



Brentwood Union Free School District Independent Audit Services

Report of Examination

Period Covered:

July 1, 2002 - June 30, 2004

2005M-71

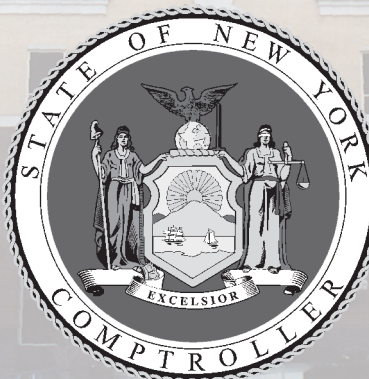


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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

April 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where local governments and school districts can improve their operations and provide guidance and services that will assist local officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage local government and school district officials to reduce costs, improve service delivery and to account for and protect their entity's assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Brentwood Union Free School District — Independent Audit Services.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the Board of Education.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The fiscal operations of the Brentwood Union Free School District (District) were audited by the Office of the State Comptroller. The results of that audit were discussed in a separate report. This report addresses one phase of that audit, the procurement of quality audit services. The District is required to have an annual financial statement audit and contracted with certified public accounting (CPA) firm, Callaghan Nawrocki, LLP, to perform this service from the 1992-1993 fiscal year until the 2003-2004 fiscal year. The District recently hired a new CPA firm (Coughlin Foundotos Cullen & Danowski, LLP) to audit the annual financial statements for the 2004-2005 fiscal year.

Scope and Objectives

We reviewed the audit service procurement procedures of the District and the work of the CPA firm retained by the District to audit its general purpose financial statements for the fiscal years ended June 30, 2003 and June 30, 2004. The objectives of our audit were to determine the adequacy of existing practices for the procurement of audit services and the effectiveness of such audit services as a means for the timely detection of errors and irregularities. Our audit addressed the following questions:

- Did the District have appropriate policies and procedures for procuring audit services?
- Did the audit work of the CPA firm meet the purposes, terms and conditions of the contract of engagement and provide effective oversight for District fiscal operations?

Audit Results

The District does not have a policy to procure its annual audit services. Instead, the District contracted with the same CPA firm each year from the 1992-1993 fiscal year through the 2003-2004 fiscal year. However, the District received proposals from three firms and contracted with a new CPA firm to perform the annual audit service for the fiscal year ending June 30, 2005.

While the CPA firm's work satisfied the minimum requirements of generally accepted auditing standards, we noted two areas where the firm could have improved its audit approach and documentation. The auditors did not document how the CPA firm planned to respond to four of the five fraud risks identified during planning. Also, the CPA firm did not test for the existence of capital assets.

Comments of Local Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix C, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The fiscal operations of the Brentwood Union Free School District (District) were audited by the Office of the State Comptroller. The results of that audit were discussed in a separate report. This report addresses one phase of that audit, the procurement of quality audit services.

The Board of Education (Board) is ultimately responsible for the safeguarding of District assets. The Board meets this responsibility by establishing a structure of internal controls designed to prevent or detect errors and irregularities. It is the Board's duty to make certain that established controls are appropriately designed and operating effectively. Such controls provide the Board with reasonable assurance that District assets are adequately safeguarded. The Board ensures the quality of its established controls through timely oversight of the District's fiscal operations.

One aspect of an effective system of internal controls is an annual audit performed by an independent public accountant.¹ Such an audit can be an effective oversight tool for school district managers by providing for the timely detection of errors or irregularities. The effectiveness of the annual independent audit as a control is dependent on the scope and quality of such audit and the resultant communications to management. Audit scope and quality is governed largely by generally accepted government auditing standards² (GAGAS). Such standards speak to the qualifications and responsibilities of the professionals conducting the audit, the quality of the audit work to be performed and the required communications to management. The audit scope, applicable professional standards and engagement expectations are documented in the public accountant's engagement letter³ to the governing board.

