

PROCEDURES MANUAL
FOR PROCURING AND CONDUCTING AUDITS
AND REVIEWS OF LOCAL GOVERNMENTS
Revised August 2007

Published By:

WV State Auditor's Office
Chief Inspector Division
1900 Kanawha Blvd. E.
Building 1, Room W-420
Charleston, WV 25305

Table of Contents

General Information, Introduction and Acknowledgements	i
--	---

SECTION 1 - ENTITY PROCEDURES

1.1	Entities Subject to Audit Oversight by the Chief Inspector.....	1
1.2	Audit Scheduling and Notification	1
1.3	Appointment of Audit Committee	2
1.4	Audit Procurement Notification Packet.....	2
1.5	List of CPA Firms Appointed to Conduct Audits and Reviews of Local Government Entities	2
1.6	Request for Proposal Form	2
1.7	Scoring the Individual Bid Proposals	8
1.8	Summarizing the Individual Score Sheets	9
1.9	Excel Based Scoring Sheets.....	9
1.10	Awarding the Contract.....	10
1.11	Approval of the Contract	11
1.12	Special Instructions for Online Contract Submission.....	11
1.13	Audit/Review Contract Extensions.....	11
1.13.1	Special Instructions for Audit Contract Extensions for Audits Subject to the Provisions of Circular A-133	12
1.14	Disputes with the CPA Assigned to Conduct Your Audit.....	12
1.15	Cancellation of Contracts or RFPs.....	13
1.16	Audit Completion and Payment of Fees	14
1.16.1	Communication of Engagement Findings	14
1.16.2	Distribution of Reports	14
1.16.3	Special Instructions for a Single Audit in Accordance with Circular A-133 ...	14
1.16.4	Due Dates for Payment of Fees and Billing Limitations	15
1.16.5	Special Instructions for Certificates from the WV Commissioner of Employment Programs.....	15
1.17	Assistance with the Procurement Process.....	15
1.18	Assistance with Records or Financial Statement Preparation.....	16

SECTION 2 CPA PROCEDURES

2.1	Before You Read This Section	17
2.2	CPA Eligibility Requirements	17
2.2.1	General Firm Information	17
2.2.2	Peer Review	18
2.2.3	Continuing Professional Education.....	19
2.2.4	Miscellaneous Provisions for Eligibility.....	20
2.2.5	Payment of Application Fee, Verification of Information and Change in Status of Information and Other Provisions	20
2.3	The Procurement Process.....	21
2.3.1	Audit Scheduling	21
2.3.2	Request for Proposal Forms.....	22
2.3.3	Scoring the Individual Proposals	22
2.3.4	Approval of the Contract	23
2.3.5	Violation of Procurement Procedures by the Entity	23
2.4	Information Received when the Contract is Awarded.....	23
2.5	Conducting the Audit.....	24
2.5.1	Professional Standards.....	24
2.5.2	Basis of Accounting for Local Governments.....	24
2.5.3	Discretely Presented Component Units, Blended Component Units, Joint Ventures or Jointly Governed Organizations.....	25
2.5.4	Subcontracting Work to Others	26
2.5.5	Audit Personnel.....	26
2.5.6	Use of Chief Inspector Prepared Manuals	26
2.5.7	Audit Risk Alerts	26
2.5.8	Immediate Notice of Fraudulent Activities to the Chief Inspector.....	26
2.5.9	Auxiliary Work with Audit/Review Clients	26
2.5.10	Exit Conference	27
2.6	Rescission or Amendments to the Contract.....	27
2.6.1	Amendments to the Contract	27
2.6.2	Rescission of Contract	28
2.7	Rescission of RFP's by the Chief Inspector	29
2.8	Audit Contract Extensions	29
2.9	Breach of Contract, Submission of the Audit Report	30
2.9.1	Breach of Contract	30
2.9.2	Reports to Submit to the Chief Inspector, the Entity and Other Agencies	31
2.9.3	Special Reporting Requirements for Solid Waste Authority Audits	32
2.9.4	Other Special Reporting Requirements	32
2.10	Audit Documentation Requirements.....	33

SECTION 2 CPA PROCEDURES (Continued)

2.11 Chief Inspector Quality Control Monitoring Section 33
 2.11.1 Chief Inspector Desktop Review of Audit
 Reports and/or Audit Documentation 34

2.12 Remedial Action 35
 2.12.1 Remedial Action 35
 2.12.2 Types of Suspensions..... 36
 2.12.3 Suspension Protest 37

2.13 Communication Methods Between CPA Firms and CID 37

Glossary 38-41

Audit Procurement Forms

Request for Proposal A
Audit Proposal Score Sheet Summary B
Individual Audit Proposal Score Sheet C
Uniform Contract to Audit/Review Local Government Financial Statements D
Amendment to the Audit/Review Contract Agreement..... E
Notice of Rescission of Contract or RFP Form F
Application for Appointment to the List of Independent Public Accountants and
 Accounting Firms Appointed to Conduct Chief Inspector Audits and Reviews G
Bid Summary and Certification H
Declaration of Decline to Bid Document (Example)..... I
Contract Extension Request..... J

GENERAL INFORMATION

Pursuant to Chapter 6, Article 9 of the West Virginia Code, the State Auditor, as ex officio the chief inspector and supervisor of public offices, is charged with the responsibility of:

- (1) formulating, prescribing and installing a system of accounting for all local units of government; and
- (2) examining into the financial affairs of every *local government* office or political subdivision and all boards, commissions, authorities, agencies or other offices created under the authority thereof.

