



# Windham-Ashland-Jewett Central School District Independent Audit Services

## Report of Examination

Period Covered:

July 1, 2003 - June 30, 2004

2006M-51



# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>EXECUTIVE SUMMARY</b>	5
<b>INTRODUCTION</b>	7
Background	7
Objectives	8
Scope and Methodology	8
Comments of District Officials and Corrective Action	8
<b>PROCUREMENT OF AUDIT SERVICES</b>	10
Recommendations	10
<b>EFFECTIVENESS OF AUDIT SERVICES</b>	11
Fieldwork Standards — Planning the Audit	12
Fieldwork Standards — Audit Documentation	14
Recommendation	14
<b>APPENDIX A</b> Generally Accepted Government Auditing Standards (GAGAS)	15
<b>APPENDIX B</b> Engagement Letter	19
<b>APPENDIX C</b> Response From District Officials	21
<b>APPENDIX D</b> Audit Methodology and Standards	25
<b>APPENDIX E</b> How to Obtain Additional Copies of the Report	26
<b>APPENDIX F</b> Local Regional Office Listing	27

# State of New York Office of the State Comptroller

---

---

## **Division of Local Government Services and Economic Development**

October 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' 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 Windham-Ashland-Jewett Central School District — Independent Audit Services.

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

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 Office of the State Comptroller recently audited the fiscal operations of the Windham-Ashland-Jewett Central School District (District). A separate report discusses the results of that audit.<sup>1</sup> 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 it contracted with the certified public accounting (CPA) firm of Alexander Varga and Company to perform this service for at least the past 10 years.

### **Scope and Objectives**

We reviewed the District's audit service procurement procedures, and the work done by the CPA firm retained by the District to audit the District's general purpose financial statements for the fiscal year ended 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 fraud. 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 the District's fiscal operations?

### **Audit Results**

The District's written purchasing policy did not address the solicitation of requests for proposals (RFPs) for professional services, as required by the District's policy manual and General Municipal Law. Because the purchasing policy did not provide guidance on the solicitation of RFPs, the District did not procure audit services in an effective manner. District officials did not solicit written RFPs for auditing services totaling \$6,950 for the 2003-04 fiscal year.

While the CPA firm's work satisfied the minimum requirements of generally accepted auditing standards (GAAS), we found two areas where the firm could have improved its audit approach and documentation. The CPA firm failed to obtain an understanding of internal controls relating to the District's use of information technology. This lack of understanding may result in a reliance on systems

---

<sup>1</sup> <http://www.osc.state.ny.us/localgov/audits/2005/schools/waj.htm>

or programs that have inaccurately processed data, made unauthorized changes to data, and/or have potentially lost data. Also, the CPA firm's audit documentation was not appropriately organized to provide a clear link to the findings, conclusions and recommendations in the audit report.

### **Comments of District 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 have already initiated corrective action.

# Introduction

## Background

The Office of the State Comptroller recently audited the fiscal operations of the Windham-Ashland-Jewett Central School District (District). A separate report discusses those results.<sup>2</sup> This report addresses one phase of that audit, the District's 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 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 the District's 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 effective internal controls is an annual audit performed by an independent certified public accountant (CPA).<sup>3</sup> Such an audit can be an effective oversight tool for District managers by providing for the timely detection of errors or fraud. 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. The scope and quality of this type of audit is governed largely by generally accepted government auditing standards (GAGAS).<sup>4</sup> Such standards specify the appropriate qualifications and responsibilities of the professionals who will conduct the audit, the quality of the audit work to be performed, and the required communications to management. The CPA's engagement letter<sup>5</sup> to the Board should document the audit scope, applicable professional standards, and any other audit engagement expectations.

<sup>2</sup> <http://www.osc.state.ny.us/localgov/audits/2005/schools/waj.htm>

<sup>3</sup> Education Law and the 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 District exercises its discretion in choosing a qualified independent auditor. The independent auditor issues an opinion on the District's annual financial statements and its compliance with certain laws and regulations and issues a report on the District's internal controls. The auditor also may issue reports related to federal award programs that the District administers. The report on the District's financial statements must be filed with the New York State Education Department (SED) by October 30 each year.

<sup>4</sup> Appendix A

<sup>5</sup> Appendix B

It is the Board's responsibility, through its established policies and procedures, to ensure that it procures quality audit services. This responsibility is further defined in statute. General Municipal Law<sup>6</sup> requires political subdivisions, including school districts, to adopt procurement policies and procedures. The statute requires that the District procure goods and services, which are not required by law to be competitively bid, in a manner that ensures the prudent and economical use of public moneys, in the best interest of the taxpayers. The stated purpose of the statute is to ensure that the District acquires 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 fraud. 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 the District's fiscal operations?