¹ Education Law and Regulations of the Commissioner of Education require that an external audit be conducted by a certified public accountant in accordance with generally accepted government auditing standards (GAGAS). Although required by legal statute, the school district exercises its discretion in choosing a qualified independent auditor. The independent auditor issues an opinion on the school district's annual financial statements and its compliance with certain laws and regulations and issues a report on its internal controls. The auditor may also issue reports related to federal award programs that the school district administers. The report on the school district's financial statements must be filed with the NYS Education Department by October 1 each year.

² Refer to Appendix A.

³ Refer to Appendix B.

It is the Board's responsibility, through its established policies and procedures, to ensure that quality audit services are procured. This responsibility is further defined in statute. General Municipal Law (Section 104-b), requires political subdivisions, including school districts, to adopt procurement policies and procedures. That statute requires that goods and services which are not required by law to be procured pursuant to competitive bidding must be procured in a manner so as to assure the prudent and economical use of public moneys in the best interest of the taxpayers. The stated purpose of the statute is to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and to guard against favoritism, improvidence, extravagance, fraud and corruption.

Objectives

The objectives of our audit were to determine the adequacy of existing practices for the procurement of audit services and the effectiveness of such audit services as a means for the timely detection of errors and irregularities. Our audit addressed the following questions:

- Did the District have appropriate policies and procedures for procuring audit services?
- Did the audit work of the CPA firm meet the purposes, terms and conditions of the contract of engagement and provide effective oversight for District fiscal operations?

Scope and Methodology

We examined the independent audit services of the District for the 2002-2003 and 2003-2004 fiscal years.

We conducted our audit in accordance with generally accepted government auditing standards. More information on such standards and the methodology used in performing this audit are included in Appendices A and D of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix C, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District clerk's office.

PROCUREMENT OF AUDIT SERVICES

The District did not have any written policies and procedures for the procurement of professional services, including audit services. The District's Purchasing Guide is silent with regard to the means by which professional services are to be procured. As a result, the District did not procure audit services in an effective manner.

District officials did not solicit requests for proposals (RFPs) for auditing services for the District's fiscal years 2002-2003 and 2003-2004. The associated fees paid by the District for the two years' services amounted to \$42,000 and \$44,000, respectively. The certified public accounting (CPA) firm (Callahan Nawrocki, LLP) retained to provide the foregoing audit services had been performing these same services for the District since 1993. The Board simply continued to re-appoint the same CPA firm to serve as the District's independent auditor.

We expanded our review to determine how the District procured its professional services contract for the audit of its general purpose financial statements for the fiscal year 2004-2005. The District Clerk informed us that three CPA firms were contacted by telephone in June 2004 and were requested to submit proposals for audit services for the school year ended June 30, 2005. We found no evidence that the District had prepared a written RFP for these audit services. All three firms, including Callahan Nawrocki LLP, submitted proposals for the audit of the general purpose financial statements. On July 20, 2004, after reviewing the proposals submitted by the firms, the Board of Education appointed the CPA firm Coughlin Foundotos Cullen & Danowski, LLP to perform the audit for the 2004-2005 fiscal year at a cost of \$44,000. There is no indication in the minutes and no other documentation on hand to indicate how the firm was chosen.

As of October 2005, the Board had still not adopted written policies or procedures to indicate how audit services are to be procured in the future. In addition, the District's Purchasing Guide did not indicate how often audit services should be solicited.

Although the procurement of professional services is not subject to the requirements of the competitive bidding law, the Board should take measures to ensure the prudent and economical use of public moneys. Alternative proposals secured by RFP's could benefit the District by providing a comparison of the qualifications and fee structure of various firms providing audit services. Education Law was recently amended to require, beginning on July 1, 2005, that school districts utilize a competitive request for proposals process when contracting for the annual audit. In addition, no audit engagement can be for a term longer than five years.

Recommendations

1. The Board should establish policies and procedures relating to the procurement of professional services, including audit services. Such policies and procedures should include RFP guidelines to be followed when procuring contracts for audit services.
2. District officials should prepare a well planned written RFP for all subsequent audit services. District officials should refer to the "RFP Template for School Districts Seeking Audit Services" prepared by the Office of the State Comptroller for guidance in preparing the RFP.
3. Written proposals should be obtained and retained on file at District offices. Contracts should then be awarded to the best qualified firm offering the most economic proposal for the services being solicited.
4. An RFP for audit services must be issued at least every five years.

