance which gives us unparalleled access to knowledge, services, and capabilities that can enhance and add value to your operations. The BDO Seidman Alliance provides this expertise through thirty BDO Seidman, LLP offices and 350 independent alliance locations nationwide.

Casey Peterson & Associates' commitment to providing total quality service to the governmental industry is displayed through:

- **Functional and Industry Expertise** - Our professional staff possess the expertise necessary to provide responsive service and advice to the governmental industry. This expertise is displayed through being a local leader in providing trusted audit and consulting services to a variety of governmental clients which include educational cooperatives, school districts, cities, and special districts (rural water districts, hospitals, etc.). Our expertise in this area has allowed our firm to provide audit and consulting services to the second largest school district and city in South Dakota.

In addition, the BDO Seidman Alliance gives us the ability to access additional functional and industry expertise. This Alliance gives us access to a team of governmental specialists throughout the United States who are dedicated exclusively to this industry.

- **Depth of Firm Services** - With over forty-five employees, we have a wide range of talent and the resources to deliver services in a timely manner. The BDO Seidman Alliance also allows us to expand the services of our firm.
- **Partner Involvement** - Partners actively supervise all engagements and are available to answer questions during the performance of your engagement and after we have completed our services.

FIRM PROFILE AND QUALIFICATIONS (CONTINUED)

- **Competent and Experienced Professional Staff** - Our commitment to maintain and train staff will minimize the burden of your staff in assisting our professionals.
- **Advanced Resources** - Selected professionals in our firm attend the AICPA National Governmental Conference and all audit professionals attend the annual South Dakota Department of Legislative Audit Conference. These conferences provide us with the most advanced technical research and information available related to the governmental industry.
- **Client Service** - We will actively communicate significant issues that affect your organization and we are dedicated to being available and responsive to your questions and concerns.



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OUR MISSION

"To serve" is to be an advantage to someone and "to provide" is to make the power of professional service readily available. For over 30 years, our goal has been to provide total quality service to our clients while maintaining prompt, personal attention. This has fostered our growth since 1977.

The proud tradition of Casey Peterson and Associates will continue to provide our team and clients with a stable environment that embraces the highest standard of ethics, integrity, and respect. As trusted advisors, we will provide comprehensive, knowledgeable, and confidential services to solve problems for a changing world in an innovative manner for our clients, our community, and ourselves.



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ENGAGEMENT TEAM

Shareholders and Managers Assigned to Engagement Team, Roles, and Special Qualities

Your engagement team was selected to help your organization succeed. Your success is our success. Each key member of the engagement team has unique expertise and experience with specific elements of your business (the governmental industry) and the proposed service. The members of your engagement team will provide reliable advice.

All of the professionals assigned to this engagement have been involved with the City of Rapid City's annual financial audit engagements for the last three years. This experience with the City of Rapid City will be valuable in helping the City develop its internal audit process. Their familiarity with the City of Rapid City's internal control structure, procedures, and policies will be instrumental in helping identify risks and in developing the appropriate internal audit responses. Their experience in the governmental industry will also help the City develop the appropriate responses to internal audit findings.

The key professionals that will be assigned to your account are as follows:

Mark Lyons, CPA



Mark Lyons graduated from Northern State University with a Bachelor of Science degree in Professional Accounting with a minor in Management Information Systems.

Mark has ten years of experience in public accounting and is the Director of Audit Services at Casey Peterson & Associates, Ltd. Mark is also the Vice President of Casey Peterson & Associates. His public accounting experience includes working for Larson Allen, one of the top ten largest firms in nation. He has audit experience in a wide variety of industries including governmental entities, not-for-profit organizations, and federal award programs (including HUD assisted programs).

Mark is a 2003 Leadership Rapid City graduate and a member of the South Dakota Society of Certified Public Accountants Practice Advisory Council. His professional affiliations include memberships in the American Institute of Certified Public Accountants, the South Dakota Certified Public Accountants Society, and the Healthcare Financial Management Association. Internally, is a mentor for other audit team members, and is involved in audit team training and technology projects.