## **Scope and Methodology**

We examined the District's independent audit services for the 2003-04 fiscal year.

We conducted our audit in accordance with GAGAS. 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 District 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 have already initiated 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 the plan of action, the Board may refer to applicable sections in the

---

<sup>6</sup> Section 104-b

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 Board adopted a purchasing policy in July 1992 that provides guidance to those District officers and employees involved in procuring goods and services. However, the written policy does not address the solicitation of requests for proposals (RFPs) for professional services, as required by the District's policy manual and General Municipal Law. Because the purchasing policy did not provide guidance on the solicitation of RFPs, the District did not procure audit services in an effective manner. District officials did not solicit written RFPs for auditing services totaling \$6,950 for the 2003-04 fiscal year.

Although the procurement of professional services was not subject to the requirements of the competitive bidding law, alternative proposals secured by RFPs could benefit the District by providing a comparison of the qualifications and fee structure of various firms providing audit services. The State Legislature amended Education Law to require – beginning on July 1, 2005 – school districts to use a competitive RFP 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 that District personnel must follow 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. The District should obtain written proposals, and District personnel should retain and file these proposals at District offices. The District should then award contracts to the best-qualified firm offering the most economic proposal for the services being solicited.
4. The District must issue an RFP for audit services at least every five years.

## Effectiveness of Audit Services

The District contracted with the CPA firm of Alexander Varga and Company to conduct the independent audit of its financial statements for the 2003-04 fiscal year. As a result of its audit work, the CPA firm issued an unqualified opinion to the District for the 2003-04 fiscal year.

We assessed the effectiveness of the District's engagement of an independent audit as an oversight tool for District managers by determining whether the CPA's contractual audit services met the terms and provisions of the engagement contract,<sup>7</sup> including professional auditing standards.<sup>8</sup> Our audit considered requirements under the auditing standards concerning independence, planning the audit, obtaining evidence, and reporting on matters found during the audit, and our audit covered the financial statement audit for the District's 2003-04 fiscal year.

As promulgated by the Government Accounting Office of the United States, GAGAS consist of a series of measures intended to ensure quality audit work. The revised June 2003 auditing standards – that were applicable to the 2003-04 fiscal year – were structured around four general standards, eight fieldwork standards, and 10 reporting standards. If a CPA firm does not comply with one of these standards, not only should the District be concerned, but the firm could be referred to the State Board of Accountancy.

Auditing fieldwork standards relating to the consideration of information technology (IT) on internal control and audit documentation state that:

- 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.
- 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 the auditors issue their report.

---

<sup>7</sup> Appendix B

<sup>8</sup> Appendix A

When reviewing the CPA firm's audit work for the District, we found compliance problems with auditing fieldwork standards. Our review of the CPA firm's workpapers that documented their audit planning for the 2003-04 fiscal year revealed that the CPA firm did not obtain a sufficient understanding of how the District's use of IT and manual procedures may affect controls that are relevant to the audit. This lack of understanding may result in a reliance on systems or programs that have inaccurately processed data, made unauthorized changes to data, and/or have potentially lost data. In addition, the firm's workpapers were not sufficiently cross-referenced 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.

**Fieldwork Standards — 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).

Consideration of Internal Control — The American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS) AU Section 319 requires auditors to obtain a sufficient understanding of the entity's internal control to plan the audit, and to determine the nature, timing, and extent of tests that they must perform. An auditor should obtain an understanding of internal controls that is sufficient to plan the audit by performing procedures to understand the design of controls that are relevant to an audit of financial statements, and by determining whether the entity has implemented these controls. In obtaining this understanding, auditors must consider how an entity's use of IT and manual procedures may affect controls that are relevant to the audit.

Internal controls consist of the following five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring. An entity's use of IT may affect any of the five components of internal controls that are relevant to the entity's achievement of its financial reporting, operations, or compliance objectives. An entity's use of IT also affects the fundamental manner in which it initiates, records, processes, and reports its financial transactions. If an entity relies on extensive use of complex computer processing in significant accounting applications, auditors should consider the extent to which the computer is used in each significant accounting application; the complexity of the entity's computer operations, including the use of an outside service

organization; the organizational structure of the computer processing activities; and the availability of data.

