



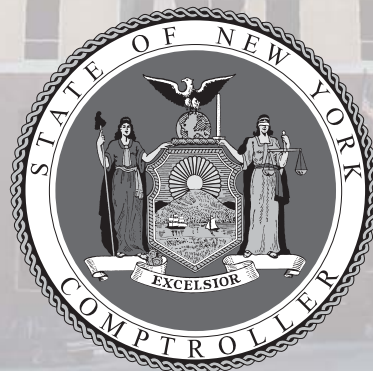
Kendall Central School District Independent Audit Services

Report of Examination

Period Covered:

July 1, 2009 — June 30, 2010

2011M-206



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objectives	6
Scope and Methodology	6
Comments of District Officials and Corrective Action	6
PROCUREMENT OF AUDIT SERVICES	7
Recommendations	9
EFFECTIVENESS OF AUDIT SERVICES	10
General Standards	11
Field Work Standards	12
Reporting Standards	13
Recommendations	13
APPENDIX A Generally Accepted Government Auditing Standards (GAGAS)	14
APPENDIX B CPA Engagement Letter	18
APPENDIX C Response from District Officials	20
APPENDIX D Audit Methodology and Standards	23
APPENDIX E How to Obtain Additional Copies of the Report	24
APPENDIX F Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2012

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, in part, 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 the Kendall Central School District, entitled Independent Audit Services. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in 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 (OSC) audited the fiscal operations of the Kendall Central School District (District), which resulted in an audit report released in June 2011.¹ Among other things, this subsequent report addresses the procurement of independent audit services. The District is required to have an annual financial statement audit, and it contracted with a certified public accountant (CPA) to perform this service for the 2009-10 fiscal year.²

Scope and Objectives

We examined the District's independent audit services related to the July 1, 2009 to June 30, 2010 fiscal year. For certain procedures, we expanded our scope to include periods before July 1, 2009 and after June 30, 2010. The objectives of our audit were to determine the adequacy of 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 independent audit services?
- Did the audit work of the CPA meet the purposes, terms, and conditions of the contract of engagement and provide effective oversight for District fiscal operations?

Audit Results

District officials did not procure independent audit services in accordance with established policies and procedures. Instead of evaluating proposals based on quality (such as experience and professional competence) and cost, District officials selected the CPA who had submitted the lowest-cost proposal. As a result, the District selected a CPA who provided inadequate audit services. We reviewed the audit services that the CPA provided to the District for the 2009-10 fiscal year and had serious concerns regarding his documentation and judgment used. In fact, our previous [audit](#) found that the District concealed more than \$7.85 million in fund balance that should have been used to benefit taxpayers; the CPA either initiated, or allowed the District to engage in, these practices. Therefore, we strongly suggest that the District select a more qualified external auditor. We will be referring our audit report to the State Board for Public Accountancy.

¹ Refer to the OSC report titled *Kendall Central School District Financial Condition* (2011M-18).

² This CPA has performed the annual financial statement audit for the District each year since 1982.

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 findings and recommendations and indicated they would take corrective action.

Introduction

Background

The Office of the State Comptroller (OSC) audited the fiscal operations of the Kendall Central School District (District), which resulted in an audit report released in June 2011.³ Among other things, this subsequent audit report addresses the procurement of independent audit services. The District is required to have an annual financial statement audit, and it contracted with a certified public accountant (CPA) to perform this service for the 2009-10 fiscal year.⁴

The Board of Education (Board) is ultimately responsible for safeguarding District assets. The Board must meet this responsibility by adopting policies and procedures and establishing a structure of internal controls appropriately designed to prevent or detect errors and irregularities. It is the Board's duty to ensure the established controls are operating effectively through timely oversight of the District's fiscal operations.

One aspect of an effective system of internal controls is an annual audit performed by an independent public accountant.⁵ The effectiveness of the annual independent audit is dependent on the scope and quality of such an audit and the resultant communications to management. Generally Accepted Government Auditing Standards (GAGAS) specify the qualifications and responsibilities of the professionals conducting the audit, the quality of the audit work to be performed, and the required communications to management. It is the Board's responsibility, through its established policies and procedures, to ensure that it procures quality audit services.⁶

³ Refer to the OSC report titled *Kendall Central School District Financial Condition* (2011M-18).

⁴ This CPA has performed the annual financial statement audit for the District each year since 1982.

⁵ Education Law and Regulations of the Commissioner of Education require that an external audit be conducted by an independent certified public accountant or public accountant in accordance with generally accepted government auditing standards. 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.

