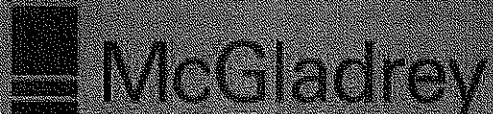


# City of Charlotte, North Carolina

Turn Over Review (Amended)

September 25, 2013

**Prepared By:**





**McGladrey LLP**

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September 25, 2013

City of Charlotte, North Carolina  
 600 East 4<sup>th</sup> Street  
 Charlotte, NC 28202

McGladrey LLP ("McGladrey"), is pleased to have the opportunity to continue to build our relationship with the City of Charlotte ("City") and present our qualifications, firm experience, and ideas for a turn over review for the airport for the City. Our goal is simple; we will demonstrate that (1) we understand your business, along with the significant risks and challenges you encounter on a daily basis, and (2) the engagement team we assembled is uniquely the most qualified in providing internal audit services to large complex public sector organizations similar to that of the City. We fully understand the services to be provided.

**Firm's Qualifications**

McGladrey is one of the nation's largest accounting firms. We are a diversified practice in more than 100 cities across the United States. The Firm is comprised of more than 8,000 professional staff. Internationally, the Firm is known as RSM International and is represented in 75 countries by established firms offering the combined skills of over 20,000 professional staff in nearly 600 offices. Our roots in North Carolina go back to the early 1900s -- we have served clients from our Greensboro office since 1908. We now serve our clients from eight other offices located in Charlotte, Greenville, Morehead City, New Bern, Raleigh, Rocky Mount and Wilmington. This proximity of offices provides increased industry focus and improved client service delivery. Our professionals are extensively involved with our clients through their implementation of a hands-on approach to providing high-quality service. Presented below is a table of the top accounting firms in the United States as reported by *Inside Public Accounting*.

THE 2012 accountingTODAY TOP 100 FIRMS											
RANK	12	11	Firm	Headquarters	Chief executive	Year end	REVENUE	Offices	Firm	US Revenue (\$M)	
							\$ mn.	% chg.			
1	1	1	Deloitte §	New York City	Jose Echevarria	Dec	11,939.00	9.15	100	Deloitte	\$11,939
2	2	2	PwC §	New York City	Robert Moritz	June	8,844.00	10.08		PricewaterhouseCoopers	\$8,844
3	3	3	Ernst & Young §	New York City	Steve Howe	June	7,500.00	5.67		Ernst & Young	\$7,500
4	4	4	KPMG §1	New York City	John Veihmeyer	Sept	5,361.00	0.00		KPMG	\$5,361
5	5	5	McGladrey & Pullen?	Bloomington, Minn.	Joe Adams	April	1,379.42			McGladrey	\$1,370

The combination of local presence and national strength assures that you will receive exceptional advice from professionals experienced in the industry, prompt responses to your needs and questions, and timely and cost-effective delivery of services. With national firm resources and a local firm service philosophy, the City gets "The Best of Both Worlds." Being a national firm, we are large enough to offer the breadth of services to address a variety of needs the City may have. You get the benefit of our knowledge first-hand, one-on-one. Through our local firm service philosophy, we design every audit specifically to meet the needs of our clients, and have the ability to continuously modify our approach as changes occur affecting our clients providing greater value and efficiency in the audit.

### Firm's Experience

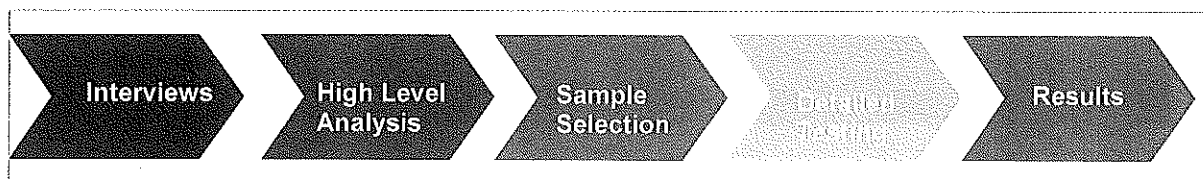
Government auditing and accounting is one of the most dynamic aspects of public accounting. Our firm has made the public sector industry one of its main industry focuses, which includes municipalities, school districts, not-for-profits, and other governmental entities. In fact, the public sector represents one of our largest industries in the Southeast. We serve over 2,700 such organizations across the country, including over 600 government clients. We recruit and hire individuals who are passionate and committed to the industry - individuals who want to assist clients in achieving their goals. Internal Audit is a core competency of our business and our largest service line in our Consulting practice. We have deep methodologies and the right tools to serve you. Our Internal Audit professionals provide services to over 500 clients nationally.