The specific risks that IT poses to an entity's internal control can be extensive, and can include: the entity's reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both; unauthorized access to data; unauthorized changes to data in master files; unauthorized changes to systems or programs; failure to make necessary changes to systems or programs; inappropriate manual intervention; and potential loss of data. However, an entity can use a combination of automated controls (e.g., controls embedded in computer programs) and manual controls to address these risks. As an entity's operations and systems become more complex and sophisticated, it becomes more likely that auditors would need to increase their knowledge of internal control components to obtain the understanding necessary to design tests of controls (when applicable) and substantive tests. Therefore, auditing standards indicate that auditors should consider whether they need specialized skills to determine the affect of IT on the audit, to understand the IT controls, or to design and perform tests of IT controls or substantive tests.

Our review of the CPA firm's workpapers for the financial statement audit for the 2003-04 fiscal year indicated that the CPA firm had not obtained a sufficient understanding of the affect of IT on the District's internal controls.

For the 2003-04 fiscal year audit, the CPA firm used the checklist entitled "GCX-3: Government Audit Planning Form" contained in the *Guide to Audits of Local Governments*<sup>9</sup> to review the District's IT controls and determine if the District's financial reporting system provided accounting records that would allow the CPA firm to apply audit procedures that would support an opinion on the financial statements. Using this checklist, the auditors determined that the District's financial reporting system provided accounting records that would allow them to apply audit procedures that would support an opinion on the financial statements. However, the auditors did not provide sufficient supporting documentation with the checklist to indicate that they had properly reviewed the District's IT controls.

On the section of the checklist that the auditors used to review the District's IT controls,<sup>10</sup> it states that the auditors must gain an understanding of the flow of information through the financial

<sup>9</sup> Carmichael, D.R., Holder, William W., and Anderson, Jerry. *Guide to Audits of Local Governments*. Practitioners Publishing Company, 1993.

<sup>10</sup> Item #51

reporting system for each of the significant audit areas identified.<sup>11</sup> On this section, the auditors simply checked “pass”<sup>12</sup> but they did not include the required forms GCX-3b or GCX-3c, or an acceptable alternate form, with the workpapers that would indicate that they had actually documented this information. Furthermore, they did not identify (by checking “yes” or “no”) on the section of the checklist<sup>13</sup> whether District personnel use a computer in one or more of the significant audit areas. The checklist form states that if the auditors mark item #54 as “yes,” then they must complete and attach the GCX-3d questionnaire (Financial Reporting System–Computer System) to the form. The auditors did not include this additional questionnaire in the workpapers. The incompleteness of this checklist form causes us to question the level of understanding that the CPA firm obtained regarding the District’s system of internal controls.

**Fieldwork Standards — Audit Documentation** — AICPA standards and GAGAS require that audit documentation related to audit planning, conducting, and reporting on the audit contains 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. Our review of the CPA firm’s work for the District’s 2003-04 fiscal year found that the CPA firm did not fully comply with these standards because the firm’s workpapers were not sufficiently cross-referenced. Therefore, it was difficult to locate the proper corresponding evidential support for the findings, conclusions, and recommendations in the audit report.

**Recommendation**

5. The Board should ensure that the external auditors meet the purposes, terms and conditions of the contract of engagement, including professional auditing standards, and provide effective oversight for the District’s operations.

---

<sup>11</sup>The auditors identified the following transaction classes as significant: cash; revenue and receivables; expenditures/expenses for goods and services, and accounts payable; fixed/capital assets and expenditures; payroll; and Federal grant programs.

<sup>12</sup> Item #52

<sup>13</sup> Item #54

## APPENDIX A

### GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)

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).

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 - 2003 Revision (Yellow Book)**

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

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. Independence and objectivity are maintained in all phases of the assignment,
2. Professional judgment is used in planning and performing the work and in reporting the results,
3. The work is performed by personnel who are professionally competent and collectively have the necessary skills and knowledge, and
4. An independent peer review is periodically performed resulting in an opinion issued as to whether an audit organization’s system of quality control is designed and being complied with to provide reasonable assurance of conforming with professional standards.

#### **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. GAGAS require the following:

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 performing 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

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 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

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 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 Board appointed the accounting firm of Alexander Varga & Company to perform the District's annual audit for the fiscal year ended June 30, 2004. The same firm performed the District's annual audits for at least 10 fiscal years preceding the current appointment.

The following are our observations concerning the CPA firm's engagement letter.

The engagement letter for the fiscal year covered by our audit confirmed the understanding of services to be provided to the District. The engagement letter indicated the CPA firm's agreement to audit the financial statements of the District for the year ended June 30, 2004, and to audit the District's extra-classroom activity fund.