West Virginia Code §6-9-7 provides that the audit examination described in item (2) above shall be accomplished by one of two methods:

- (1) by the chief inspector himself, or
- (2) by any person appointed by him.

To fulfill the duties vested in the State Auditor as ex officio of public offices, as authorized in West Virginia Code §6-9-7, the Auditor's office utilizes services of certified public accountants to perform audits which the chief inspector division cannot conduct.

For those audits which the State Auditor elects to assign to CPAs, the division will periodically notify those entities that they are to procure their audit in accordance with this manual's procedures and will distribute a list of those entities to all certified public accountants/firms which have been approved in accordance with the procedures contained in this manual.

The State Auditor as ex officio and chief inspector of public offices has developed a uniform process for prequalifying and approving certified public accountants and basic procedures for local governments to use in procuring their audit when the audit is not to be conducted by Chief Inspector Division staff auditors. These adopted policies and procedures are contained in this publication entitled *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*.

This manual has been designed to aid local governments and CPA's to fulfill the statutory responsibilities mandated by Chapter 6, Article 9 of the West Virginia Code. It is organized in the following manner:

Section 1 - contains information useful to the Entities who have been directed to procure audit services.

Section 2 – contains information useful to the CPA firms which have been approved and placed on the list of qualified firms to conduct audits for the Chief Inspector.

Glossary – contains terms associated with the audit procurement process. Terms that are defined in this Appendix are *bolded and italicized* in the body of this manual. It also contains a list of useful resources for the audit process.

Audit Procurement Forms - contains all of the forms necessary for the audit procurement process. These forms are also available electronically in Word and Excel format at our website at <http://www.wvsao.gov/cid/cid.asp>. Forms that are utilized in the procurement process are denoted in **BOLD AND UPPER CASE** in the body of this manual.

Any questions or comments should be directed to:

WV State Auditor's Office	Phone: 558-2540
Chief Inspector Division	
1900 Kanawha Blvd. E.	
Building 1, Room W-420	Fax: 558-5327
Charleston, WV 25305	

INTRODUCTION AND ACKNOWLEDGEMENTS

This guide is designed to provide Entities and CPA firms with detailed instructions associated with the practice of audit procurement. Entities and Auditors share an awesome responsibility in this process. The primary objective of the Chief Inspector Division is to ensure quality local government audits are performed in a timely manner. In a recent *Report on National Single Audit Report issued by the President's Council on Integrity and Efficiency (June 2007)*, a staggering 35% of the total audits selected were estimated to be unacceptable under the criteria established by the distinguished professionals conducting the study. It is obvious that governmental financial reporting and audits are highly technical and specialized fields. CID has made great strives in recent years to properly oversee this activity. This guide should further enhance our ability to collectively meet this responsibility. I would like to acknowledge the efforts of our staff in facilitating the preparation of this comprehensive revision. From our legal staff to our clerical staff, virtually everyone made some sort of contribution to this undertaking. Our staff, like many other agencies, is overburdened by normal workloads and when projects such as this need to be completed; everyone is asked to go over and above. I would also like to thank the many firms which provided feedback after initially reviewing the draft document. Many of their insightful suggestions were incorporated into this final version.

Stuart T. Stickel, Deputy State Auditor
Chief Inspector Division
August, 2007

SECTION 1

ENTITY PROCEDURES

1.1 ENTITIES SUBJECT TO AUDIT OVERSIGHT BY THE CHIEF INSPECTOR

The Chief Inspector Division (hereinafter referred to as CID) maintains a database to track the audit and review examination activity of all **local governments** identified in the State of West Virginia. West Virginia Code §6-9-1(a) states in part:

"Local government" means any unit of local government within the state, including a county, county board of education, municipality, and any other authority, board, commission, district, office, public authority, public corporation, or other instrumentality of a county, county board of education, or municipality or any combination of two or more local governments."

Furthermore, an advisory memorandum issued by CID dated March 10, 2005 provides clarification for certain separate legal entities (including non-profit corporations) as defined by **Governmental Accounting Standards Board** Statement Number 14. That memorandum states in part:

"If when applying this standard, a determination is made that the separate legal entity is a **discretely presented component unit, blended component unit, joint venture, or a jointly governed organization** of a local government or a combination of local governments, then the entity is subject to the requirements of Chapter 6, Article 9 and all applicable procurement procedures should be followed. Related organizations, as defined in GASB 14, are not subject to CID auspices. The nonprofit status of certain entities does not preclude them from being included within a local government's financial statement and the requirements set forth in West Virginia Code Chapter 6, Article 9, and the procurement manual."

1.2 AUDIT SCHEDULING AND NOTIFICATION

CID has the statutory obligation to perform the audit or to appoint someone to perform the annual audit of each local government office or political subdivision and all boards, commissions, authorities, agencies or other offices created under the authority thereof. As provided for by statute, the Chief Inspector employs staff auditors to perform local government audits throughout the state. Annually, CID staff auditors are scheduled to perform certain audits with consideration given to those entities which have requested that our staff auditors perform the audit and to those where other factors, including but not limited to auditor rotation, warrant CID conduct the audit. The examinations of the remaining entities are then placed on a list of available audits to be conducted by one of the firms approved to perform Chief Inspector audits and reviews. These **lists of entities available for audit** (hereinafter referred to as the bid list) are prepared and sent throughout the year.