### Our Team

McGladrey has a dynamic group of professionals dedicated to providing auditing services to governments in the Southeast. In fact, this group of individuals in our public sector spends 100% of their time serving large complex governmental organizations such as the City. These leaders include Certified Public Accountants, Certified Fraud Examiners, Certified Information Systems Auditors and Certified Internal Auditors that have been providing attest and auditing services in the government arena for over 20 years.

### Scope of Services

Phase 1 of this review would target the core high-risk focus areas identified by management as outlined below. We would be using the approach noted in the following schematic. After the appropriate interviews for the core high-risk focus areas, we would conduct a high level analysis of each function and perform sample testing of compliance and process. Initial analysis will be designed under the expectation that applicable policies and procedures are being followed and relevant controls are appropriately designed and functioning. Based on the results of our Phase 1 testing and communication with, and approval of, management, additional testing can be performed which would include a deeper analysis and expanded testing on selected focus areas already subjected to the Phase 1 review. Additionally, management may add additional functions to Phase 1 testing (see chart below) at any point.



The following are identified as the initial Phase 1 core high-risk focus areas identified for testing:

<p><b><i>Billing and Revenues to include Rental Agreements and Contract Management-</i></b></p> <ul style="list-style-type: none"> <li>• We will conduct interviews, facilitated sessions, 'walk-throughs' and produce maps of the processes (flowcharts) related to the procedures put into place around the rental agreements, contract management and billing to gain and document our understanding. These should be conducted and completed over a 2 day period based on availability of management and key process owners.</li> <li>• From those vetted process maps, we will assess the design of those processes as they relate to internal controls and risks. Any control gaps noted will be identified at that time.</li> <li>• Next we will select a sample using judgment and management input and perform detailed testing to determine the effectiveness of the controls in place.</li> <li>• Throughout these steps we will communicate with management our findings and progress.</li> <li>• A detailed report will be provided including recommendations and any identified findings.</li> </ul>
<p><b><i>Internal Controls, and Project Accounting and Capitol Asset Accounting, to include Grant Budgeting &amp; Accounting</i></b></p> <p>Consistent with the procedures above, this process would include:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of internal controls, and project accounting and budgeting through facilitated sessions and interviews to produce a map of the process.</li> <li>• Utilizing the process maps, we would assess the effectiveness of the process design for risks and controls, identifying control gaps as applicable.</li> <li>• Next we would select a judgmental sample and perform detailed testing to determine the effectiveness of the controls in place.</li> <li>• Throughout these steps we will communicate with management our findings and progress.</li> <li>• A detailed report will be provided including recommendations and any identified findings.</li> </ul>
<p><b><i>Airport Special Statements Reconciliation with the CAFR-</i></b></p> <p>Our financial reporting subject matter experts will assist management in creating a "cross walk" between the airports's internal financial reporting, the audited standalone airport financial statements, and the reconciliation of the standalone financial statements with the City's CAFR.</p>
<p><b><i>Contract Facility Charges</i></b></p> <p>We will review for accuracy and compliance.</p>
<p><b><i>Debt Management</i></b></p> <p>We will focus on timely expenditure of bond proceeds and private activity use limitations.</p>
<p><b><i>Expense Reimbursements to the City</i></b></p> <p>This will entail the review of costs reimbursed to the City and allocations of indirect and other costs to the Airport.</p>

If Management desires, Phase 1 can be expanded to include the following areas within our review under the same approach noted above:

<b>Passenger Facility Charges</b>	\$10,000 - \$15,000
<b>Land Acquisition Process</b>	\$5,000 - \$10,000
<b>Parking Lot Revenue</b>	\$8,000 - \$14,000