Scope — In the July 12, 2004 engagement letter, the CPA firm agreed to conduct an audit of the District's financial statements as of, and for the year ended, June 30, 2004. The stated objective of this audit was to express an opinion as to whether the District's financial statements fairly presented, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, and the respective changes in financial position and cash flows (where applicable) thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, the engagement letter indicated that the audit objectives also included reporting on:

- Internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements which could have a material effect on the financial statements, in accordance with Government Auditing Standards.
- Internal controls related to major programs, including an opinion on the District's compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program, in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Audit Standards — The engagement letter stated that the CPA firm would conduct the audit in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133.

District Management's Responsibilities — The engagement letter also described the responsibilities of the District's management. Among other things, the letter states that management is responsible for:

- Establishing and maintaining internal controls, and complying with the provisions of contracts, agreements, and grants.

- Making all financial records and related information available to the auditors.
- Adjusting the financial statements to correct material misstatements, and for confirming to the auditors in the representation letter that the effects of any uncorrected misstatements found by the auditors, during the current engagement and pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Following up and taking corrective action on reported audit findings, and preparing a summary schedule of prior audit findings and a corrective action plan.

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

- Expressing an opinion on the financial statements.
- Planning and performing the audit to obtain reasonable – rather than absolute – assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- Considering internal controls to a sufficient extent to plan the audit and to determine the nature, timing, and extent of auditing procedures that would allow the auditors to express an opinion on the District's financial statements.
- Obtaining an understanding of the design of the relevant controls – and determining whether the District has placed these controls in operation – and assessing control risk.
- Performing tests of controls to evaluate the effectiveness of the design and operation of controls, which are considered relevant to preventing or detecting material noncompliance with applicable requirements for all major Federal award programs.
- Informing the District of any matters involving internal controls and their operation that are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

## **APPENDIX C**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages. The District's response letter refers to several attachments that support the response letter. Because the response letter provides sufficient detail of the District's actions, we did not include the attachments in Appendix C.



Windham Ashland Jewett  
CENTRAL SCHOOL DISTRICT

John Wiktorko  
Superintendent

Donna LeRoy  
Director of Guidance

Main Street, P.O. Box 429, Windham, N.Y. 12496  
518-734-3400 fax 518-734-6050

Dr. John R. Gratto  
Assistant Superintendent

Marjorie Curran  
Business Manager/Treasurer

September 27, 2006

Office of the State Comptroller

██████████, Albany Regional Office


22 Computer Drive West  
Albany, New York 12205

██████████:

On behalf of the Windham-Ashland-Jewett Central School District Community and Board of Education please accept the accompanying response to the Comptroller's recent examination of the District's Independent Audit Services for fiscal year 2003-04 for your review and inclusion with the final report findings. As we discussed with a field auditor during our exit conference and review of the initial findings on September 21<sup>st</sup>, although the District has already satisfied the audit recommendations during the 2004-05 and 2005-06 school years, the school intends to continue improving our practices and certainly appreciates the supporting comments from the Comptroller's auditors. I appreciate the work done by the auditors in reviewing the 2003-04 school year record as it pertains to independent audit services. As a District that has embraced the audit reform process, we wish your office continued success in helping public schools and other governmental agencies identify best practices and in providing practical guidance to others in New York State. Please feel free to contact me at your earliest convenience to discuss our response as it relates to the performance audit. Thank you.

Yours truly,

WINDHAM-ASHLAND-JEWETT CSD



John Wiktorko  
Superintendent of Schools

## Response to the Comptroller's Audit of Independent Audit Services for 2003-04

The Windham-Ashland-Jewett CSD is committed to high standards of performance. The District thanks the Comptroller's auditors for working toward developing recommendations for improving fiscal policies, procedures and accountability. Within the context of this audit, the District will continue to follow regulatory guidelines in the procurement of audit services, as it has done in the past. The District will continue to meet our strategic performance goals and to be good stewards of both public trust and resources. While the audit reviews prior performance, the District's current administration and Board of Education are diligently working to upgrade our fiscal policies and procedures to foster an environment of transparency, efficiency and accountability.

The Comptroller has outlined five specific recommendations for District consideration in response to the procurement of audit services appraisal for the 2003-04 period evaluated. The District has prepared responses to each of those areas below.

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 that District personnel must follow when procuring contracts for audit services.

At its regular December BOE meeting on December 4, 2004, the Windham-Ashland-Jewett Board of Education adopted an updated procurement protocol that implements district policy. This adopted protocol completely complies with and exceeds standards outlined in General Municipal Law and State Education Law. The District will continue to review current policy to remain current and effective in procurement management. The adopted policy and regulations have been attached to this report. Furthermore, new district procedures were used in 2005 to issue RFP's for architectural and auditing services. The District currently uses the RFP format to solicit for professional auditing services. Additionally, an RFP for internal audit services has been used in soliciting vendors to perform the important risk assessment and other required tasks for this new function in public schools.