⁶This responsibility is further defined in Education Law Section 2116-a, and General Municipal Law Section 104-b.

Objectives

The objectives of our audit were to determine the adequacy of the procurement of independent 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 independent audit services?
- Did the audit work of the CPA meet the purposes, terms, and conditions of the contract of engagement and provide effective oversight for District fiscal operations?

Scope and Methodology

We examined the District's independent audit services related to the July 1, 2009 to June 30, 2010 fiscal year. For certain procedures, we expanded our scope to include periods before July 1, 2009 and after June 30, 2010.

We conducted our audit in accordance with 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. District officials generally agreed with our findings and recommendations and indicated they would take 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Procurement of Audit Services

Although the District's written policies and procedures for the procurement of audit services were generally adequate, our audit found that the District did not comply with those established policies and procedures and, as a result, did not procure independent audit services in an effective manner. The Board followed the audit committee's recommendation and chose the lowest bidder to perform these services without indicating that it had evaluated or considered the CPA's technical skills, training or expertise. As a result, the District did not receive effective independent audit services. In fact, we found a number of questionable accounting treatments that the District's CPA either initiated or allowed as being appropriate during the annual audit process. The quality of the audit services that the CPA provided is discussed in further detail in the section entitled Effectiveness of Audit Services.

School districts are required to use a competitive request for proposals (RFP) process when contracting for the annual audit. In addition, no contract can be for a term longer than five consecutive years. Districts may, however, permit an independent auditor engaged under an existing contract for such services to submit a proposal in response to the RFP to be awarded a contract to provide such services again. According to the District's purchasing policy, when procuring professional services or services requiring special or technical skill, training or expertise, the individual or company must be chosen based on accountability, reliability, responsibility, skill, education and training, judgment, integrity, and moral worth. Districts also are required to have an audit committee, whose responsibilities include, among other duties, recommending an external auditor to the Board.⁷

District officials did solicit written proposals for independent audit services for the 2006-07 through 2010-11 fiscal years. The District's RFP contained two required parts: the technical proposal and the sealed bid proposal. While each firm could have presented additional information, the requirements set forth in each section of the RFP were the criteria to evaluate each proposal and should have been addressed. The technical proposal had eight requirements for meeting Generally Accepted Government Auditing Standards (GAGAS) related to ethics, independence, professional competence and judgment, quality control, the performance of field work, and reporting. The sealed bid proposal had another five requirements, for a total of 13 requirements.

⁷ Education Law

We reviewed all three submitted proposals and scored each firm on the proposals submitted against the criteria outlined in the District's RFP. The results are as follows in Tables 1 and 2:

Table 1: Results of Scoring the Proposals			
	Firm #1	Firm #2	Firm #3
RFP Technical Portion (Total = 8)	8	5	1
RFP Sealed Bid Portion (Total = 5)	5	5	5
Total (Out of 13)	13	10	6

Table 2: Results of Sealed Bid Proposals			
Audit Services for Fiscal Year Ending:	Firm #1	Firm #2	Firm #3
June 30, 2007	\$16,250	\$19,000	\$9,500
June 30, 2008	\$17,050	\$19,000	\$10,000
June 30, 2009	\$17,900	\$21,000	\$10,500
June 30, 2010	\$18,785	\$23,000	\$11,000
June 30, 2011	\$19,725	\$25,200	\$11,500
Total	\$89,710	\$107,200	\$52,500

Based on the proposals received, the District's audit committee⁸ recommended that the Board award the contract to Firm #3, which had been the District's external auditor since 1982. The CPA provided evidence to support only one of the technical requirements — a statement that he was independent of the District. We interviewed two of the three⁹ audit committee members, who were also Board members, and they indicated that they did not score the proposals against the criteria set forth in the RFP. They further stated that they did a number of other things, including: determining the cost to taxpayers, calling references to get feedback on their experiences with the external auditor, reviewing the external auditor's experience performing school district audits and determining which external auditors other districts of comparable size were using. Upon obtaining this information, they discussed their questions and concerns among themselves and arrived at a recommendation to present to the Board. However, the audit committee did not provide any documentation to demonstrate that they considered these factors in making their recommendation.

⁸ The District's audit committee is comprised of two Board members and one District resident.

⁹ We did not interview the third audit committee member because he was in the process of moving outside the District, and the District was seeking a new member for appointment.