### Fees and Hourly Rates by Staff Level

Our rates per hour are noted below. Based on the 3 initial Phase 1 core high risk focus areas noted above, we estimate that our fee would range within \$64,000 to \$84,000, plus out of pocket expenses depending on circumstances encountered. This does not include a compliance review of the USAirways contract. You acknowledge that this is our good faith estimate based upon our understanding of the engagement assumptions and the facts and circumstances we are aware of at this time. The fees may be different based upon circumstances we or you become aware of as the project progresses. Fees for services of this type are always difficult to estimate and the work is most efficiently performed with one team continuously in the field rather than stopping and re-starting. Our fee estimates are based on management's stated goal of identifying areas to be tested and having testing completed in conjunction with Phase 1. If circumstances are encountered that affect our ability to proceed according to the plan outlined above, such as major scope changes, loss of key Client personnel, unavailable information or undetermined or requested scope changes during our scoping efforts, we will inform you promptly and seek your approval for any changes in scope, timing or fees that may result from such circumstances. Attached please find our standard general terms and conditions.

### Fees and Hourly Rates by Staff Level

Staff Level	Hourly Rate
Partner/Director	\$250
Specialist	\$225
Manager	\$225
Senior / Staff	\$150

### Timeline

As noted in the scope of services above, the first step of our review includes conducting interviews and facilitated sessions with selected members of management and key process owners. We can start those sessions as soon as the week of September 30<sup>th</sup>. From those sessions, we can have our detailed request list to you within a week. This will include the draft process map for your review and approval. Once we receive notification that the process owners are ready for us, our sample selection and detailed testing should be conducted and completed in two weeks' time. We would require an additional week or two for any wrap up and report writing and then be ready for our exit conference. We understand the staff we will be working with are very busy and we strive to be efficient and respectful of their time and efforts. Our timeline can be as flexible as possible however we will not be able to complete the review without sufficient time from those key process owners and management. Thus we will actively communicate with our liaison of our progress and any issues throughout the engagement.

We would like to emphasize one final point: We want to be your trusted advisor. Our clients will tell you that McGladrey provides more than just audits. We look "beyond the numbers" to identify insights that add value to your organization. Given the challenging economic times we are in, we realize and appreciate the need for governments to obtain real value for their purchases of goods and services. We have been able to benefit from our expertise and knowledge serving governments. Through our in-depth knowledge and understanding of the audit and business risks affecting governments, we are able to execute a very effective and efficient risk-based audit approach. Consequently, we are able to be very price competitive, resulting in savings which have been passed on to our clients. This means you will obtain the extensive resources and expertise of a national firm together with a very competitive fee structure similar to that of a local firm.

"The Power of Being Understood" is our brand promise and speaks directly to how we differentiate ourselves in the marketplace. By bringing together the collective talents, scale and power of the firm, we make a commitment to consistently seek and deliver deeper understanding of your needs, desires and challenges through every interaction. We believe McGladrey is the best choice to serve the City.

Respectfully Submitted,

**McGLADREY LLP**

*W. Louis Cannon*

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W. Louis Cannon  
Partner

Acknowledged and accepted:

City of Charlotte, North Carolina

By: *R. C. C.* Date: 9/27/13  
Authorized Representative



## General Business Terms

These General Business Terms (the "Terms") will govern the services provided by McGladrey as described in the Engagement Letter or Proposal (the "Engagement Letter or Proposal") executed by Client and McGladrey in which these Terms are included. These Terms, together with the Engagement Letter or Proposal and any of its attachments, constitute the entire understanding and agreement between Client and McGladrey with respect to the services described in the Engagement Letter or Proposal (collectively, the "Agreement"), supersede all prior oral and written communications, and may be amended, modified or changed (including changes in scope or nature of the services or fees) only in writing when signed by both parties. If there is a conflict between these Terms and the terms of the Engagement Letter or Proposal, these Terms will govern.