EFFECTIVENESS OF AUDIT SERVICES

The District contracted with the CPA firm Callaghan Nawrocki, LLP, to conduct an independent audit of its financial statements for the two fiscal years addressed by our audit. As a result of their audit work, the CPA firm issued an unqualified opinion to the District for each fiscal year.

We assessed the effectiveness of the District's independent audit as an oversight tool for District managers by determining whether contractual audit services provided to the District met the terms and provisions of the engagement contract, including professional auditing standards.⁴ Our review considered requirements under the standards concerning independence, planning the audit, obtaining evidence, and reporting on matters found during the audit, and covered the financial statement audits for the District's 2002-2003 and 2003-2004 fiscal years.

Generally accepted government auditing standards, as promulgated by the Government Accountability Office of the United States, consist of a series of measures intended to ensure quality audit work. The June 1994 standards were applicable for the 2002-2003 fiscal year audit, while the revised June 2003 standards were applicable for the 2003-2004 fiscal year. The criteria for the 2002-2003 fiscal year audit are structured around four general standards, nine fieldwork standards and nine reporting standards. The criteria for the 2003-2004 fiscal year audit are structured around four general standards, eight fieldwork standards and ten reporting standards. Non-compliance with one of these standards would be cause for concern and could result in a referral to the State Board of Accountancy.

Our audit of the CPA firm's work for the District revealed certain problems relating to compliance with standards for the consideration of fraud and evidential matter for both 2002-2003 and 2003-2004 fiscal year audits. Generally accepted government auditing standards state:

- The auditor has the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

⁴ Refer to Appendix A.

Fieldwork Standards
– Planning the Audit
– Consideration of Fraud

- Sufficient competent evidential matter is to be obtained through inspection, observation inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Our review of the CPA firm’s workpapers documenting audit planning for the 2002-2003 and 2003-2004 fiscal years revealed that generally accepted government auditing standards may not have been satisfied regarding the documentation of the consideration of fraud when planning the audit. The planning phase of the audit is critical to the success and quality of the resultant fieldwork and communication to management. The information gathered during the planning phase will help the auditor determine the nature, timing and extent of audit tests needed to accomplish the audit objectives (and adhere to professional standards).

The AICPA Statements on Auditing Standards (AU316) require auditors to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The Statement on Auditing Standards No. 82 (SAS 82), “Consideration of Fraud in a Financial Statement Audit,” was effective for audits of financial statements for periods ending on or before December 15, 1997 and the Statement on Auditing Standards No. 99 (SAS 99), “Consideration of Fraud in a Financial Statement Audit,” is effective for audits of financial statements for periods beginning on or after December 15, 2002. Our review of the CPA firm’s workpapers for the 2002-2003 and 2003-2004 fiscal years indicated that the CPA firm may not have satisfied the standards that require the consideration of fraud.

The planning section of the 2002-2003 and the 2003-2004 CPA firm’s audit workpapers included several standardized forms (checklists) designed to document the firm’s consideration of fraud. The checklists were:

- GCX-5: Governmental Fraud Risk Assessment Form
- GCX-5c: Considering Fraud Risk Factors for Governmental Financial Statement Audit Engagements
- GCX-5d: Considering Fraud Risk Factors for an Audit of Federal Award Programs

The planning section of the 2003-2004 CPA firm's workpapers contained additional standardized forms designed to demonstrate compliance with SAS 99, which became effective for the 2003-2004 fiscal year. The SAS 99 checklist included the following:

- GCX-5a: Fraud Risk Discussion Among Engagement Team Members for Governmental Audit Engagements
- GCX-5b: Inquiries of Management and Others about the Risks of Fraud for Governmental Audit Engagements

In both fiscal years, the auditors identified five potential fraud risks on form GCX-5 including management override of controls, improper revenue recognition, improper expense allocation, mismanagement of moneys and fraudulent cash disbursements. Although the forms indicated that an audit response was required for each of the fraud risks, the auditors identified only how the CPA firm planned to respond to the fraud risk relating to management override of controls. There was no indication on the forms of how the CPA firm planned to respond to the other potential fraud risks that they found.

