

**ORANGE COUNTY  
BOARD OF EDUCATION**

**AGENDA ITEM ABSTRACT**

**Meeting Date:** February 11, 2013

**AGENDA ITEM No.** 13-02-16

**ACTION ITEM: (Y/N)** Y

**SUBJECT:** Audit Contract Approval

**INFO. CONTACT:** Donna Brinkley **PHONE:** 919-732-8126

**ATTACHMENTS:** 1. Audit Contract with Anderson, Smith and Wike, PLLC.  
2. Board Policy #8310, Annual Independent Audit.

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**PURPOSE:** The purpose of this agenda item is to provide an opportunity for the Board of Education to approve the audit contract with Anderson, Smith and Wike, PLLC for the 2013-2014 fiscal year.

**BACKGROUND:** North Carolina General Statutes 115C-447 and Board Policy #8310 Annual Independent Audit requires school systems to conduct an annual audit. Anderson, Smith & Wike (ASW) has audited the financial records of the Orange County Board of Education since 2009. Anderson, Smith and Wike currently audits over thirty school districts, more than any firm in the state. They are unique in that they specialize in audits of school districts. Approximately 90% of their business is auditing school boards. Anderson, Smith & Wike gives Orange County Schools timely service for extra projects when they are requested. The firm has provided specialized finance training for principals, directors and bookkeepers and charge reduced rates for additional work requested by the school board. Unlike most audit firms who send out their newest members, ASW has a partner on site for the entire audit. They respond to questions and requests for advice throughout the year very promptly and at no additional cost. The Local Government Commission requires board approval of the audit contract.

N.C.G.S. 115-447 states "Each local school administrative unit shall have its accounts and the accounts of individual schools therein audited as soon as possible after the close of each fiscal year by a certified public accountant or by an accountant certified by the Local Government Commission as qualified to audit local government accounts. The auditor who audits the accounts of a local school administrative unit shall also audit the accounts of its individual schools. The auditor shall be selected by and shall report directly to the board of education. The audit contract shall be in writing, shall include all its terms and conditions, and shall be submitted to the Secretary of the Local Government Commission for his approval as to form, terms and conditions. The terms and conditions of the audit contract shall include the scope of the audit, and the requirement that upon completion of the examination the auditor shall prepare a typewritten or printed report embodying financial statements and his opinion and comments relating thereto. The financial statements accompanying the auditor's report shall be prepared in conformity with generally accepted accounting principles."

**FINANCIAL IMPACT:** The cost of the annual audit is \$35,000 plus reimbursement for reasonable out-of-pocket expenses.

**RECOMMENDATION:** The Superintendent recommends the Board of Education approve the audit contract with Anderson, Smith and Wike, PLLC for the 2013-2014 fiscal year.

**CONTRACT TO AUDIT ACCOUNTS  
Of Orange County Schools**

Governmental Unit

On this 19th day of January, 2013, Anderson Smith & Wike PLLC  
Auditor

116 Greylyn Road, Rockingham, NC 28379

Mailing Address

\_\_\_\_\_ hereinafter referred to as

the Auditor, and the Board of Education of Orange County Schools, hereinafter referred

Governing Board

Governmental Unit

to as the Governmental Unit, agree as follows:

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit for the period beginning July 1, 2012, and ending June 30, 2013. The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate discretely presented component units, each major governmental and enterprise fund, and the aggregate remaining fund information (non-major government and enterprise funds, the internal service fund type, and the fiduciary fund types).
2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with generally accepted auditing standards. The Auditor shall perform the audit in accordance with *Government Auditing Standards* if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB Circular A-133 and the State Single Audit Implementation Act, the auditor shall perform a Single Audit. This audit and all associated workpapers may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the LGC. If the audit and/or workpapers are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners.
3. This contract contemplates an unqualified opinion being rendered. If financial statements are not prepared in accordance with generally accepted accounting principles (GAAP), or the statements fail to include all disclosures required by GAAP, please provide an explanation for that departure from GAAP in an attachment.
4. This contract contemplates an unqualified opinion being rendered. The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract
5. If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, July 2007 revisions, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he has met the requirements for a peer review and continuing education as specified in *Government Auditing Standards*. The Auditor agrees to provide a copy of their most recent peer review report regardless of the date of the prior peer review report to the Governmental Unit and the Secretary of the Local Government Commission prior to the execution of the audit contract. (Sec Item 22) If the audit firm received a peer review rating other than pass, the auditor shall not contract with any Local Government Units without first contacting the Secretary of the Local Government Commission for a peer review analysis that may result in additional contractual requirements.  
  