**1. Confidentiality** With respect to any information supplied in connection with this Agreement and designated by either party as confidential, or which the recipient should reasonably believe is confidential based on its subject matter or the circumstances of its disclosure, the recipient agrees to protect the confidential information in a reasonable and appropriate manner, and use and reproduce the confidential information only as necessary to perform its obligations under this Agreement and for no other purpose. The obligations in this section will not apply to information which is: (i) publicly known; (ii) already known to the recipient; (iii) lawfully disclosed by a third party; (iv) independently developed; or (v) disclosed pursuant to legal requirement or order. Subject to the foregoing, the recipient may disclose the confidential information on a need-to-know basis to the recipient's contractors, agents and affiliates who agree to maintain its confidential nature.

**2. Deliverables** (a) Upon full payment of all amounts due McGladrey in connection with this Agreement, all right, title and interest in the deliverables set out in the Engagement Letter or Proposal will become Client's sole and exclusive property, except as set forth below. McGladrey will retain sole and exclusive ownership of all right, title and interest in its work papers, proprietary information, processes, methodologies, techniques, ideas, concepts, trade secrets, know-how and software, including such information as existed prior to the delivery of the services and, to the extent such information is of general application, anything which McGladrey may discover, create or develop during the provision of services for Client. Except for software owned by and/or proprietary to McGladrey, to the extent the deliverables contain McGladrey's proprietary information, McGladrey grants Client a non-exclusive, non-assignable, royalty-free license to use it in connection with the deliverables and the subject of the Engagement Letter or Proposal and for no other or further use. To the extent the deliverables contain the proprietary information of a third party, Client agrees to comply with such third party's terms of license as the same are communicated to Client.

All licenses to software (including any enhancements to software) will be licenses to object code only.

(b) Client acknowledges and agrees that any advice, information or work product provided to Client by McGladrey in connection with this engagement is for the sole benefit and use of Client.

**3. Warranty** McGladrey warrants that the services will be performed with reasonable care in a diligent and competent manner. McGladrey's sole obligation will be to correct any nonconformance with this warranty or, if McGladrey cannot correct the nonconformance, to refund to Client the amount paid to McGladrey for the portion of the services or deliverables that does not conform to this warranty; provided that Client gives McGladrey written notice within thirty (30) days after the services are performed or, if applicable, deliverables are delivered. The notice will specify and detail the nonconformance and McGladrey will have a reasonable amount of time, based on its severity and complexity, to correct the nonconformance. Except for assistance provided by subcontractors or entities affiliated with McGladrey as explicitly identified to Client, McGladrey does not warrant and is not responsible for any third-party products or services. Client's sole and exclusive rights and remedies with respect to such third-party products or services are against the third-party vendor and not against McGladrey.

THIS WARRANTY IS MCGLADREY'S ONLY WARRANTY CONCERNING THE SERVICES AND ANY DELIVERABLE, AND IS MADE EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES AND REPRESENTATIONS, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR OTHERWISE, ALL OF WHICH ARE HEREBY DISCLAIMED.

**4. Indemnification** (a) Each party agrees to indemnify, hold harmless and defend the other from and against any and all claims, actions, fees, expenses, costs, damages, losses and liabilities (including reasonable attorneys' fees) (collectively,

“Liabilities”) for bodily injury or death of any person or damage to real or tangible personal property which the other party may sustain or incur, to the extent such Liabilities result from the negligence or willful misconduct of the indemnifying party, its employees, agents or representatives.

(b) McGladrey agrees to indemnify, hold harmless and defend Client from and against any and all Liabilities to the extent such Liabilities result from the infringement of any third party’s intellectual property by any deliverables provided under this Agreement. The foregoing indemnification will not apply to the extent any infringement results from: (i) the use of the deliverables other than in accordance with the terms of this Agreement and any applicable documentation or instructions supplied by McGladrey; (ii) any modification to the deliverables not expressly agreed to in writing by McGladrey; or (iii) the combination of the deliverables with any materials not provided or expressly approved by McGladrey.