Fieldwork Standards – Evidential Matter

Our review of the CPA firm's workpapers documenting the audit of the School District's capital assets revealed that generally accepted government auditing standards may not have been satisfied regarding the existence of capital assets.

The AICPA Statements on Auditing Standards (AU 326) requires that sufficient competent evidential matter be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. To assess the adequacy of the evidence obtained to support the CPA firm's conclusions and judgments, we reviewed its work in the revenue/receipt, expenditure and fixed assets cycles.⁵ Our review of the CPA firm's audit programs and workpapers supporting testing of fixed assets for the 2002-2003 and 2003-2004 fiscal year audits indicated that the CPA firm was in compliance with generally accepted government auditing standards except for verifying the existence of capital assets.

⁵ Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditor's significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report. (GAGAS Section 4.22)

The audit program and resulting audit testing conducted by the CPA firm did not include the physical verification of capital assets susceptible to misappropriation. Based upon the exceptions we discovered during our audit of the District, which were not found by the CPA firm during their audit, we believe that an expansion of the CPA firm's audit procedures would have resulted in additional evidential matter.

The CPA firm used a standardized audit program entitled "Governmental Audit Program for Fixed/Capital Assets and Expenditures" (GAP-10) for its review of District owned assets. The CPA firm conducted tests to determine whether the School District's capital asset inventory record had been updated to account for significant purchases and disposals for the 2002-2003 fiscal year and the 2003-2004 fiscal year. The objective of the tests was to determine the accuracy of the capital assets inventory record. However, we believe the CPA firm should have tested for the existence of capital assets included in the District's existing inventory record. Our audit work at the District revealed that of 538 assets listed on the District's inventory record that we tested, 44 items costing approximately \$83,000 were reported to have been discarded, lost or stolen, and 275 items were found at locations other than those listed on the inventory records.

The CPA firm's failure to test for the existence of capital assets listed in the District's inventory record indicates that sufficient evidential matter was not obtained to form an opinion regarding fixed asset assertions contained in the District's financial statements. In addition, the failure to verify the existence of capital assets in order to obtain sufficient, competent evidential matter to support the firm's conclusions raises questions about the accuracy and/or reliability of the conclusions reached and reduces the effectiveness of the external audit as an oversight tool for District operations.

Recommendations

5. District officials and Board members should educate themselves on the scope and limitations of the annual independent audit. If audit services not covered by the annual audit are periodically needed, officials should consider expanding the scope of the audit or contracting for separate audits or reviews.
6. The Board should establish an audit committee whose membership has sufficient financial experience to successfully accomplish the following activities:

- Provide timely oversight of external and any internal audit work.
- Participate in the selection process for external and internal auditors.
- Ensure that the external auditors perform the audit of the District's financial statements in accordance with generally accepted government auditing standards.
- Review the District's financial statements before presentation to the Board.
- Monitor the District's corrective action plans.

APPENDIX A

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Education Law and Regulations of the Commissioner of Education require an external audit be conducted by a certified public accountant in accordance with generally accepted government auditing standards (GAGAS).

Generally accepted government auditing standards are promulgated by the Government Accountability Office of the United States. The “Yellow Book,” issued by the Comptroller General, contains guidelines for the conduct of financial statement audits that pertain to auditors’ professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. The Yellow Book incorporates the standards of the American Institute of Certified Public Accountants (AICPA) and adds additional requirements for government audits. The Yellow Book standards are outlined below.

Government Auditing Standards – 1994 Revision (Yellow Book)

(Effective for financial audits of periods ending on or after January 1, 1995)

This document contains standards for audits of government organizations, programs, activities and functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS) are to be followed by the auditors and audit organizations when required by law, regulation, agreement, contract, or policy. The standards pertain to auditors’ professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful reports.

The comprehensive nature of auditing done in accordance with these standards places on the audit organization the responsibility for insuring that:

1. The audit is conducted by personnel who collectively have the necessary skills
2. Independence is maintained
3. Applicable standards are followed in planning and conducting audits and reporting the results
4. The organization has an appropriate internal quality control system in place and
5. The organization undergoes an external quality control review.