Mark will be the in-charge Shareholder for your internal audit service engagement; he will be involved in all phases of the audit process and will assure that all issues are resolved satisfactorily and in accordance with your expectations.

ENGAGEMENT TEAM (CONTINUED)

Deidre Budahl, CPA, MBA



Deidre Budahl graduated from the University of South Dakota with a Bachelor of Science degree in Business Administration with a major in Accounting. Deidre also has a Masters of Business Administration from the University of South Dakota.

Deidre has seven years of experience in public accounting and one year of experience in financial statement analysis. She has worked at McGladrey and Pullen, one of the top ten largest accounting firms, and at US Bank, one of the top ten largest banks in the United States. Deidre has experience in various industries including the governmental, healthcare, construction, not-for-profit, and for-profit industries. She also has extensive experience related

to federal award programs and not-for-profit income tax issues.

Deidre is a 2004 Leadership Rapid City graduate. Her professional affiliations include memberships in the American Institute of Certified Public Accountants and the South Dakota Certified Public Accountants Society.

Deidre is currently licensed to practice in South Dakota. Deidre will be the Audit Client Manager assigned to the internal audit engagements.

Deidre will be the Audit Manager assigned to your internal audit services.

Leah Bifulco, CPA



Leah Bifulco graduated from Black Hills State University with a Bachelor of Science degree in Business Administration with an emphasis in Accounting. She also has a minor in Computer Applications.

Leah has four years of experience in public accounting. She has experience in various industries including governmental, not-for-profit, construction, and for-profit industries. She also has extensive experience related to federal award programs.

Leah is a 2010 Leadership Rapid City graduate. Her professional affiliations include memberships in the American Institute of Certified Public Accountants and the South Dakota Certified Public Accountants Society. She is currently licensed to practice in South Dakota.

Leah will be the in-charge auditor assigned to the internal audit engagements.

Independence and Conflicts of Interest

All auditors assigned to this engagement are in compliance with the Continuing Education and Training requirements of the American Institute of Certified Public Accountants and *Government Auditing Standards*. The auditors and assistants are independent from the City of Rapid City and its management. In addition, we are not aware of any conflicts in serving your organization.



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INTERNAL AUDIT APPROACH

Structure of Proposed Services

Even though you are considering contracting with our firm to provide internal audit services, we believe it is critical to create a structure internally to help facilitate this process. Within this proposal, we have outlined various components of the critical elements of an internal audit function. As part of our proposed services, we will assist you in evaluating the City's current risk management environment and determining which components need to be added, or expanded upon, to create an effective internal audit function. We recommend that a subcommittee of the City Council be designated to which we would report and work with to define the scope of our procedures. The City currently has an established Legal and Finance Committee which may be able to take on this role. However, the internal audit model described below suggests establishing a formal Audit Committee.

Once we have effectively assisted you in establishing the structure to manage the internal audit function, we will begin providing the core internal audit services. Based on past internal audit service experience, we believe the core internal audit services are most effectively delivered in the form of an agreed-upon procedures engagement. Agreed-upon procedures engagements are conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The agreed-upon procedure framework provides for a platform to effectively identify risks, to design and perform procedures that address those risks, and effectively communicate the results of those procedures in a formal report. Our reports to the Audit Committee will communicate the results of our procedures in adequate detail to help the Audit Committee and management assess the severity of our findings. This report will also provide recommendations on improving internal controls and processes to help mitigate or eliminate identified risks. We have provided a list of areas that could potentially be covered by each agreed-upon procedure engagement on page 10.

Overall Objective of Internal Audit Services

The overall objective of our internal audit service is to act as an independent, objective assurance and consulting solution to add value and improve the City's operations. These services will help the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Our internal audit services will improve the effectiveness and efficiency of the City by providing insight and recommendations based on analyses and assessments of data and processes. With a commitment to integrity and accountability, our internal audit solution will provide value to the City Council and senior management as an objective source of independent advice.