The District awarded the contract to the CPA because he was the lowest bidder and did not address or inquire as to why he only met one of the eight technical requirements. Furthermore, during our review of the CPA's licensing qualifications on the New York State Education Department's (SED) website,¹⁰ we readily found that at the time he submitted his proposal to the District for the 2006-07 through 2010-11 fiscal years, he was on probation due to a disciplinary action for professional misconduct. This information was not disclosed in his technical proposal, even though it was a required element. District officials stated they were not aware of the professional misconduct, nor did they check the CPA's licensing qualifications before continuing to contract with him for audit services.

The District issued an RFP in February 2011 for audit services for the 2011-12 through 2016-17 fiscal years. The audit committee reviewed the proposals received and recommended that the Board select a new auditing firm. However, at the Board meeting on May 10, 2011, the Board disregarded its audit committee's recommendation. District officials stated they were going to wait until we issued our final report on the District's independent audit services to decide whether they would contract with a different firm or reject all proposals and issue another RFP. However, we discussed our findings with District officials during fieldwork, particularly the inadequate audit services that were provided.

Recommendations

1. The Board should engage the services of a different external auditor.
2. The audit committee and Board should follow the District's written policies and procedures for the procurement of independent audit services and award contracts to an appropriately qualified firm offering the most cost-effective proposal.
3. The Board should develop a process to be used in reviewing and rating the proposals for all professional services, including independent audit services, to ensure all requirements set forth in the RFP process are met.

¹⁰ www.op.nysed.gov/opd

Effectiveness of Audit Services

We found that the certified public accountant (CPA) provided woefully inadequate audit services that did not meet auditing standards. Our prior audit¹¹ found that the District accumulated more than \$7.85 million in excess funds that should have been used to benefit taxpayers. The District overstated certain liabilities and overfunded certain reserves to conceal fund balance. The CPA was employed by the District at the time of our previous audit and allowed these practices to continue. These practices have obscured the District's true financial condition, compromised the transparency of District operations, and restricted significant taxpayer moneys from being used for other District purposes.

We have significant concerns with the accounting treatment that the CPA either recommended, or allowed as appropriate, in reaching his opinion that the financial statements, which included significant concealments of fund balance, fairly presented the District's financial activity and position. The CPA should have addressed these issues by ensuring the necessary adjustments were made so that the District's financial statements were fairly presented and properly stated in conformance with Generally Accepted Accounting Principles (GAAP) or qualified his opinion and brought these matters to the District's attention. The CPA did not provide any explanations to rationalize his actions or explain his role with these improper accounting treatments. It is clearly evident that the CPA did not conduct the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and therefore, was not in a position to determine that the District's financial statements were fairly presented or properly stated.

We identified approximately \$6 million in overstated liabilities as of June 30, 2010. For example, the District incorrectly accrued approximately \$2 million for potential future capital projects at June 30, 2009 and again at June 30, 2010. This amount merely represented an expectation of future costs; no work had been performed. There were no specifications, bids, or measures to actually perform any construction. District officials simply recorded a liability with no support for the entry. Had all of these liabilities been properly valued and reported in compliance with GAAP, the unreserved, unappropriated fund balance at June 30, 2010 would have exceeded the statutory limit by approximately \$6 million.

¹¹ Refer to the OSC report titled *Kendall Central School District Financial Condition* (2011M-18).

School districts are required to have an annual audit conducted by a CPA in accordance with GAGAS. If a CPA does not comply with one of these standards, not only should the District be concerned, but the CPA could be referred to the State Board for Public Accountancy for disciplinary action. 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,¹² including conformance with professional auditing standards.¹³ Our audit considered the standards for planning the audit; obtaining sufficient, appropriate evidence; documenting the audit work performed; and reporting on matters found during the audit.

General Standards

The general standards, along with ethical principles, establish a foundation for credibility of auditors' work. These general standards emphasize the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff; audit quality control and assurance, and external peer reviews.

We found that the CPA did not comply with three of the four general standards.¹⁴ The CPA did not use any planning documents or audit programs to evidence the work performed. Although a limited number of work papers were prepared, the CPA did not document the objectives, methodologies or conclusions reached. He also did not maintain a record of the continuing professional education (CPE) hours completed as required by the standards. Therefore, he could not demonstrate that he completed the necessary training requirements. Lastly, the CPA does not have a quality control system in place, does not have any written policies or procedures to ensure compliance with standards, and has not ever had an external peer review performed. If a CPA does not meet the peer review requirements, he/she must issue a modified GAGAS compliance statement in the Independent Auditor's Report to the entity being audited. The CPA failed to document the modified compliance statement in his audit report to the District. It is troubling that the CPA was not even aware that he was required to have an external peer review or document his noncompliance with the peer review requirements.