General Standards

These general standards apply to all audit organizations, government and non-government (for example, public accounting firms and consulting firms), conducting audits of government organizations, programs, activities and functions, and of government assistance received by non-government organizations.

1. The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
2. In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
3. Due professional care should be used in conducting the audit and in preparing related reports.
4. Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

Field Work Standards

For financial statement audits, GAGAS incorporate the AICPA's three generally accepted standards for field work. AICPA and GAGAS require the following:

1. The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
2. Auditors should follow up on known material findings and recommendations from previous audits.
3. Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
4. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
5. Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.
6. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

7. Auditors should obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.
8. A record of the auditors' work should be retained in the form of working papers.
9. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

Reporting Standards

For financial statement audits, GAGAS incorporate the AICPA four generally accepted standards for reporting. AICPA and GAGAS require the following:

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with the financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.
5. Auditors should communicate certain information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom they have contracted for the audit.
6. Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.
7. The report on the financial statements should either (a) describe the scope of the auditors' testing of compliance with the laws and regulations and internal controls and present the results of those tests or (b) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.
8. If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

9. Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

Government Auditing Standards – 2003 Revision (Yellow Book)

(Effective for financial audits of periods ending on or after January 1, 2004)

General Standards

1. In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.
2. Professional judgment should be used in planning and performing audits and attestation engagements and in reporting the results.
3. The staff assigned to perform the audit or attestation engagement should collectively possess adequate professional competence for the tasks required.
4. Each audit organization conducting audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review.

Fieldwork Standards

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.
4. Auditors should communicate information regarding the nature, timing, and extent of planned testing and reporting and the level of assurance provided to officials of the audited entity and to the individuals contracting for or requesting the audit.
5. Auditors should consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit being undertaken.

6. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from violations of provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible violations of provisions of contracts or grant agreements that could have a material indirect effect on the determination of financial statement amounts or other financial data significant to the audit objectives, auditors should apply audit procedures specifically directed to ascertain whether violations of provisions of contracts or grant agreements have occurred or are likely to have occurred.
7. Auditors should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the financial statement amounts or other financial data, auditors should apply audit procedures specifically directed to ascertain whether abuse has occurred and the effect on the financial statement amounts or other financial data.
8. Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report.

Reporting Standards

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.
5. Audit reports should state that the audit was performed in accordance with generally accepted government auditing standards.
6. When providing an opinion or a disclaimer on financial statements, auditors should include in their report on the financial statements either a (1) description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of

contracts or grant agreements and the results of those tests or an opinion, if sufficient work was performed, or (2) reference to the separate report(s) containing that information. If auditors report separately, the opinion or disclaimer should contain a reference to the separate report containing this information and state that the separate report is an integral part of the audit and should be considered in assessing the results of the audit.

7. For financial audits, including audits of financial statements in which the auditor provides an opinion or disclaimer, auditors should report, as applicable to the objectives of the audit, (1) deficiencies in internal control considered to be reportable conditions as defined in AICPA standards, (2) all instances of fraud and illegal acts unless clearly inconsequential, and (3) significant violations of provisions of contracts or grant agreements and abuse. In some circumstances, auditors should report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties external to the audited entity.
8. If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.
9. If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.
10. Government auditors should submit audit reports to the appropriate officials of the audited entity and to appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations such as legislative bodies, unless legal restrictions prevent it. Auditors should also send copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless the report is restricted by law or regulation, or contains privileged and confidential information, auditors should clarify that copies are made available for public inspection. Non-government auditors should clarify report distribution responsibilities with the party contracting for the audit and follow the agreements reached.

APPENDIX B

ENGAGEMENT LETTER

Engagement History

The CPA firm that performed the annual audit of the District for fiscal years ending June 30, 2003 and June 30, 2004, had been performing this same service for the District since 1993.

The engagement letters to the Board, agreeing to conduct an audit of the District's general purpose financial statements as of, and for the years ending, June 30, 2004, contained the exact same language with no significant exceptions.