Schedule for Delivering the Proposed Services

We will coordinate a schedule with you during the preliminary phases of your engagement to ensure that all your deadlines are met, and to ensure that the timing of our services minimizes the disruptions of your daily operations. We recommend conducting planned internal audit procedures at least quarterly. However, we understand that your internal audit function must be responsive to the immediate needs of the City Council. Accordingly, if requested by the Audit Committee, we would make ourselves available outside of the agreed-upon schedule if circumstances arise that require immediate attention. A tentative schedule for delivering these services over a period of one year will be established as soon as we are engaged. This prevents scheduling conflicts and helps make our professionals more accessible during times that are convenient for you.

INTERNAL AUDIT APPROACH (CONTINUED)

Summary of Internal Audit Services

As mentioned above we suggest that internal audit services be provided at least quarterly. Each quarterly phase of our internal audit services will focus on different internal control cycles, processes, and/or components of the City. The specific area reviewed each quarter will be determined by the following the systematic approach outlined below. Typically, each quarter our engagement methodology will be comprised of five repetitive phases as summarized below. However, the applicability of each phase discussed below is determined based on the City’s needs and the scope of the services being delivered.



Phase I - Understand the Business

Our primary goal for the initial year of our relationship will be to facilitate a smooth integration of a high-performing internal audit function into the City’s operations with minimal disruption. This is accomplished by obtaining an in-depth understanding of the City’s operations.

	Activities	Deliverables
	<ul style="list-style-type: none"> ✓ Understand your markets, operations, competition, etc. ✓ Interview management, Audit Committee, External Audit, Board Members to understand business objectives, dynamics, culture and processes. ✓ Develop Internal Audit Universe 	<ul style="list-style-type: none"> ✓ Executive summary of business environment ✓ Internal Audit Universe

Our experience with the City over the past three years has given us an in-depth understanding of the City’s operations. This understanding will prove to be very beneficial during this phase of our engagement.

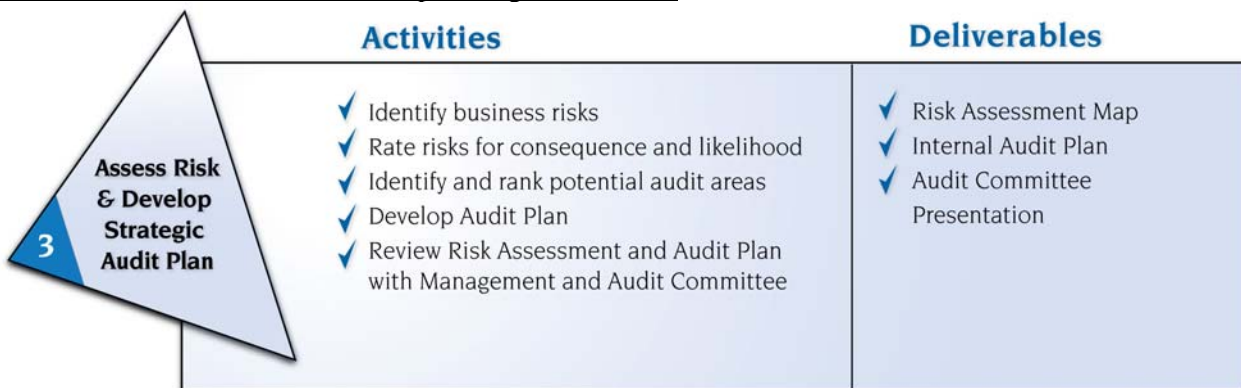
INTERNAL AUDIT APPROACH (CONTINUED)

Phase II - Internal Audit Framework



We will perform a review of your current internal audit framework and standards. These may include, but may not be limited to, the review of your existing Internal Audit Charter, Quality Standards and Methodology. To the extent that the aforementioned have not been developed, Casey Peterson & Associates, Ltd will assist in developing those documents, if deemed necessary based on our understanding of your current policies and procedures.

Phase III: Risk Assessment and Develop Strategic Audit Plan



Phase III is our identification of risks that could potentially affect the City’s operations based on external factors such as current economic conditions and trends, or unique risks associated with operating within the governmental industry. This phase also considers risks associated with internal process failures or a general lack of controls associated with a processes or functions. In other words, what consequences or risks would you be exposed to if a process failed or if there were not adequate controls in place? Once the risks are identified we prioritize the risk factors based on the likelihood of occurrence or and/or potential impact and develop an initial audit plan.