If placed on a bid list, your entity will then be notified that it is responsible for procuring its annual audit from any firm appearing on our list of approved firms. At the same time, each firm will be sent a bid list of those entities to be audited. Your entity will be assigned a five digit **request for proposal number** on the bid list. The first two numbers indicate the calendar year placed on the bid list and the last three numbers indicate the sequential number of RFP's for the year. Your request for proposal number is unique to

your organization and must be used for any correspondence sent to our office regarding this process.

1.3 APPOINTMENT OF AUDIT COMMITTEE

If your entity does not have a formal audit committee then the entity governing body must appoint such a committee before beginning the procurement process. An audit committee's primary responsibility is to procure audit services and oversee corrective action associated with audit findings and concerns. The committee shall have at least three members but not more than five with at least one member from the entities governing body and one member being an entity appointee with a working knowledge of the accounting system utilized. The remaining one to three members may be appointed by the entity body as deemed appropriate. We strongly recommend, but do not require, the third required member be a citizen of the government that is knowledgeable in the fields of accounting and auditing. Members of the audit committee shall be appointed by the entity body for a period of two years and one member of the committee shall be appointed by the entity body to serve as the primary contact person in the audit procurement process. The entity body may assign other powers and duties as deemed appropriate. The provisions of this section are effective in the calendar year beginning in 2008, however early implementation is strongly recommended.

1.4 AUDIT PROCUREMENT NOTIFICATION PACKET

The Audit Committee will be notified that it is necessary to procure audit services by receipt of Audit Proposal Notification which contains the following:

1. Cover Letter notifying committee to procure services.
2. *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*
3. **REQUEST FOR PROPOSAL FORM** for audit services.
4. **AUDIT PROPOSAL SCORE SHEET SUMMARY.**
5. Individual **AUDIT PROPOSAL SCORE SHEET.**
6. **INSTRUCTIONS FOR THE AUDIT PROPOSAL SCORE SHEET.**
7. A blank **AUDIT CONTRACT.**
8. Basic steps in procuring an audit/checklist to avoid common errors.
9. A copy of the bid list.

1.5 APPOINTED LIST OF CPA FIRMS APPROVED TO CONDUCT AUDITS AND REVIEWS OF LOCAL GOVERNMENT ENTITIES

All CPA firms are approved by CID through an application process. The minimum requirements to be appointed to this list are outlined in Section 2.2 of this manual and the **APPLICATION FOR APPOINTMENT TO THE LIST OF INDEPENDENT PUBLIC ACCOUNTANTS AND ACCOUNTING FIRMS APPROVED TO CONDUCT CHIEF INSPECTOR AUDITS AND REVIEWS.**

1.6 REQUEST FOR PROPOSAL FORM

This is the primary form that will be utilized by the audit committee and will enable interested CPA firms to prepare relevant proposals for your audit. This form details the

minimum information that should be provided to the firms. Certain minimum information may not be applicable to your entity and therefore should be listed as N/A. Since this serves as the framework for the proposals it is acceptable to have additional reasonable requirements. An example of this would be knowledge of a particular accounting software program. Detailed information for each section of this form follows:

- (1) Entity name and address
- (2) Contact person and phone number – The primary contact person referred to in Section 1.3. The individual listed should possess the capability to answer any additional questions that interested firms may have.
- (3) Location and phone number of the office where the financial records are maintained (if different from #1 & #2).
- (4) Audit year(s) to be contracted and type of audit(s) – the audit year(s) to be contracted MUST correspond with the year(s) reflected on the bid list for your entity. NO EXCEPTIONS.

The type of audit that your entity will require depends on a number of factors including past audit history, the amount of federal revenue expended as well as the total amount of revenue for your entity.

Code A – ***Single Audit in Accordance with Circular A-133*** – this type of engagement is required when your entity expends \$500,000 or more in federal financial assistance during the fiscal year. Question 11 requires specific information to be provided for this federal financial assistance. If you are unsure of the amount of federal funding expended then you should complete question 11 before question 4.

Code B – ***Financial and Compliance Audit Performed in Accordance with Government Auditing Standards issued by the Comptroller General*** – This type of engagement applies when your entity expends less than \$500,000 in federal funds AND is not eligible for a Review (Code C) type examination.

Code C - ***Financial and Compliance Review Performed in Accordance with Government Auditing Standards issued by the Comptroller General*** – Your entity must meet certain requirements to be eligible for this type of engagement. The scope of an auditor’s work in this type of attestation engagement is less than a financial and compliance audit. Therefore, typically the engagement cost is less than an audit. West Virginia Code §6-9-7 states in part:

“If a local government office is not subject to a single audit requirement under federal regulations or if it is not otherwise required by law or contract to undergo an annual audit and its expenditures from all sources are less than three hundred thousand dollars during the fiscal year the chief inspector may choose to perform either a review or audit on the local government office and may in his or her discretion determine the frequency of such review or audit.”

