



Clinton Central School District Independent Audit Services

Report of Examination

Period Covered:

July 1, 2005 — June 30, 2006

2007M-258



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2008

Dear School District Officials:

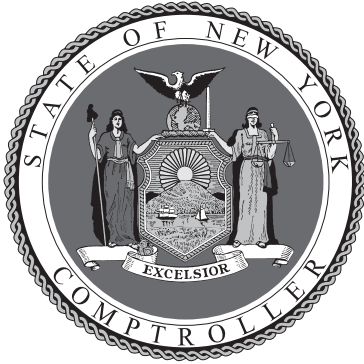
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of Clinton Central School District, entitled 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Office of the State Comptroller recently audited the fiscal operations of the Clinton Central School District (District). A separate report discusses the results of that audit. 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 Moore and Hart, Certified Public Accountants (Moore and Hart) to perform this service for the 2005-06 fiscal year.

Scope and Objective

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 period July 1, 2005 - June 30, 2006. The objective of our audit was 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 follow appropriate policies and procedures when 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 procured its annual audit services by obtaining requests for proposals; however, the procurement policy has not been updated to outline procedures for obtaining professional services.

Professional standards state that 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. Moore and Hart did not follow their audit program and professional standards while conducting a search for unrecorded liabilities. We noted unrecorded liabilities for the fiscal year ending June 30, 2006 in the amount of \$440,402. The general fund balance deficit for June 30, 2006 noted in the audited financial statements was \$696,975. If the District included the unrecorded liabilities of \$440,402, the general fund deficit would increase to \$1,137,377 resulting in a material misstatement in the general fund balance presented in the June 30, 2006 audited financial statements.

Professional standards require that 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. However, we found that the CPA firm's work papers contained 20 instances where the CPA firm did not provide conclusions or work paper references to conclusions.

Finally, the audit report did not state that the audit was performed in accordance with generally accepted government auditing standards (GAGAS) and the audit report did not contain a reference to the report on the testing of internal controls over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. The CPA firm included the report on internal controls in the management letter.

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. The District generally agreed with our audit recommendations and plans to initiate corrective action.

Introduction

Background

The Office of the State Comptroller recently audited the fiscal operations of the Clinton Central School District (District). A separate report will discuss these results. 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 safeguarding the District's 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 an effective system of internal controls is an annual audit performed by an independent certified public accountant (CPA).¹ Such an audit can be an effective oversight tool for 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 an 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).² 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 firm's engagement letter³ to the Board should document the audit scope, applicable professional standards, and other audit engagement expectations.

It is the Board's responsibility, through its established policies and procedures, to ensure that it procures quality audit services. This

¹ Education Law and the regulations of the Commissioner of Education require that a certified public accountant conduct an external audit, 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 15 each year.

²Appendix A

³Appendix B

responsibility is further defined in statute. General Municipal Law requires political subdivisions, including school districts, to adopt procurement policies and procedures. This 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 interests 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.

Objective

The objective of our audit was 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 related questions:

- Did the District follow appropriate policies and procedures when 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 fiscal operations?

Scope and Methodology

We examined the District's independent audit services of the Clinton Central School District for the period July 1, 2005 to June 30, 2006.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix A and Appendix 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. The District generally agreed with our audit recommendations and plans to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Procurement of Audit Services

The State Legislature amended Education Law to require – beginning on July 1, 2005 – school districts to use a competitive request for proposals (RFP) process when contracting for the annual audit. In addition, no audit engagement can be for a term longer than five years.

The District does not have any written policies and procedures for the procurement of professional services. The District’s purchasing policy is silent with regard to the means by which it must procure professional services, which includes architects, engineers, accountants, lawyers, fiscal consultants, and other professionals.

District officials did solicit RFPs for auditing services for the 2005-06 fiscal year. The associated fees paid by the District for the service amounted to \$10,000. The District retained the CPA firm of Moore and Hart Certified Public Accountants (Moore and Hart) to provide the audit services, and the firm had performed these same services for the District for over twenty years.

Recommendations

1. The Board should provide more specific guidance on the process to be used in the solicitation and review of RFPs for 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. The District should issue an RFP for audit services at least every five years.