Phase IV: Audit Execution

Phase IV is the most critical stage of our value creation process. This phase is broken down into the five functions shown on the next page (Engagement Planning, Process Documentation, Walkthrough, Testing, and Reporting).


Our team uses a common, but flexible, audit approach. Whenever possible, to help manage audit time and your related costs, we will provide your personnel with a description of information they will be asked to prepare or locate in advance. We understand that the audit process can be a significant burden on your personnel and, therefore, we will make a considerable effort in guiding your personnel through the process of carrying out our requests.

INTERNAL AUDIT APPROACH (CONTINUED)

Our audit approach can be easily modified to accommodate each of the various types of audits that would be on the City’s internal audit plan. These include, but are not limited to, compliance based audits, operational process audits, cost recovery audits, and special projects.

Within this phase of the engagement we will also review prior internal audit reports to determine if prior findings require follow up. If it is determined that prior findings require follow up we will incorporate procedures into our current audit plan to ensure those findings have been adequately resolved.

Below is a summary of the significant activities and deliverables during the audit execution phase.



Activities	Deliverables
Engagement Planning	
<ul style="list-style-type: none"> ✓ Discuss scope and objectives of the internal audit with client ✓ Gain an understanding of the operations, processes and procedures ✓ Communicate internal audit scope 	<ul style="list-style-type: none"> ✓ Internal Audit Planning Memo
Process Documentation	
<ul style="list-style-type: none"> ✓ Identify key risk and controls ✓ Assess design effectiveness of controls ✓ Confirm assessment and documentation with client 	<ul style="list-style-type: none"> ✓ Risk and control matrix ✓ Other process documents
Walkthrough	
<ul style="list-style-type: none"> ✓ Execute a walkthrough 	<ul style="list-style-type: none"> ✓ Walkthrough evidence
Testing	
<ul style="list-style-type: none"> ✓ Design testing strategy for key controls ✓ Execute testing ✓ Discuss potential findings with client ✓ Identify root causes of deficiencies and opportunities for process improvement 	<ul style="list-style-type: none"> ✓ Test Plans ✓ Completed testing documents
Reporting	
<ul style="list-style-type: none"> ✓ Draft audit report ✓ Discuss draft report with client and agree on action plans ✓ Issue final report 	<ul style="list-style-type: none"> ✓ Draft Internal Audit Report ✓ Final Internal Audit Report

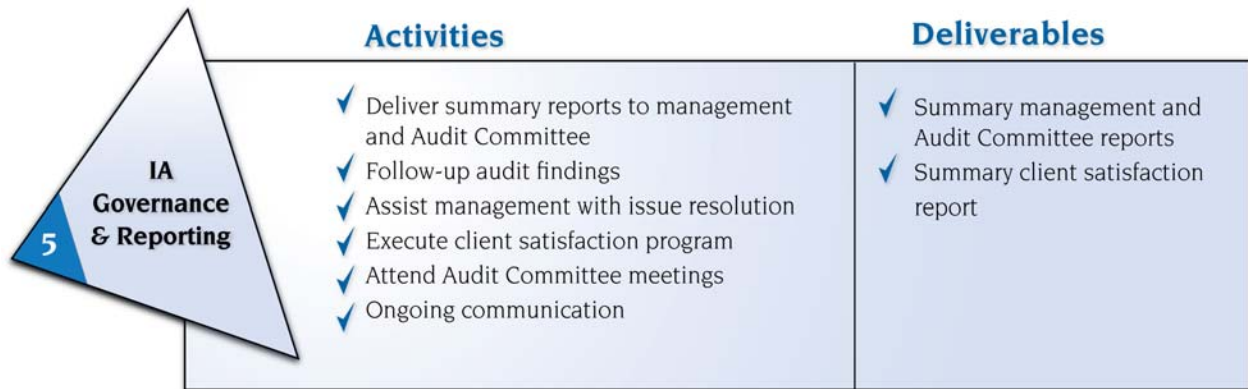
Phase V: Internal Audit Governance and Reporting

We will work with you to prepare and present information appropriate for the Audit Committee. We would expect such information to include the following:

- Status of the internal audit plan, including updates or revisions;
- Results of audit work performed, including trends identified and the nature of any key observations and recommendations made;
- Significant changes in the risk profile of any business unit, process, or other activity reviewed;
- Past-due audit recommendations along with revised implementation dates, as applicable.