If the audit engagement is not subject to *Government Accounting Standards*, the Auditor shall provide an explanation as to why in an attachment.
6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to the SLGFD within four months of fiscal year end. Audit report is due on: October 31, 2013. If it becomes necessary to amend this due date or the audit fee, an amended contract along with a written explanation of the delay must be submitted to the Secretary of the Local Government Commission for approval.
7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's systems of internal control and accounting as the systems relate to accountability of funds, adherence to budget requirements, and adherence to law requirements. In addition, the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "significant deficiencies and material weaknesses" in AU 325 of the *AICPA Professional Standards*. The Auditor shall file a copy of that report with the Secretary of the Local Government Commission.
8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the Local Government Commission. This includes annual or special audits, agreed upon procedures related to Internal Control, bookkeeping or other assistance necessary to prepare the Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit until the invoice has been approved by the Secretary of the Local Government Commission. (This also includes any progress billings.) [G.S. 159-34 and 115C-447] The process for invoice approval has changed. All invoices for Audit work must be submitted by email in PDF format to the Secretary of the Local Government Commission for approval. The invoices must be emailed to: [lgc.invoices@nctreasurer.com](mailto:lgc.invoices@nctreasurer.com)

Email Subject line should read "unit name -- invoice. The PDF invoice marked approved with approval date will be returned by email to the Auditor for them to present to the Local Government Unit for payment. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.

9. In consideration of the satisfactory performance of the provisions of this agreement, the Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the Local Government Commission, the following fee, which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts:

Year-end bookkeeping assistance – [For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards] At standard hourly rates

Audit \$32,000 plus reimbursement for reasonable out-of-pocket costs

Preparation of the annual financial statements \$3,000

Prior to submission of the completed audited financial report, applicable compliance reports and amended contract (if required) auditors may submit invoices for approval for services rendered, not to exceed 75% of the total of the stated fees above. If the current contracted fee is not fixed in total, invoices for services rendered may be approved for up to 75% of the prior year audit fee. The 75% cap for interim invoice approval for this audit contract is \$ 26,250

10. The auditor working with a local governmental unit that has outstanding revenue bonds will include in the notes to the audited financial statements, whether or not required by the revenue bond documents, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the Local Government Commission simultaneously with the local government's audited financial statements unless otherwise specified in the bond documents.
11. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include but not be limited to the following information: (a) Management's Discussion and Analysis, (b) the financial statements and notes of the governmental unit and all of its component units prepared in accordance with generally accepted accounting principles, (c) supplementary information requested by the client or required for full disclosure under the law, and (d) the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.
12. If the audit firm is required by the NC CPA Board or the Secretary of the Local Government Commission to have a pre-issuance review of their audit work, there must be a statement added to the engagement letter specifying the pre-issuance review including a statement that the Unit of Government will not be billed for the pre-issuance review. The pre-issuance review must be performed prior to the completed Audit being submitted to the Local Government Commission. The pre-issuance report must accompany the audit report upon submission to the Local Government Commission.
13. The Auditor shall electronically submit the report of audit to the Local Government Commission when (or prior to) submitting the invoice for services rendered. The report of audit, as filed with the Secretary of the Local Government Commission, becomes a matter of public record for inspection and review in the offices of the Secretary by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the Local Government Commission. These audited financial statements are used in the preparation of Official Statements for debt offerings (the auditors' opinion is not included), by municipal bond rating services, to fulfill secondary market disclosure requirements of the Securities and Exchange Commission, and other lawful purposes of the government, without subsequent consent of the auditor. If it is determined by the Local Government Commission that corrections need to be made to the unit's financial statements they should be provided within three days of notification unless, another time frame is agreed to by the Local Government Commission.

The Local Government Commission's process for submitting contracts, audit reports and Invoices are subject to change. Auditors should use the submission process in effect at the time of submission.