Scope

In the engagement letter to the Board, dated May 26, 2004, the CPA firm agreed to conduct an audit of the District's financial statements as of, and for the years ending, June 30, 2004. The stated purpose of this engagement was to express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the Districts compliance with laws and regulations and its internal controls as required by Government Auditing Standards and the Single Audit Act of 1996.

Audit Standards

The engagement letter states that these audits will be made in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; the Single Audit Act of 1996; the provisions of OMB Circular 133; and guidelines promulgated by the Department of Audit and Control of the State of New York, and will include tests of the accounting records and other procedures considered necessary.

Management's Responsibilities

The engagement letter also delineates the responsibilities of the District's managers. It states that management is responsible for maintaining internal control and for compliance with provisions of contracts, agreements, and grants. The letter also states that management is responsible for making all financial records and related information available to the CPA firm, for adjusting the financial statements to correct material misstatements and for confirming in the representation letter that the effects to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Management is responsible for the design and implementation of programs and control to prevent and detect fraud, and informing the CPA firm about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have material effect on the

financial statements. Lastly, the letter states that the management is responsible for follow-up and taking corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

CPA's Responsibilities

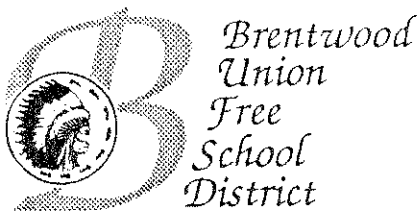
The CPA firm's various responsibilities are also defined in the letter. The engagement letter states that, among other things, the CPA firm is responsible for:

- Informing management of any material errors and any fraudulent financial reporting or misappropriation of assets.
- Informing management of any violations of laws or governmental regulations, unless clearly inconsequential. Designing the audit to detect errors and irregularities that would have a material effect on the financial statements. Informing the District of consequential irregularities that are discovered during the audit.
- Being aware of the possibility of illegal acts that have a direct and material effect on the financial statements. Informing the District of consequential violations of government laws and regulations that are discovered during the audit.
- Reporting on internal control deficiencies encountered while obtaining an understanding of the District's internal control structure. Such reportable conditions are defined as significant deficiencies in the design or operation of the internal control structure, which would adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Advising the District of any opportunities to improve the effectiveness or economy of operations that are observed during field work. Describing these (internal control) matters in a letter to management at the conclusion of the audit.
- Issuing the report no later than October 1 of the applicable year.

APPENDIX C

RESPONSES FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.



Les Black
Superintendent of Schools
Mark Nizewitz
Assistant Superintendent for Secondary Education
Christie Tedaldi
Assistant Superintendent for Elementary Education

Brentwood, New York 11717
Telephone (631) 434-2325
FAX (631) 273-6575

March 16, 2006

State of New York
Office of the State Comptroller
Division of Local Government Svs. and Economic Development
NYS Office Bldg., Room 3A-10
250 Veteran's Memorial Highway
Hauppauge, NY 11788

Dear [REDACTED]

We are in receipt of the report issued by your office, which examines the quality of the Independent Audit of the Brentwood School District for the periods ending 6/30/03 and 6/30/04. The audit firm for that time frame was Callaghan & Nawrocki, L.L.P.

We were generally pleased with the quality and integrity of the services of Callaghan & Nawrocki, L.L.P., as was confirmed by the audit results, but still requested that they respond to the concerns raised by your office. Included in the district response is a letter from Callaghan & Nawrocki, L.L.P., which addresses the audit exceptions. We find the response that they have submitted to be acceptable.

The paragraphs below serve to respond to the recommendations contained within the audit report.

Recommendation:

1. The Board should establish policies and procedures relating to the procurement of professional services, including audit services. Such policies and procedures should include RFP guidelines to be followed when procuring contracts for audit services.

Response:

The District is currently examining sample policies for professional services. The template utilized by the Comptroller's Office will also be reviewed. We expect to recommend a policy to the Board in April for review and adoption in May. The policy will cover RFP's for audit services as well as other appropriate professional services.

Recommendation:

2. District officials should prepare a well-planned written RFP for all subsequent audit services. District officials should refer to the "RFP Template for School Districts Seeking Audit Services" prepared by the Office of the State comptroller for guidance in preparing the RFP.