As a general standard requirement, competence in the performance of work and the preparation of related reports permeates all aspects of the independent auditor's work. The concept of competent technical knowledge is foremost in achieving a quality audit. Competence is

¹² Refer to Appendix B.

¹³ Refer to Appendix A.

¹⁴ See Appendix A for a detailed list of general standards.

a consequence of knowledge, skill, and experience. An auditor's competence can be measured by the level of education obtained, variety of work experience gained, and the quality of work delivered. As required by standards, a CPA must use professional judgment, be competent, and have a quality control system in place in planning and performing audits and reporting results. The lack of documentation by the CPA calls into question whether he completed the necessary continuing professional training requirements expected to maintain the standards of the profession.

Field Work Standards

Auditors must plan and perform the audit to obtain sufficient appropriate audit evidence (and reasonable assurance) for expressing an opinion on whether the financial statements are free of material misstatements. The planning phase of the audit is critical to the success and quality of the resulting field work and communications to management. The information gathered during the planning phase will help the auditor determine the nature, timing and extent of audit tests (audit program) needed to accomplish the audit objectives and adhere to professional standards.

Our audit found that the CPA did not comply with seven of the eight field work standards.¹⁵ Virtually every segment of our audit identified a lack of evidence to support purported audit work. The CPA did not document any written audit plans, procedures performed, or conclusions drawn. Therefore, he was unable to demonstrate whether he obtained sufficient, appropriate evidence to form a reasonable basis for an opinion regarding the District's financial statements that he had audited.

Also, we found a lack of communication between the CPA, the Board, and the District's audit committee. When communications are clear, the CPA and the governing body are in a better position to have a mutual understanding of relevant issues and expected actions. This understanding should be in writing and should be presented to District officials and the audit committee at the onset of the audit (via the engagement letter)¹⁶ and at the completion of the audit (via the issued audit report). Furthermore, the CPA should obtain written representations from management confirming financial statement assertions covered in the auditor's issued report. The CPA did not obtain a management representation letter from the District, and he did not document in his work papers that he had received any communications signed by appropriate District officials. Moreover, the CPA neglected to address communications directly to the audit

¹⁵ See Appendix A for a detailed list of field work standards.

¹⁶ Refer to Appendix B.

committee. This clearly demonstrates a lack of effective two-way communication between the CPA and District officials. Lack of communication between the CPA and appropriate District officials is a significant break down in the audit process.

Reporting Standards

The reporting standards define the scope and quality of the information that must be contained in the annual financial statement report prepared by the auditor. The report(s) and accompanying information are intended primarily for external users, such as taxpayers, State agencies, and lending institutions. The report also is a method for the auditor to communicate with District officials.

For the financial audit report to be an effective management tool for District officials, it must be timely, accurate and complete. It must provide managers with information on such matters as internal controls (reportable conditions), fraud, illegal acts, abuse, and compliance with significant laws, contracts and grant agreements. It also should provide readers with an understanding of the auditor's judgments, assurances and responsibilities concerning the financial statements and other identified matters.

The CPA's issued audit report includes the proper format and terminology required by GAGAS. However, the CPA's failure to comply with professional standards as outlined in this audit report, and the serious accounting irregularities found in our previously released audit report on the District's financial condition, makes the CPA's audit suspect, including the conclusions reached in the CPA's issued audit report.

We will be referring our audit report to the State Board for Public Accountancy.

Recommendations

4. The Board should ensure that the audit committee provides timely oversight of the external auditor and that the audit of the District's financial statements is performed in accordance with GAGAS.
5. The Board and audit committee should effectively communicate with the District's external auditor.

APPENDIX A

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 — 2007 Revision (Yellow Book)
(Effective for financial audits of periods ending on or after January 1, 2008)

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.

Generally Accepted Government Auditing Standards (GAGAS) require the following:

1. In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.
2. Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. Using professional judgment is important in determining the required level of the audit subject matter and related circumstances. Auditors should document significant decisions affecting the audit objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit, but rather identifying, considering, minimizing, mitigating, and explaining them.
3. The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Every auditor performing work under GAGAS should complete, every two years, at least 24 hours of continuing professional education (CPE) that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments also should obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two-year period) that enhances the auditor’s professional proficiency to perform audits or attestation engagements.
4. Each audit organization performing audits or attestation engagements in accordance with GAGAS must establish a system of quality control that is designed to provide that the audit organization and its personnel comply with professional standards and applicable legal and regulatory requirements and have an external peer review at least once every three years.