INTERNAL AUDIT APPROACH (CONTINUED)

Below is a summary of the activities and deliverables associated with the final phase of our engagement.



Important Issues and Risks

Based on our understanding of the City, and experience with similar engagements we have identified the following areas where internal audit services would help improve the City's operations, improve the effectiveness of risk management, control, and governance processes and improve the City's effectiveness and efficiency. These are areas that could potentially be covered in the City's internal audit plan.

- Month end and year-end financial reporting and close
- Expenses of senior management
- IT Security
- Petty cash and change funds
- Procurement of goods, services, and construction
- Subrecipient grant monitoring
- Federal and State law compliance
- Proper adherence and communication of established policies and procedures
- Assurance that established policies are updated where necessary for changes in technology or business processes
- Assurance that transactions have adequate audit trails and documentation
- Proper segregation of duties
- Investigation of budget overdrafts at the financial statement, grant, and contract, level
- Billing and cash receipts processes at various City locations
- Contract and grant compliance
- Assessment of fraud prevention and detection programs and follow up on whistle blower alerts
- Work flow analysis - assignment of responsibilities.
- Interdepartmental communication/responsibilities.



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PROFESSIONAL FEES

Our fees are based on the time spent on the engagement and the billing rates of the individuals assigned. We are a local firm, and as a result, our overhead rates are lower than larger firms and we like to pass this savings on to our clients. In addition, we believe that our clients are entitled to and should expect us to perform our engagements in an effective and efficient manner.

If fees become a concern during your decision making process, we suggest that you contact us. We understand that fees are important in your decision-making process, but we do not want this to be the determining factor in making your decision. We are committed to investing substantial firm resources in continuing our long-term relationship with the City of Rapid City. We view this engagement as a unique opportunity to establish a platform for us to demonstrate our ability to be a valued business partner for the City of Rapid City.

We would propose to invoice on a time and material basis. However, prior to the initiation of each project under the arrangement, as part of co-developing the scope and staffing required, we would present you with a proposed hourly budget and aggregate fee based on expected level of effort by professional. We would expect to deviate from this estimate only if circumstances necessitate – for example the scope of the project is increased based on interim findings, the subject of the audit is not prepared or there are other similar matters outside of our control. The fees would only be adjusted after consultation and agreement with you.

While we anticipate that you will find significant value in leveraging our specialty resources to complement the strengths and skills of your team, we have not made any assumptions as to the percentages of work by level or skill-set as this will be driven by your needs which may change over time and will be co-developed with you after commencement of the engagement.

The table below lists our proposed rates per hour for our core team.

Level of Professional	Hourly Rate
Shareholder	\$150.00
Manager	106.00
In-Charge	90.00
Staff	70.00



Scott A. Becker, Partner
Stephen K. Bjorkman, Partner
Ronald L. Ecklund, Partner
Lanelle Herink, Partner
Cynthia R. Love, Partner
Patrick A. Meyer, Partner

Trina R. Burenbeide
Jordan D. Dowdy
John J. Hanigan
Kristine B. Locke
Kevin G. Lora
James D. Schulz
Krystal L. Siebrandt
Bryce J. Wilson
Elizabeth A. Wood

August 15, 2008

To the Shareholders
Casey Peterson & Associates, Ltd.

We have reviewed the system of quality control for the accounting and auditing practice of Casey Peterson & Associates, Ltd. (the firm) in effect for the year ended March 31, 2008. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 because the degree of compliance with the policies and procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Casey Peterson & Associates, Ltd. in effect for the year ended March 31, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

HBE Becker Meyer Love LLP