Frequently there are audit requirements stipulated in bond and other types of debt agreements that preclude an entity from having a review performed. You should review these agreements carefully before requesting a review. Additionally, local ordinances sometimes require audits to be performed. If your entity is a **component unit** of a primary government you may be required to undergo an audit. Finally, it is the current policy of CID to require an audit once every four years even when all review eligibility requirements are met. If your entity is eligible for a review and you are unsure when an audit will be necessary you should contact CID for guidance prior to sending out your Request for Proposal Form.

Special Instructions for Contracts Applying to Future Years – If your entity is contracting for future years, you must still designate one of the types of engagements (A, B or C) described above. This designation should be based on past experience and the reasonable expectation of what type of engagement you expect to be necessary. If your initial designation for a future year changes, you are required to notify CID in writing of this modification. Additionally, if the modification requires an increase in the scope of the audit then you may be required to submit an **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT**. If this circumstance arises and you cannot reach a mutually agreeable contract increase amount with the firm assigned to conduct your engagement then you may petition the Chief Inspector, in writing to rescind the contract. This can be accomplished by preparing the **NOTICE OF RESCISSION OF CONTRACT OR RFP FORM**. Additionally, the Chief Inspector may rescind a contract or RFP for any of the reasons stipulated in Section 1.15.

Date the Audit Needs to be Completed by– this is the date you would like to have the audit report issued. You should allow ample time between the start date and the issue date to enable the audit firm to complete all field and review work necessary for an audit of your entity. If you are a Code A Single Audit in Accordance with Circular A-133 the report **MUST** be issued within 9 months after the end of the fiscal year. Additionally, you must allow ample time for State **Pass Through Granting Agencies** to receive and log in the audit so it is necessary to have at least a one week leeway with this type of engagement. For example, if you have determined your entity needs a Code A Single Audit for the fiscal year ending June 30, 2007 the completion date you should list in #7 should be no later than March 24, 2008.

- (5) Financial statements and accounting records will be ready for audit on – list the date in which your entity will be ready for the audit to commence.
- (6) Approximate date we would like the audit to be scheduled – this date will frequently be the same as the date entered in #5.
- (7) We would like the following separate legal organizations (i.e. component units) audited with our entity – frequently **primary governments** appoint board members to various boards and authorities to administer a particular function of a government. These entities are typically **separate legal organizations** with WV statutes governing the manner in which they must be organized. Some examples of these types of organizations include Sanitary Boards, Parks and Recreation Commissions, Economic Development Authorities and Building Commissions to name a few.

However, in order to be considered a component unit of a primary government **financial accountability** must be established under the guidelines presented in Governmental Accounting Standards Board Statements Number 14 and 39. In certain instances, primary governments or component units prefer to have the component unit audit performed under separate cover. Therefore you must stipulate in this section any of these separate legal organizations you would like the audit firm to incorporate into their proposal. You are required to notify the component unit and CID in writing of this action to avoid duplicate audit procurement services from occurring. It is frequently more cost effective to incorporate component unit audits with that of the primary government.

- (8) The primary types of services provided to our citizens – you should list the major types of services such as law enforcement, street repair etc... that are particular to your entity.
- (9) Total number of bank accounts maintained
- (10) Name of each fund maintained, type of fund with approximate amount of revenue for each fund – list all of the funds your entity has and whether the funds are **enterprise, pension, trust or governmental**. You should include the revenue for each fund for the current and any past years in the RFP.
- (11) Federal Grant Programs – You should enter the total amount of federal grant program expenditures for the current and any past years. If there are future years on your RFP then you should list an approximate amount for these expenditures. The type of audit you have listed for future years in question 4 is contingent on the amount of federal expenditures that you expect to make during a future fiscal year. Frequently, grant funding that is received from the State of West Virginia is actually federal money and the state agency is serving in a pass through agency capacity. You should contact the state agency you receive funds from to ascertain the origin of the funding. The **Catalog of Federal Domestic Assistance** number is a 5 digit number assigned by the federal government. The first two digits identify the federal agency which makes the grant and the last three digits identify the particular program for that agency. For example the CFDA # 14.228 is a grant from the Department of Housing and Urban Development (Agency prefix 14) that is for Community Development Block Grant – State’s Program (program number 228). A complete listing of CFDA numbers is available at www.CFDA.gov. This information should be readily available from your entity **Schedule of Expenditures of Federal Awards** that could be attached to your proposal rather than recreated in item #11.
- (12) Provide the same information as in #11 except the name of the state program name would be entered rather than the CFDA number and State grant expenditures should be listed.
- (13) Form of accounting records - indicate the type of software utilized by your organization for the accounting records.
- (14) Number of Employees.