Field Work Standards

For financial statement audits, GAGAS incorporates the AICPA's three generally accepted standards for field work and establishes five additional field work standards to be complied with when citing GAGAS in the auditor's report. AICPA and GAGAS require the following:

1. The auditor must adequately plan the work and must properly supervise any assistants.
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements due to error or fraud; and to design the nature, timing, and extent of further audit procedures.
3. The auditor must obtain sufficient, appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements being audited.

The five additional field work standards to be complied with when citing GAGAS in the auditor's report require the following:

4. Auditors should communicate with the audited entity their understanding of the services to be performed for each engagement and document that understanding through a written communication.
5. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements.
6. Auditors should design the audit to provide reasonable assurance of detecting misstatements that result from violations of provisions of contracts or grant agreements and could have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
7. Audit findings may involve deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. When auditors identify deficiencies, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives. The elements of an audit finding include: (a) criteria, (b) condition, (c) cause, and (d) effect or potential effect.
8. Auditors must prepare audit documentation in connection with each audit in sufficient detail to provide a clear understanding of the work performed, the audit evidence obtained and its source, and the conclusions reached. 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.

Reporting Standards

For financial statement audits, GAGAS incorporate the AICPA's four generally accepted standards for reporting and establish eight additional field work standards to be complied with when citing GAGAS in the auditor's report. AICPA and GAGAS require the following:

1. The auditor must state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The auditor must identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. When the auditor determines that informative disclosures are not reasonably accurate, the auditor must so state.
4. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed. When the auditor cannot express an overall opinion, the auditor should state the reasons. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

The eight additional reporting standards to be complied with when citing GAGAS in the auditor's report require the following:

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 also must report on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements. Auditors should include either in the same or in separate report(s) (1) a 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 the auditor reports 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, and based upon the audit work performed, (1) significant deficiencies in internal control identifying those considered to be material weaknesses, (2) all instances of fraud and illegal acts unless inconsequential, and (3) violations of provisions of contracts or grant agreements and abuse that could have a material effect on financial statements. 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. Auditors may emphasize significant matters in the auditor's report regarding the financial statements. Due to public interest in the operations of government entities and entities that receive or administer government awards, there may be situations in GAGAS audits in which certain types of information would help facilitate the readers' understanding of the financial statements and the auditor's report.
9. If auditors become aware of new information that might have affected their opinion on previously-issued financial statements, then the auditor should advise entity management to determine the potential effect(s) on the previously-issued financial statements as soon as reasonably possible. Such new information may lead management to conclude that previously-issued financial statements were materially misstated and to restate and reissue the misstated financial statements. In such circumstances, auditors should advise management to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to those who are likely to rely on the financial statements.
10. If the auditor's 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.
11. If certain pertinent information is prohibited from public disclosure or is excluded from the report due to the confidential or sensitive nature of the information, the audit report should disclose that certain information has been omitted and the reason or other circumstances that make the omission necessary.
12. Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. Auditors should also distribute 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.

APPENDIX B

CPA ENGAGEMENT LETTER

Engagement History — The CPA that performed the annual audit of the District for the fiscal year ended June 30, 2010, has been performing this same service for the District since the 1982-83 school year.

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

The CPA did not submit an engagement letter for the 2009-10 fiscal year; however, when the CPA submitted his proposal in 2007, he included a sample engagement letter, which he had obtained from the State Education Department (SED) manual. All of the places where information should have been entered were left blank. However, the CPA did sign a "Proposer Guarantees" form, which stated the Proposer agrees to be bound by the contractual requirements delineated in the CPA's sample engagement letter and contract submitted with the response. This sample engagement letter represented the mutual understanding of the services the CPA would provide to the District. As such, the standards and requirements set forth in the sample engagement letter were to be complied with.

Scope — In the February 7, 2007 sample engagement letter, the CPA agreed to conduct an audit of the District's financial statements as of, and for the years ended, June 30, 2007 through June 30, 2011. The stated objective of the CPA's audit was to express an opinion as to whether the District's financial statements presented 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) for the year then ended, in conformity with Generally Accepted Accounting Principles. 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 sample engagement letter stated that the CPA 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 District management. The letter stated that management was responsible for:

- Establishing and maintaining internal control and complying with the provisions of contracts, agreements and grants management decisions and functions.
- Making all financial records and related information available to the auditors.
- Establishing and maintaining adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets.
- Adjusting the financial statements to correct material misstatements and confirming to the CPA in the representation letter that the effects of any uncorrected misstatements are immaterial to the financial statements.
- Reviewing adjusting entries, and 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 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's Responsibilities — The CPA's various responsibilities also are defined in the sample engagement letter including, among other things:

- 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.
- Informing the District of any fraudulent financial reporting or misappropriation of assets that come to the CPA's attention.
- 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.