Effectiveness of Audit Services

The District contracted with Moore and Hart to conduct the independent audit of its financial statements for the fiscal year addressed by our audit. The CPA firm issued an unqualified opinion on the District's general purpose financial statements for the 2005-06 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 firm's contractual audit services met the terms and provisions of the engagement contract,⁴ including professional auditing standards.⁵ Our audit covered the financial statement audit of the District's 2005-06 fiscal year and considered requirements under the auditing standards for planning the audit, audit documentation, and reporting on matters found during the audit.

As promulgated by the Government Accounting Office of the United States, generally accepted government auditing standards (GAGAS) consist of a series of measures intended to ensure quality audit work. The June 2003 auditing standards – that were applicable to the 2005-06 fiscal year – were structured around four general standards, eight fieldwork standards, and ten 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.

When reviewing Moore and Hart's 2005-06 audit work for the District, we found compliance problems with its auditing fieldwork standards and reporting standards. These standards state that:

- 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.
- 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.

⁴ Appendix B

⁵ Appendix A

- Audit reports should state that the audit was performed in accordance with generally accepted government auditing standards.
- Auditors should include in their report on the financial statements either: (1) a description of the scope of the auditors' testing of internal controls 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) a reference to the separate report(s) containing that information.

**Fieldwork Standards —
Audit Evidence**

GAGAS Section 4.03c states that 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. Furthermore, the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS) AU 560 states that there is a period after the balance-sheet date with which the auditor must be concerned in completing various phases of the audit. This period is known as the “subsequent period” and is considered to extend to the date of the auditor’s report. The audit program selected by Moore and Hart correctly included procedures to search for unrecorded liabilities to a date on or near the conclusion of fieldwork, or the date of the Independent Auditor’s Report.

Moore and Hart did not follow their audit program and professional standards while conducting a search for unrecorded liabilities. The Independent Auditor’s Report for the June 30, 2006 fiscal year was dated October 5, 2006. The CPA firm only tested subsequent disbursements through July 2006 and noted \$95,490 in unrecorded accounts payable. The District did not record an adjustment for the unrecorded liabilities and they were not included in the financial statements. A CPA firm partner stated that he did not feel it was necessary to test disbursements after July 2006 and the adjustment was not recorded to remain consistent with prior years. Historically, the District has not recorded the outstanding accounts payable at year end.

As part of our audit of the District, we noted unrecorded liabilities for the fiscal year ending June 30, 2006 in the amount of \$440,402.⁶ The general fund balance deficit for June 30, 2006 noted in the audited financial statements was \$696,975. If the District included the unrecorded liabilities of \$440,402 the general fund deficit would

⁶ See Report 2007M-215, *Clinton Central School District Financial Condition and Cash Disbursements*

increase to \$1,137,377 resulting in a material difference from the general fund balance presented in the June 30, 2006 audited financial statements.

Fieldwork Standards — Audit Documentation

GAGAS Section 4.22 requires that audit documentation 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. During our review of the CPA firm's general audit program for its audit of the District's 2005-06 fiscal year, we found that the CPA firm did not adhere to fieldwork standards relating to audit documentation.

The CPA firm's Governmental Audit Program (GAP-1b) for the District's audit included 28 steps the auditor should perform during the fieldwork phase of the audit. The auditors did not document a conclusion, or did not include a reference to a work paper with a conclusion for 20 of the 28 steps. The 20 instances included:

- Consider whether the financial statements include reasonable estimates for all matters that require estimation that are material to the clients operating results or financial position.
- Perform a review for subsequent events from the date of the financial statements to the date of the auditor's report. (Coordinate these procedures with the search for unrecorded liabilities in the audit program for expenditures for goods and services and accounts payable.) Included in the areas to be considered is the compensated absences or other employee benefits that have not been accrued.
- Perform a retrospective review of significant accounting estimates reflected in the prior year financial statements to determine whether the underlying assumptions in the prior year indicate a possible bias on the part of management. Consider whether the results of the review provide additional information about possible bias in making current year estimates. If possible bias is identified, evaluate whether the circumstances represent a risk of material misstatement.
- Apply preliminary analytical procedures by (1) comparing account balances for the current period to similar amounts in the prior period and in the current budget and (2) performing preliminary analytical procedures specifically related to

revenue to identify unusual or unexpected relationships that may indicate fraudulent financial reporting. Identify unusual or unexpected balances or relationships and consider whether matters identified indicate a higher risk of material misstatement due to error or fraud.