Response:

As indicated in the prior response, the State Comptroller's template for Audit Services will be reviewed by the Board with the plan to adopt a policy in May.

Recommendation:

3. Written proposals should be obtained and retained on file at District offices. Contracts should then be awarded to the best qualified firm offering the most economic proposal for the services being solicited.

Response:

The District always desires to ensure that the best services are provided at the most reasonable cost. When awarding an RFP, all submissions will be included in a letter to the Board of Education with a recommendation based on the criteria indicated above. The Purchasing Agent will maintain copies of all quotes received in his office.

Recommendation:

4. An RFP for audit services must be issued at least every five years.

Response:

We will ensure that an RFP for audit services is issued at least every five years.

Recommendation:

5. District Officials and Board Members should educate themselves on the scope and limitations of the annual independent audit. If audit services not covered by the annual audit are periodically needed, officials should consider expanding the scope of the audit or contracting for separate audits or reviews.

Response:

The District Officials and the Board as a whole understand the scope of an independent audit. They realize that an audit is designed to assess fraud risk through audit exceptions and testing various financial data prepared by the District. The Board appointed an internal auditor during August 2005. The role of the internal auditor was to review various data as requested by the Board. We have welcomed the additional reviews in order to strengthen our operation and to reassure the Board that there are no improprieties.

Recommendation:

6. The Board should establish an audit committee whose membership has sufficient financial experience to successfully accomplish the following activities:
 - a. Provide timely oversight of external and any internal audit work.
 - b. Participate in the selection process for external and internal auditors.
 - c. Ensure that the external auditors perform the audit of the District's financial statements in accordance with generally accepted government auditing standards.
 - d. Review the District's financial statements before presentation to the Board.
 - e. Monitor the District corrective action plans.

Response:

- a. The Board established an Audit committee in August 2005. The committee is comprised of three Board members that have knowledge of finance. We have, to date held two meeting where we reviewed a series of audit reports and the Districts plans to address any areas of concern. Both internal and external audit reports are reviewed at each meeting.
- b. When we utilize the "template" for RFP for audit services we will ensure that the Audit Committee reviews the RFP before it is released.
- c. District Officials are familiar with the reporting requirements under GAAP. We will ensure that our independent auditors comply with GAAP reporting and that the engagement letter and RFP's include this requirement.

- d. The annual financial report will be reviewed by the committee prior to acceptance by the Board. This will require us to have a meeting early on in September each year. The engagement letter and RFP will have to include this requirement.
- e. The committee will meet prior to the end of the fiscal year to ensure that all management letter comments included in the prior year audit have been addressed or are in the process of being addressed.

We thank your staff for their professionalism and objectiveness in conducting this audit. As indicated earlier, we are quite pleased with the overall outcome of the full scope audit.

We intend to continue to strive for excellence in financial reporting and management of District assets, while being mindful of the driving goal to provide a quality public education to all students of the Brentwood School district.

Respectfully Submitted,



Les Black
Superintendent of Schools

LB/II

Enclosures

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BY HAND

March 13, 2006

Ms. Donna Jones
Director of Business Services
Brentwood Union Free School District
Administrative Center
52 Third Avenue
Brentwood, NY 11717

Dear Donna:

As requested by the Office of the New York State Comptroller, enclosed please find our formal response to the Audit Report on their examination of our external audit services rendered to the Brentwood Union Free School District for the period from July 1, 2002 to June 30, 2004.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely yours,



Michael E. Nawrocki

Enc.



Callaghan Nawrocki LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education of the Brentwood Union Free School District:

We have received the New York State Office of the Comptroller's (the "Comptroller") Audit Report on their examination of our external audit services rendered to the Brentwood Union Free School District for the period from July 1, 2002 to June 30, 2004. Overall, we are pleased with the results of the audit and in particular, the Comptroller's observation that our audits met professional standards.