KENDALL CENTRAL SCHOOL DISTRICT
1932 Kendall Road
Kendall, New York 14476



December 21, 2011

Board of Education

Edward Gaesser
Christopher Gerken
Nadine Hanlon
Charles Patt
Lucille Welch

Julie E. Christensen
Superintendent
(585) 659-2741
(585) 659-8903 FAX

Carol D'Agostino
Principal
David J. Doyle
Jr. Sr. High School
(585) 659-2706
(585) 659-8988 FAX

Kevin Watson
**Assistant Principal/
Athletic Director**
(585) 659-2706
(585) 659-8988 FAX

Scott Wright
Principal
Elementary School
(585) 659-8317
(585) 659-8940 FAX

Michael Bourne
Steven Passero
**Coordinators Pupil
Personnel Services**
(585) 659-8906
(585) 659-8904 FAX

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

To Whom It May Concern:

The Kendall Central School District is in receipt of the audit report of examination prepared by the Office of the State Comptroller. The information presented in the audit demonstrates the intent of the process by providing us with an opportunity to reflect on our operations and governance procedures.

As indicated at the exit conference, our collective goal was to hire the most cost effective auditor for the five year term.

Corrective Action Plan Response to Recommendations

1. *The Board should engage the services of a different external auditor.*

The Kendall Central School accepted bids for an external auditor on December 5, 2011. We received bids from four different firms. The bids were reviewed and subsequently all four firms were interviewed by the audit committee on December 13, 2011. At the completion of the interviews, the audit committee narrowed the decision to two firms, of which both are highly qualified and met the proposal requirements.

2. *The audit committee and Board should follow the District's written policies and procedures for the procurement of independent audit services and award contracts to an appropriately qualified firm offering the most cost-effective proposal.*

The district policy #5410 states that the school must: a) assure the prudent and economical use of public moneys in the best interest of the taxpayer; b) facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances; and c) guard against favoritism, improvidence, extravagance, fraud and corruption. The district must request competitive proposals. We have participated in competitive bids and will continue to review these bids per board policy.

3. *The Board should develop a process to be used in reviewing and rating the RFP's for all professional services, including independent audit services, to ensure all requirements set forth in the RFP process are met.*

A spreadsheet was completed to determine if the specification of the bid were followed. The spreadsheet included fees, qualifications, independent, experience, peer review, disciplinary actions, and continuing professional education. All the firms that responded followed the specifications of the bid.

4. *The Board should ensure that the audit committee provides timely oversight of the external auditor and that the audit of the District's financial statements is performed in accordance with GAGAS.*

The audit committee will continue to oversee the external auditor and financial statements in accordance with GAGAS.

5. *The Board and audit committee should effectively communicate with the District's external auditor.*

During the interview process, the firms described their expectations of the audit committee and discussed ongoing communication expectations.

The audit committee will be recommending an external auditing firm, which meets the proposal requirements at the January 2012 Board of Education meeting.

The Board of Education and the Administration have been diligent in maintaining consistency for the taxpayers of Kendall. We appreciate the recommendations given in your audit report in an effort to maintain the quality educational programs that every student in the Kendall Central School District deserves. We will continue to support our children despite these dire economic times facing the State of New York.

Sincerely,



Julie Christensen
Superintendent

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

To accomplish the objectives of this audit, we performed the following procedures:

- We reviewed the District's purchasing policies and regulations.
- We interviewed District officials, members of the District's audit committee and the District's external auditor.
- We reviewed the CPA's work papers for his audit of the 2009-10 District fiscal year.
- We evaluated the process by which the District procured audit services for the 2006-07 through 2010-11 fiscal years.
- We reviewed the proposals submitted for the external audit services for the 2006-07 through 2010-11 fiscal years and summarized the criteria met by each firm as outlined in the District's RFP.
- We considered the requirements under generally accepted government auditing standards (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 the CPA, reviewing the CPA firm's policies and procedures, and reviewing the District-specific audit work papers.

We conducted this performance audit in accordance with 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

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
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

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

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

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

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, 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

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, 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

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester 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

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

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, 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

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

STATEWIDE AND REGIONAL PROJECTS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313