**5. Liability** Except for each party’s indemnification obligations under this Agreement, the total liability of Client and McGladrey (and their respective affiliates, partners, officers, directors, employees, contractors, agents and representatives) relating to this Agreement will in no event exceed an amount equal to the fees paid (in the case of McGladrey’s liability) or owing (in the case of Client’s liability) to McGladrey under this Agreement. In no event will Client or McGladrey (or their respective affiliates, partners, officers, directors, employees, contractors, agents or representatives) be liable for any special, consequential, incidental, punitive or exemplary damages or loss (nor any loss of profits, savings, data, use of software or hardware or business opportunity, or interruption of business) even if advised of the possibility of such loss.

**6. Termination** (a) Either party may terminate this Agreement at any time, with or without cause, upon fifteen (15) days’ prior written notice to the other party.

(b) If Client terminates, the Client will pay McGladrey for all services rendered (including deliverables and products delivered), expenses incurred and commitments made by McGladrey through the effective date of termination.

**7. General** (a) Except for the payment of money, neither party will be liable for any delays or failures

in performance due to circumstances beyond its reasonable control.

(b) No term of this Agreement will be deemed waived, and no breach of this Agreement excused, unless the waiver or consent is in writing signed by the party granting such waiver or consent.

(c) Neither party may assign or transfer this Agreement without the other party’s prior written consent, except in connection with (i) the sale of all or substantially all of the party’s assets or a line of business sale; (ii) the sale of a majority of the capital stock of the party or (iii) the merger of the party with another entity. In each such instance, the party may transfer the Agreement to the acquirer or surviving company (in the case of a merger).

(d) Any notices given pursuant to this Agreement will be in writing, delivered to the addresses set forth in the Engagement Letter or Proposal (unless changed by either party by notice to the other party), and will be effective upon receipt.

(e) If any term or provision of this Agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

(f) Each party is an independent contractor and not an employee, agent, joint venturer or partner of the other.

(g) McGladrey may from time to time use third-party subcontractors and service providers, or affiliates, including related entities, located within or outside of the United States, to assist it in delivering specific products or services to Client. In such cases and except as provided herein, McGladrey will continue to be responsible for the obligations set forth in these Terms. The management of and all financial arrangements with subcontractors will be McGladrey’s responsibility.

(h) The terms of this Agreement which by their nature are to survive this Agreement will survive its expiration or termination.

(i) The parties acknowledge that they may correspond or convey documentation via various forms of electronic transmission (including, but not limited to, e-mail, FTP, and cloud-based sharing and hosting applications) and that neither party has control over the performance, reliability, availability or security of



these electronic transmission methods. Therefore, neither party will be liable for any loss, damage, expense, harm, disclosure, or inconvenience resulting from the loss, delay, interception, corruption, disclosure, or alteration of any electronic transmission due to any reason beyond its reasonable control.

(j) Neither party intends that there be any third-party beneficiaries to this Agreement.

(k) Neither party will use the other party's name, trademarks, service marks, logos, trade names and/or branding without such party's prior written consent. Notwithstanding the foregoing, McGladrey may mention Client's name and provide a general description of the engagement in McGladrey's client lists and marketing materials.

(l) The parties agree that this Agreement and any dispute or claim arising out of or relating to this Agreement or the services will be governed by and construed in accordance with the laws of the state of North Carolina without regard to such state's laws of conflicts. The parties agree that all litigation or other legal proceedings under this Agreement will be brought in the state or federal courts located therein. The parties agree to this choice of law, jurisdiction and venue, and waive the defense of an inconvenient forum. Additionally, the parties waive trial by jury and agree that any dispute or claim should be resolved by a judge without a jury.

(m) Any action against either party by the other in connection with this Agreement must be brought within eighteen (18) months after the cause of action arises.

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## Our Promise to YOU

At McGladrey, it's all about understanding our clients -  
Your business,  
Your aspirations,  
Your challenges.  
And bringing fresh insights and  
tailored expertise to help you succeed.

McGladrey LLP is the largest U.S. provider of assurance, tax and consulting services focused on the middle market, with more than 6,500 professionals and associates in 75 offices nationwide. McGladrey is a licensed CPA firm and a member of RSM International, the sixth largest global network of independent accounting, tax and consulting firms.

McGladrey, the McGladrey signatures, The McGladrey Classic logo, The power of being understood, Power comes from being understood and Experience the power of being understood are trademarks of McGladrey LLP.

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