We have reviewed the two areas of findings by the Comptroller and agree with the nature and extent of their observations. While the Comptroller felt we could have improved our work in these areas, we assure the Board of Education that we believe such work provided a reasonable basis for our audit opinions on the District's financial statements and offer the following summary of the Comptroller's findings and our corresponding responses:

1. Documentation of plan to respond to potential fraud risks

Comptroller's Finding: The CPA firm identified five potential fraud risks on the audit form utilized including management override of controls, improper revenue recognition, improper expenses allocation, mismanagement of moneys and fraudulent cash disbursements. Although the forms indicated that an audit response was required for each of the fraud risks, the auditors only documented their planned response to the fraud risk relating to management override of controls. There was no indication on the forms of how the CPA firm planned to respond to the other potential fraud risks that they found.

Callaghan Nawrocki LLP Response: The forms used in addressing fraud considerations were prepared by Practitioners Publishing Company to simply be used as a guide. The forms and the suggested content provide a tool for audit planning. While the actual form does not always document the response, the detailed audit work performed in addressing these risk areas more than adequately substantiate appropriate planning in the fraud risk assessment. Specifically: Improper revenue recognition - Extensive substantive audit work (mostly direct confirmation and vouching) was performed in the revenue recognition area resulting in high audit coverage for reported revenues.

Improper expenses allocation - Detailed transactional testing under statistically valid samples included addressing the propriety of expense allocations. Further work included analytical procedures and cutoff testing.

Mismanagement of moneys - Transactional testing for proper authorization and support under statistically valid samples and analytical procedures including budget to actual comparisons were some of the representative audit procedures which addressed identified risks in the area.

Callaghan Nawrocki LLP

-2-

Fraudulent cash disbursements - Vouching of all credit card expenditures, review and evaluation of expense reimbursements, cell phone procedures and statistically valid purchasing and payroll disbursements tests were key audit procedures performed to address associated risks in this area.

2. Verification of existence of capital assets

Comptroller's Finding: In testing of fixed assets, the CPA firm could have improved its compliance with generally accepted government auditing standards by verifying the existence of capital assets.

Callaghan Nawrocki LLP's Response: Our firm performed roll forwards of physical inventories of fixed assets as well as extensive vouching of fixed asset additions and deletions, examining detailed documentation supporting the existence of such assets. We understand the Comptroller's Office exception to our work is that the physical existence of capital assets was not verified.

Please note that physical observation was not deemed necessary for the following reasons:

- a. A complete physical inventory of fixed assets was performed in fiscal 2002 by the government consulting firm, MAXIMUS in connection with the District's conversion to the financial reporting requirements of Governmental Accounting Standards Board Statement No. 34. Our firm worked closely with MAXIMUS with this conversion and physical inventory preparation. Given the extensive efforts in fiscal 2002, our work in fiscal 2003 and 2004 consisted of rolling forward the physical inventory report for current year activity.
- b. We performed detailed vouching of fixed asset additions and deletions to documentation supporting proper authorization, recorded amount and physical receipt.

We appreciate the aforementioned input from the Comptroller in enhancing the quality of our audit services. We recognize their efforts to ensure the citizens of New York State school districts are provided with reasonable assurance as to the propriety of their respective district's finances. Our upcoming external audits of school district clients will certainly address these matters and the necessary procedures will be incorporated into our audit work and documentation. We wish to take this opportunity to note the professionalism of the representatives of the Comptroller's audit who performed the audit, as well as the cooperation of the administration of the District in coordinating the audit effort.

March 8, 2006
Melville, New York



APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

To address our first objective, we reviewed the District’s Purchasing Policy, interviewed District office personnel, and evaluated the process with which the District procured audit services for the 2002-2003 through 2003-2004 fiscal years. To address our second objective, we considered the requirements under generally accepted government auditing standards concerning independence, planning the audit, obtaining evidence, and reporting on matters found during the audit. The procedures used to carry out the latter part of our review included, but were not limited to, meeting pertinent audit firm personnel, reviewing the CPA firm’s policies and procedures, reviewing the District-specific audit workpapers and testing certain District records.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District’s management controls and those laws, rules and regulations that are relevant to the District’s operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX E

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APPENDIX F

OFFICE OF THE STATE COMPTROLLER DIVISION OF LOCAL GOVERNMENT SERVICES AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
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