In addition, if the North Carolina Office of the State Auditor designates certain programs to be audited as major programs, a turnaround document and a representation letter addressed to the State Auditor shall be submitted to the Local Government Commission.

14. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the Local Government Commission, this agreement may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor.
15. If an approved contract needs to be varied or changed for any reason, the change must be made in writing, signed and dated by all parties and pre-audited if the change includes a change in audit fee. This document and a written explanation of the change must be submitted by email in PDF format to the Secretary of the Local Government Commission for approval. The portal address to upload your amended contract and Letter of explanation documents is <http://nctreasurer.slgfd.leapfile.net> No change shall be effective unless approved by the Secretary of the Local Government Commission, the Governing Board, and the Auditor.

16. Whenever the Auditor uses an engagement letter with the client, Item 17 is to be completed by referencing the engagement letter and attaching a copy of the engagement letter to the contract to incorporate the engagement letter into the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 22 of this contract. Engagement letters containing indemnification clauses will not be approved by the Local Government Commission.
17. Special provisions should be limited. Please list any special provisions in an attachment.  
Any special provisions are noted in the attached engagement letter.
18. A separate contract should not be made for each division to be audited or report to be submitted. A separate contract must be executed for each component unit which is a local government and for which a separate audit report is issued.
19. The contract must be executed, pre-audited, physically signed by all parties and submitted in PDF format including unit and auditor signatures to the Secretary of the Local Government Commission. The current portal address to upload your contractual documents is http://nctreasurer.slefd.leaffile.net. Electronic signatures are not accepted at this time. Included with this contract are instructions to submit contracts and invoices for approval as of March 5, 2012. These instructions are subject to change. Please check the NC Treasurer's web site at www.netreasurer.com for the most recent instructions.
20. The contract is not valid until it is approved by the Local Government Commission. The staff of the Local Government Commission shall notify the unit and auditor of contract approval by email. The audit should not be started before the contract is approved.
21. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the Local Government Commission.
22. All of the above paragraphs are understood and shall apply to this agreement, except the following numbered paragraphs shall be deleted: (See Item 16.)
23. **All communications regarding Audit contract requests for modification or official approvals will be sent to the email Addresses provided in the following areas.**

**Audit Firm Signature:**  
Firm Anderson Smith & Wike PLLC

By H. Dale Smith

(Please type or print name)

H. Dale Smith

(Signature of authorized audit firm representative)

Email Address of Audit Firm:

dsmith@asw-cpa.com

Date January 19, 2013

**Unit Signatnres:**

By Donna Coffey, Chair

(Please type or print name and title)

(Signature of Mayor/Chairperson of governing board)

Date \_\_\_\_\_

Date Governing Body Approved Audit Contract - G.S. 159-34(a)

**Unit Signatures (continued):**

By N/A

(Chair of Audit Committee- please type or print name)

N/A

(Signature of Audit Committee Chairperson)

Date N/A

(If unit has no audit committee, this section should be marked "N/A.")

This instrument has been preaudited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act. Additionally, the following date is the date this audit contract was approved by the governing body.

Donna Brinkley

Governmental Unit Finance Officer (Please type or print name)

(Signature)

Email Address of Finance Officer

Donna.Brinkley@orange.k12.nc.us

Date \_\_\_\_\_

(Preaudit Certificate must be dated.)

<b>ANNUAL INDEPENDENT AUDIT</b>	<i>Date Approved:</i> 11/17/2004	<i>Policy Number:</i> 8310
<i>Rescinds Policy Number:</i> DID-R, DID		<i>Issued:</i> 2/28/1979

The accounts of the school district and the individual schools will be audited as soon as possible after the close of each fiscal year by an independent, qualified auditor. The auditor will be selected by the board and the terms and conditions will be specified in a written contract. The auditor will report directly to the board.

The superintendent will assist the board in providing for an annual independent audit which meets all requirements as provided by G.S. 115C-447 and any other relevant statute. All employees and agents of the school district having custody of public money or responsibility for keeping records of public financial or fiscal affairs will produce all books and records requested by the auditor and provide any information relating to fiscal affairs requested by the auditor. Any employee who fails to cooperate may be subject to disciplinary action, up to and including dismissal and also may be found guilty of criminal conduct.

Legal Reference: G.S. 115C-447

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