- (15) Approximate number of invoices paid per year.
- (16) Our employees participate in the following pension plans – you should list all plans, if applicable, separately. This includes *defined benefit plans* as well as *defined contribution plans*.
- (17) We instituted the following material accounting pronouncements that were not previously applicable – These would typically be GASB statements that have a material effect on your financial statements. For example, if your agency previously did not implement GASB statement number 34 but did in a year of the RFP then that fact should be noted here.
- (18) We entered into the following material debt agreements that were not applicable in the previous year – Common examples would include the issuance of *revenue bonds*, *general obligation bonds*, and *capital lease agreements*. You should also indicate the amount in these debt agreements.
- (19) The following billing limitation applies to this engagement (for Class III and Class IV municipalities only) – West Virginia Code §6-9-8 states in part:

“Provided, That in municipalities in which the total revenue from all taxes does not exceed the sum of two thousand dollars annually, the cost including the per diem and all actual costs and expenses of the services shall not exceed the sum of sixty dollars. The cost of this service shall be the actual cost and expense of the service performed, including transportation, hotel, meals, materials, per diem compensation of deputies, assistants, clerical help and the other costs that are necessary to enable them to perform the services required, but the costs shall not exceed the sum of two thousand dollars for services rendered to a Class III or a Class IV municipality: Provided, however, That the chief inspector may charge up to an additional two thousand dollars for costs incurred for each service or act performed for a utility or park system owned by a Class III or Class IV municipality: Provided further, That if a municipality is required to undergo a single audit by the federal agency or agencies making a grant, the cost limitations of this subsection do not apply.”

The limitations stipulated in this statute also apply to the CPA’s approved to conduct audits for the Chief Inspector. From a practical standpoint, very few municipalities will have less than \$2,000 of total revenue from all taxes. If, however, your municipality meets this stipulation the maximum amount that can be charged is \$60.00. CPA’s are authorized to charge up to \$2,000 (inclusive of the Chief Inspector process fee of 8%) plus an additional \$2,000 for each *utility fund* and/or separately stated *park fund*. Therefore, if a municipality has a water and park fund the maximum amount that can be contracted is \$6,000. Of this \$6,000, the CPA would be entitled to \$5,520 and the Chief Inspector would be entitled to \$480 assuming the contract was approved for the maximum amount. You must enter the maximum amount the CPA can charge you according to statutory requirements per year exclusive of the Chief Inspector process fee (\$5,520 in the above example). If the municipality is a *Single Audit in Accordance with Circular A-133* (Type A) then these limitation provisions do not apply for that year and you should enter “none”. Any proposals received from the CPA’s above the stipulated maximum will be deemed void and should not be scored.

- (20) We require the following number of copies of the issued report – You will need a certain number to disseminate but the report will also be available in PDF format via the CID web-site. You must also indicate the individual responsible for disseminating the audit reports within an entity.
- (21) We request the firm to provide any other pertinent information in order for the proposal to be properly evaluated in accordance with the criteria outlined in the Chief Inspector Division's *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments* – The criteria for scoring bid proposals is outlined in section 1.7 of this manual and the CPA firms are familiar with this process.
- One member of the Audit Committee must sign and date the request for proposal.
 - You can solicit proposals immediately AFTER your entity receives notification to procure audit services from CID.
 - Frequently, you will be contacted by CPA firms interested in obtaining requests for proposals. You MUST allow any interested CPA firm present on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* the opportunity to prepare a proposal.
 - You must solicit at least four firms to submit proposals. Any CPA firm's refusal to submit a bid should be documented in writing by the firm and submitted to CID with other contract supporting documents as outlined in section 1.11. Firms will frequently utilize a **DECLARATION OF DECLINE TO BID DOCUMENT** to achieve this purpose. If a contacted firm chooses not to document the refusal to bid then you must stipulate “no bid” next to the firm's name on the signed **AUDIT PROPOSAL SCORE SHEET SUMMARY**. CID will periodically contact firms during the contract review process to validate “no bid” assertions. If the validity of the “no bid” information is questionable, CID may require remedial action and/or cancel the RFP.
 - You must, at a minimum, allow at least two weeks (10 business days) for firms to submit bid proposals. This is from the date in which you provide the firm a copy of the **REQUEST FOR PROPOSAL FORM** and this date must be listed at the top of the request for proposal. If you need to send out additional Request for Proposals due to refusal from initial firms then a later date must be used. You cannot begin scoring proposals until the latest date utilized on the Request for Proposal has passed.
 - You have a total of 90 days from the bid list date to submit a signed contract with the related supporting documentation to CID for approval. It is important to be cognizant of this contract due date when stipulating Request for Proposal deadlines. If your entity's signed contract is not received within 90 days from the bid list date, then CID may cancel the

RFP and either assign the engagement to CID staff or begin the procurement process again. If, for any reason, your RFP is cancelled you will be notified in writing.

- If the Chief Inspector Division determines (through review of submitted documents or through a written complaint from a CPA firm) an entity has violated the prescribed procedures then the RFP may be cancelled. Additionally, an RFP may be cancelled when an entity circumvents the intent of the competitive bidding procedures. An example of this type of circumvention would be contacting one firm in your geographic area with the rest of the solicited bids well outside the entities geographic region.
- Any cancelled RFP's will be reassigned in the manner stipulated in Section 1.15.

1.7 SCORING THE INDIVIDUAL BID PROPOSALS

Once the proposals have been received from interested CPA firms, your entity will be required to “score” the bid proposals in order to select one of the firms utilizing the **INDIVIDUAL AUDIT PROPOSAL SCORE SHEET**.

At least one member from the Audit Committee should be assigned to score the audit proposals. We strongly recommend that all committee members participate in the scoring of proposals. The scoring sections are broken down as follows:

- | | |
|---|------------------|
| • Responsiveness to the Proposal – | up to 15 points |
| • Understanding of the Engagement to be Conducted – | up to 24 points |
| • Technical Experience – | up to 31 points |
| • Cost Criteria – | up to 25 points |
| • Preference Points- | up to 5 points |
| • Total | up to 100 points |

Special Instructions

In most instances, the criteria are self explanatory. The first three sections are subject to evaluation and comparison to other firms.