- Apply final review analytical procedures to audited financial statement amounts.

SAS AU 329 requires that auditors use analytical procedures in the planning and overall review of financial information for all financial audits conducted in accordance with generally accepted auditing standards (GAAS). Our review of the CPA firm’s workpapers indicated that the auditors did not adequately document their use of analytical procedures applied in both the planning and overall review stages.

Auditors use analytical procedures in the planning stage to assist them in planning the nature, timing, and extent of the audit procedures, and in the final review stage to assist them in assessing the conclusions reached and in evaluating the overall financial statement presentation. In the planning stage, the auditors’ analytical procedures should focus on enhancing their understanding of the audited entity and identifying areas that may represent specific risks relevant to the audit. The overall review would generally include considering the adequacy of evidence gathered in response to unusual or unexpected balances identified in planning the audit or in the course of the audit, and considering unusual or unexpected balances or relationships that were not previously identified. A CPA firm partner stated that the auditors reviewed the District’s ST-3 during the preliminary analytical review. CPA firm personnel stated the final analytical review was performed on the financial statement. However, the auditors did not document the review procedures in the workpapers.

The CPA firm’s lack of documentation for these audit program steps, and lack of documentation of analysis and conclusions on the analytical review workpapers, would prevent an experienced auditor – who has had no previous connection with the audit – from ascertaining from the audit documentation the evidence that supports the auditors’ significant judgments and conclusions on the audited financial statements. The CPA firm’s lack of documentation raises questions as to the quality of the work that its auditors performed.

**Reporting Standards —
Completeness of Reports**

GAGAS Section 5.05 states that audit reports should state that the audit was performed in accordance with generally accepted government auditing standards. In addition, GAGAS Section 5.08 states that 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 controls 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.

The review of the audit report did not note that the audit was performed in accordance with GAGAS. The CPA firm included the report on internal controls in the management letter; however, the report made no reference to the separate report containing the information. A CPA firm partner indicated that this was simply an oversight.

The exclusion of the statement that the audit was performed in accordance with GAGAS from the audit report and the omission of the reference to the separate report regarding auditors' testing of internal controls over financial reporting and compliance with laws, regulations and contract agreements raises questions about the firm's quality control system.

Recommendations

3. District officials and Board members should ensure that they understand the scope and limitations of the annual independent audit. If District officials feel that the District periodically needs audit services that the annual audit does not cover, they should consider expanding the scope of the audit, or contracting for separate engagements.
4. The audit committee should accomplish the following activities:
 - a. Provide timely oversight of external and 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 GAGAS
 - d. Review the District's financial statements before presentation to the Board
 - e. Monitor the District's corrective action plans.

APPENDIX A

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)

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

The Government Accountability Office of the United States promulgates generally accepted government auditing standards. 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 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 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, and 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 accounting firm that performed the annual audit of the Clinton Central School District for the fiscal year ended June 30, 2006 has been performing this same service for the District for over twenty years.

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 that the CPA firm would provide 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, 2006, and to audit the District's extra-classroom activity funds.

Scope — In the August 22, 2006 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, 2006. The stated objective of this audit was to express an opinion as to whether the District's financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the 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 control 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 and an opinion on the 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 control and for compliance with the provisions of contracts, agreements and grants

- Making all financial records and related information available to the auditors
- Establishing and maintaining of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safe guarding of assets
- Adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements are immaterial to the financial statements
- Reviewing adjusting entries, and for understanding their nature and the impact they might have on the financial statements
- Designing and implementing policies, procedures and controls to prevent and detect fraud, and informing the CPA firm about all known or suspected fraud affecting the District where the fraud could have a material effect on the financial statements
- Establishing and maintaining an adequate system of internal accounting controls, and complying with applicable laws and regulations, including those relating to federal assistance programs
- Following up and taking corrective action reported in the 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 District's financial statements are free of material misstatements, whether from errors 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
- Informing the District of any matters involving its internal controls and their operation that are considered to be reportable conditions under AICPA standards
- Performing tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements.