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 District Seeking Audit Services" prepared by the Office of the State Comptroller for guidance in preparing the RFP.

The District has composed and utilized well-planned written RFP to solicit audit services using legal and State advisement. A copy of the RFP has been included with this response. The Windham-Ashland-Jewett CSD used an RFP to secure auditing services that it currently uses. This practice will continue. As previously mentioned, the District has developed an RFP for Internal Audit Services, now mandated under state law. Although the referenced "RFP template for School District Seeking Audit Services" was not available when WAJ developed its' RFP, all RFP's have been developed and reviewed by the District Audit Finance Committee, Board of Education, District legal counsel and include suggested elements from the Comptroller's Office and other best practices.

3. The District should obtain written proposals, and District personnel should retain and file these proposals at District offices. The District should then award contracts to the best qualified firm offering the most economical proposal for the services being solicited.

During the RFP process, the District will continue to obtain written proposals and award contracts to the best qualified firm offering the most economical proposal for the services being solicited. In addition to selecting the most economical, this District evaluates quality in determining a final selection of any vendor. This will help avoid selecting a firm simply because they were the cheapest and not the best qualified to do the job. The District will re-solicit for RFP's within five years, as suggested by law, and make a selection based on the quality and scope of service, cost effectiveness and experience.

4. The District must issue an RFP for audit services at least every five years.

The District has and will continue to meet this recommendation. The District used a three-year RFP for audit services, ending in 2007-08. The District will reissue an RFP for audit services at least every five years as required.

5. The Board should ensure that the external auditors meet the purposes, terms and conditions of the contract of engagement, including professional auditing standards, and provide effective oversight for the District's operations.

Currently, the external auditors are required to meet the oversight needs of the Board of Education and District officials, through fulfillment of the RFP and engagement for audit services. The RFP used outlined a number of regulatory and oversight protocols which meet the Comptroller's recommendations in this report. The District intends to continue working toward maintaining strong fiscal practices and controls. As outlined within the draft, the District appreciates the Comptroller's guidance regarding information technology applications within the District's business office as it relates to important internal controls. The District, through its Audit Finance Committee and school administration, will continue to meet with our independent auditors to identify strengths and weaknesses of the existing fiscal management software to ensure that it continues to serve the District efficiently, in both form and function.

#### Summary Statement

The District and the Board of Education appreciate the recommendations of the Comptroller's Audit for Independent Audit Services. The Windham-Ashland-Jewett Central School District is focused on setting and achieving strategic goals for high standards of performance. We will continue working to exceed the requirements for fiscal responsiveness to our taxpayers.

## APPENDIX D

### AUDIT METHODOLOGY AND STANDARDS

To accomplish the objectives of this audit, our procedures included the following steps and procedures:

- We reviewed the District's purchasing policies and regulations.
- We interviewed the District's office personnel.
- We evaluated the process by which the District procured audit services for the 2003-04 fiscal year.
- We considered the requirements under GAGAS 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 audit included, but were not limited to, meeting with pertinent audit firm personnel, reviewing the CPA firm's policies and procedures, and reviewing the District-specific audit workpapers.

We conducted our audit in accordance with GAGAS. 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

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

## 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  
John Clarkson, Assistant Comptroller

#### LOCAL REGIONAL OFFICE LISTING

---

##### **BUFFALO REGIONAL OFFICE**

Robert Meller, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming counties

##### **ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates  
counties

##### **SYRACUSE REGIONAL OFFICE**

Eugene A. Camp, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence counties

##### **BINGHAMTON REGIONAL OFFICE**

Patrick Carbone, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins  
counties

##### **GLENS FALLS REGIONAL OFFICE**

Karl Smoczynski, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,  
Montgomery, Rensselaer, Saratoga, Warren, Washington  
counties

##### **ALBANY REGIONAL OFFICE**

Christopher J. Ellis, Chief Examiner  
Office of the State Comptroller  
22 Computer Drive West  
Albany, New York 12205-1695  
(518) 438-0093 Fax (518) 438-0367  
Email: [Muni-Albany@osc.state.ny.us](mailto:Muni-Albany@osc.state.ny.us)

Serving: Albany, Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Schenectady, Ulster, Westchester  
counties

##### **HAUPPAUGE REGIONAL OFFICE**

Richard J. Rennard, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau, Suffolk counties