The cost criteria section is an objective numeric calculation that is designed to give more points to firms with lower bid amounts.

Under the Technical Experience section there is a question that is not subjective since you award 3 points if the firm is a member of the **AICPA Governmental Audit Quality Control Center**. If not, 0 points are awarded. This is effective for RFP's issued in the calendar year 2008 (prefix 08) and after.

All firms interested must provide you a copy of their most recent **peer review report** and **letter of comment** (if applicable). It is very important to evaluate these reports when scoring this criterion.

1.8 SUMMARIZING THE INDIVIDUAL SCORE SHEETS

All bid proposals must be summarized utilizing the **AUDIT PROPOSAL SCORE SHEET SUMMARY** form.

Total scores by each section are listed for each firm. Instructions are as follows:

- Audit Year(s) Ending and Audit Report Due Date(s)– if the RFP contains multiple years then you must list each fiscal year separately and the Audit Report Due Date should be entered directly below the fiscal year for which the due date applies. These dates must correspond with the dates you entered on question number 4 of the Request for Proposal form.
- Accounting Firms and Bid Amount – List each firm separately with the total amount bid. This will be listed on the **BID SUMMARY AND CERTIFICATION** form that is prepared by each firm. Multiple year RFP's must provide the total amount for all of the years. The total amount is exclusive of the 8% process fee described in Section 1.10.
- Entity Preference +1 to +5 points (to ONE preferred firm) – The audit committee may award up to 5 points to any desired firm. It is not acceptable to deduct points. You may not award points to more than one firm. If the Audit Committee does not wish to award preference points then that is acceptable but N/A must be entered here for each firm. The signatures of the Audit Committee members demonstrates concurrence with the awarding or non-awarding of points in this section.
- Scored by: (Signatures of Audit Committee) – All Audit Committee members **MUST** sign and date this summary form even if they did not aid in preparing the individual scoring sheets. We strongly recommend all committee members participate in the evaluation of proposals at all stages since this is an important function of the committee and by signing the **AUDIT PROPOSAL SCORE SHEET SUMMARY** you are assenting to the individual assessments and ultimate awarding of the contract.

1.9 EXCEL BASED SCORING SHEETS

To facilitate this scoring process, we have designed excel based electronic scoring sheets to score individual proposals with certain information being automatically carried to the Audit Proposal Score Sheet Summary. Utilizing this format has the following advantages:

- Common math functions are done automatically thereby reducing errors.
- Cost Criteria Average is calculated automatically for you on the Audit Proposal Summary Sheet and then carried to the Individual Scoring Sheets.
- Certain Individual Scoring Sheet information such as Firm Name and totals for each section are automatically entered into the Summary Sheet.

- The Individual Scoring Sheets can accommodate up to 5 individuals (the maximum amount of audit committee members) scoring a particular firm. Amounts will be totaled and averaged for the section automatically.

Special Instructions for Excel Spreadsheets

In order for the math and carry forward functions to work properly you must enter the number of individuals scoring (1 to 5) at the top of the Individual Scoring Sheet along with the firm's name. Both of these areas are denoted in yellow.

1.10 AWARDING THE CONTRACT

Once the **AUDIT PROPOSAL SCORE SHEET SUMMARY** is complete, you are ready to award the contract to the firm which has the highest numeric score. In the event of a tie, the committee must break the tie through an adjustment to the Entity Preference +1 to +5 points section. If a tie exists **AFTER** points have been awarded through an adjustment to the Entity Preference section then the firm which was awarded points in this section shall be awarded the contract.

Specific Instructions related to the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** (hereinafter referred to as Contract) is as follows:

- Unless otherwise notified, you **MUST** utilize the contract you received with your procurement packet. Reproductions of this Contract will not be accepted. Your entity's name will appear in the upper left hand corner, the RFP # and the contract due date must be returned will appear in the upper right hand corner. If the Chief Inspector Office does not receive the contract by this date then it may be rejected.
- You must fill in the name of the CPA firm and your entity name at the top of each of the three pages of the contract. You must return all three pages of the contract.
- Paragraphs 1 through 15 describe the general terms of the contract. You should read these paragraphs carefully to obtain an understanding of the terms and conditions of this agreement.
- Paragraph 16 - List the examination year(s) and the type of engagement (A,B, and/or C) in this paragraph. This should correspond with your **REQUEST FOR PROPOSAL FORM**.
- Paragraph 18 – List the examination year(s) with the completion date for each year(s).
- Paragraph 19 – List the examination year(s) along with the applicable bid amount for the firm chosen. This amount should agree in total with the amount listed on the **AUDIT PROPOSAL SCORE SHEET SUMMARY** (prepared by entity) and the **BID SUMMARY AND CERTIFICATION** (prepared by CPA). You must also list the process fee which is due to the Chief Inspector. This fee is 8% of the fee charged by the CPA firm.

- Unless provided otherwise, the governing body of the entity should approve, by formal motion, the firm selected by the Audit Committee to conduct its audit.
- Once you have filled out the applicable information on the uniform contract then you must have a representative from the chosen firm sign, date and return the document to you. A representative from the entity must then sign and date the contract.