APPENDIX C

RESPONSE FROM DISTRICT OFFICIALS

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

CLINTON CENTRAL SCHOOL DISTRICT

75 Chenango Avenue
Clinton, New York 13323-1395
(315) 557-2253
Fax (315) 853-8727
Website: www.ccs.edu

Jeffrey H. Roudebush
Superintendent of Schools

December 13, 2007

[REDACTED]
Binghamton Regional Office
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

**RE: Clinton Central School District Independent Audit Services
Moore & Hart, Certified Public Accountants**

Dear [REDACTED]:

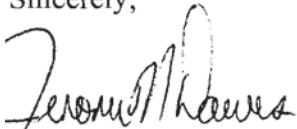
The Clinton Central School District has reviewed the audit findings as recently performed by the New York State Comptroller's Office with regard to Independent Audit Services and provides the following general response to comments contained in the report.

We have discussed the findings contained in the report with our auditing firm Moore & Hart as they relate to recommendations raised with regard to fieldwork and reporting standards. We have enclosed their response.

The Board of Education is presently reviewing current practices and policies with regard to the issuance of RFP's and will determine if modifications to existing policy are necessary. Consistent with the Comptroller's Five Points Legislation, the District will continue to solicit RFP's every five years for independent audit services.

The District appreciates and thanks the Comptroller's Office and staff for their thorough review and analysis of these services.

Sincerely,



Jerome M. Dawes, President
Board of Education



Jeffrey H. Roudebush, Superintendent
Clinton Central School District

Moore & Hart
Certified Public Accountants

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Phone (315)797-0560 ✧ Fax (315)797-5633*

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November 27, 2007

Mr. Jeffrey Roudebush
Superintendent of Schools
Clinton Central School District
75 Chenango Avenue
Clinton, New York 13323

Re: Office of the State Comptroller Audit

Dear Mr. Roudebush:

This letter represents our response to the findings included in the draft audit report of the examination of the Clinton Central School District independent audit services. This draft was reviewed with the Office of the State Comptroller's staff and Clinton Central School District representatives at an exit conference on November 20, 2007. The following findings were addressed:

Accrued Liabilities –

The draft report indicates that audit programs for unrecorded liabilities were not followed and that there were material amounts of liabilities that were unrecorded at the end of the June 30, 2006 fiscal year.

Audit procedures require that tests for unrecorded liabilities be performed on transactions up to the completion of field work and the date of the audit report. Tests of transactions were performed up to the completion of the initial fieldwork, but were not updated to include the period from then to the end of the final field work and date of the audit report. It has been the practice of Clinton Central School District to record liabilities for certain expenditure items while recording other operating expenditures on the cash basis. The financial statements for the 2005-2006 fiscal year were prepared consistent with this policy.

The firm has taken steps to ensure that audit procedures are updated to the completion of field work where required and that audit reports are properly dated as of the completion of fieldwork. The district has changed its accounting policies, effective with the 2006-2007 fiscal year to include all expenditure areas in its accrued liabilities and fund balance computation.

Audit Documentation –

The draft report indicates that there was a lack of documentation in the audit work papers to support significant judgments and conclusions.

Professional standards require that sufficient documentation be provided to allow an experienced auditor to find evidence to support significant judgments and conclusions made by the auditors. In this case, audit procedures were performed and documented by partner level CPA's at the firm and all judgments and conclusions were made by them. Work paper documentation was not as extensive as if staff accountant work papers were relied upon in planning, performing and concluding on the audit procedures.

The firm has reviewed its policies regarding documentation by partner level CPA's and is requiring additional steps be taken to comply with professional standards.

Audit Reporting –

The draft report notes that the audit report did not include required language regarding generally accepted government auditing standards and references to the report on internal controls and compliance.

Reporting standards require that reports on audits performed in accordance with generally accepted government auditing standards include certain language and references. Most audit reports are standard format reports based on templates used throughout the profession. Through oversight, the wrong format report was used and the error went undetected in final review.

The firm has required a more formal review of financial statements and audit reports to ensure that the proper form and format are issued.

Thank you for allowing us to be part of the exit conference and the response process. We have found this experience and input from the Office of the State Comptroller to be most useful in our efforts to provide thorough and professional auditing services.

Very truly yours,



Moore & Hart

DJU/gal

cc: Jerome Dawes, President of the Board of Education

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 representatives from Moore and Hart, Certified Public Accountants
- We evaluated the process by which the District procured audit services for the 2005-06 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 performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX E

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APPENDIX F
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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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