1.11 APPROVAL OF THE CONTRACT

Once the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** is complete you mail the original signed document to the Chief Inspector for approval. The contract must be accompanied with the following documents to be considered complete. The documents should be assembled in this order:

- (1) Uniform Contract
- (2) Audit Proposal Score Sheet Summary
- (3) Individual Audit Proposal Scoring Sheets
- (4) Bid Summary and Certification from all firms that supplied bid proposals.
- (5) Request for Proposal
- (6) Letters from firms declining to bid. (if applicable or if provided)

Approval is not official until your entity receives the signed original contract by a Chief Inspector representative along with a notification letter to that effect. **No audit work is to be done prior to receiving this approval.**

1.12 SPECIAL INSTRUCTIONS FOR ONLINE CONTRACT SUBMISSION

Although not yet available, the Chief Inspector will be providing an internet based contract submission program that will automatically generate certain contract related documents and perform edit checks of entered information to ensure accuracy. This program will also reduce the supporting documents submitted since the information will automatically be stored in our system upon passing certain edit checks and final submission. Section 1.12 will address this internet contract submission program upon completion of the project.

1.13 AUDIT/REVIEW CONTRACT EXTENSIONS

Contract Extensions – The **CONTRACT EXTENSION REQUEST** form is available when the original due date of the examination cannot be met. This action is usually initiated by the firm assigned to conduct the audit. This form is self explanatory with Section I being filled out by the firm and signed, Section II filled out by the entity and signed. The form must then be submitted to the Chief Inspector for approval in Section III. Extensions should be kept to a minimum since it can potentially lead to delays in future audits, so please consider this matter carefully before assenting to an extension. Extensions must be submitted at least 7 business days prior to the current completion date.

1.13.1 Special Instructions for Audit Contract Extensions for Audits Subject to the Provisions of Circular A-133

Approval will not be granted for Circular A-133 engagements that extend beyond the 9 month deadline unless the proper procedures are followed as outlined in an Advisory Memorandum dated March 10, 2005 from this office which states in part:

Submission of Audit Extensions for Circular A-133 Single Audits

“For obvious reasons, these should be kept to a minimum. In order to even be considered for approval, these extension requests must be accompanied with the following:

1. An approval letter from the federal oversight agency (defined below).
2. A “draft” Schedule of Expenditures of Federal Awards (SEFA) that clearly denotes the amount of federal expenditures as well as whether the program is direct or pass through.
3. A copy of notification letters to the federal clearinghouse and all pass through entities.

These requirements are outlined in OMB Circular A-133 as follows:

Subpart C - Audits

§__.300 - Auditee Responsibility

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §__.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.”

§__.105 Definitions.

“Cognizant agency for audit means the Federal agency designated to carry out the responsibilities described in §__.400(a)”

“Oversight agency for audit means the Federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. When there is no direct funding, the Federal agency with the predominant indirect funding shall assume the oversight responsibilities.”

Your CPA can often assist you in obtaining this approval but entities are generally required to request approval and in turn notify the proper agencies.

1.14 DISPUTES WITH THE CPA ASSIGNED TO CONDUCT YOUR ENGAGEMENT

As stipulated in paragraph 6 of the contract, the CPA is an independent contractor and as such the entity has the same rights as they would with any other contractor or vendor. However, if for any reason, you feel the CPA violated any of the stipulations of the contract or this manual you can contact the Chief Inspector Office. Any action, if necessary, by the Chief Inspector will be contingent upon the particular facts associated with the dispute.

1.15 CANCELLATION OF CONTRACTS OR RFPs

There are a variety of conditions that may warrant the cancellation of a contract or RFP. Only the Chief Inspector can cancel a RFP. Cancellation may be warranted under the following conditions:

1. The reassignment of an engagement to CID staff.
2. A special or unusual situation which requires CID to conduct the audit.
3. Entity has requested additional years to be added to the RFP.
4. Entity has failed to procure audit service within the prescribed time frame (90 days). NOTE: If your entity fails to procure audit services and does not provide an adequate explanation, CID may solicit bids on your entity's behalf. Contracts will be scored and awarded by CID staff and the entity will be responsible for the contract payment upon the successful completion of the contract. Additionally, the entity will be liable for fees to the Chief Inspector based on the complexity of the proposal and scoring with a minimum fee of \$200 and a maximum fee of \$1,000. This charge is in addition to the 8% processing fee.

Existing contracts (including multi-year contracts) may be cancelled by the Chief Inspector. This action may be instituted by CID, the Entity or the CPA and warranted under the following conditions:

1. The failure of a CPA firm to meet any of the continuing eligibility requirements to conduct audits.
2. A special or unusual situation which requires CID to conduct the audit.
3. Breach of contract due to the CPA's failure to complete the engagement within the contractual due dates.
4. Substandard and/or significantly inadequate audit reports or audit documentation.
5. Entity records were not supplied in a timely manner.
6. Disagreements with management or the CPA assigned to conduct the engagement.
7. Entity records were not adequate and/or complete.
8. CID has determined an **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT** to be unreasonable.

9. Entity chooses not to exercise the annual renewal of the contract. Paragraph 14 of the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** states:

“It is agreed that if this contract is for multiple years, the contract shall be subject to annual renewal or termination. Contract periods must correspond with time periods stipulated on the Chief Inspector Division bid list. Annual renewal shall be by formal motion of the entity's governing body on or after July 1 of the then current fiscal year.”

All actions associated with the rescission of an RFP or an existing contract must be initiated by utilizing the **NOTICE OF RESCISSION OF CONTRACT OR RFP FORM**. All rescissions must be approved by the Chief Inspector. Notification of the disposition of rescission of a contract or RFP will be made to the Entity and CPA (if associated with a contract) by the Chief Inspector in writing.

1.16 AUDIT COMPLETION AND PAYMENT OF FEES

1.16.1 Communication of Engagement Findings

Under normal circumstances, the firm assigned to conduct your audit will meet their contract obligation in an expedient and professional manner. Auditors are required to follow Auditing Standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States (GAGAS). For financial audits, GAGAS incorporate the AICPA's field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. Firms are required to communicate preliminary findings to the appropriate officials either in writing or by holding an audit exit conference. The views of responsible officials as they relate to findings should be incorporated in the final audit report.

1.16.2 Distribution of Reports

The firm will provide you with the desired number of reports as outlined in your **REQUEST FOR PROPOSAL**. Additionally, effective November 1, 2005, an electronic copy of every report issued is available via our web-site at www.wvsao.gov/pdfaudit/public/search.php. For a complete description of the proper distribution of issued reports, please refer to Section 2.9 of this manual.

1.16.3 Special Instructions for a *Single Audit in Accordance with Circular A-133*

The CPA should provide you with the *Data Collection Form for Reporting on Audits of State, Local Governments, and Non-Profit Organizations* upon the issuance of the audit. Depending on the specific instructions of the firm you will be responsible for ensuring the form is sent along with the applicable number of audit reports by the Circular A-133 deadline of nine months to the following address:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

Detailed information associated with the proper submission of this form may be obtained via their website at <http://harvester.census.gov/sac/>.

1.16.4 Due Dates for Payment of Fees and Billing Limitations

The firm will provide you with invoices either periodically, as the work progresses or at the completion of the engagement. The firm's fee is due and payable no later than 30 days after the issuance of the audit report or the receipt of the final invoice, whichever is later. You are liable for the 8% process fee to the Chief Inspector upon receipt of the approved contract. You must pay within 30 days after the receipt of the approved contract or receipt of the CID invoice.

The audit fee cannot exceed the contract fee as set forth in the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS**. Any increase in the agreed upon contract fee must be approved by the Chief Inspector as outlined in the **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT**. The Chief Inspector may choose not to approve an amendment to the contract even if a situation meets one of the criteria outlined on the **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT** if the increase is deemed unreasonable under the circumstances.

1.16.5 Special Instructions for Certificates from the WV Commissioner of Employment Programs

Prior to payment in full or to the final payment, you must obtain a certificate from the WV Commissioner of Employment Programs authorizing you to release final payment to the contractor. This is outlined in West Virginia Code §21A-2-6(c) which states in part:

“(a) All state, county, district and municipal officers and agents making contracts on behalf of the state of West Virginia or any political subdivision thereof shall withhold payment in the final settlement of contracts until the receipt of a certificate from the commissioner to the effect that all payments, interest and penalties thereon accrued against the contractor under this chapter have been paid or that provisions satisfactory to the commissioner have been made for payment. Any official violating this subsection is guilty of a misdemeanor and, on conviction thereof, shall be fined not more than one thousand dollars or confined in a county or regional jail for not more than one year, or both fined and confined.”

This department maintains various locations throughout the state and further information can be obtained by calling 304-558-2564 or via their web site at www.wvbep.org/bep/uc/.

1.17 ASSISTANCE WITH THE PROCUREMENT PROCESS

As stipulated in the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS**, the Chief Inspector charges an 8% process fee. This fee is designed to recover the costs associated with overseeing the audit procurement process. We understand that this can be a difficult and complex process so we stand ready to assist you in this endeavor. If you need assistance we can be contacted

toll free at 1-877-982-9148 or at 304-558-2540. Additionally, we can address your inquiries via our web-site at <http://www.wvsao.gov/contact/contact.aspx>.

1.18 ASSISTANCE WITH RECORDS OR FINANCIAL STATEMENT PREPARATION

We can provide assistance with financial statement preparation. You may also need assistance in preparing for your engagement if you are uncertain of which records to have available for the CPA assigned to conduct your engagement. Our Local Government Services Division can help you in both respects by providing training on a regional or individual basis and providing necessary guidance in these areas. Please contact us at 304-627-2415 if you need assistance in this manner.

SECTION 2

CPA PROCEDURES

2.1 BEFORE YOU READ THIS SECTION

As a participating firm on our *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* you are required to adhere to the applicable statutory requirement as outlined in West Virginia Code, Chapter Six, Article Nine. West Virginia Code §6-9-7 states in part:

“The chief inspector shall, at least annually, prepare a list of certified public accountants approved by the chief inspector to perform examinations of local governments. Names shall be added to or deleted from that list in accordance with uniform procedures of the chief inspector.”

As an approved firm, you should familiarize yourself with the requirements of this manual and it is strongly recommended you review Section 1 to fully understand the procurement process. Section 2 will not reproduce requirements or details that have previously been addressed in Section 1.

2.2 CPA ELIGIBILITY REQUIREMENTS

In order to be considered for the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* each firm or sole practitioner is required to submit an **APPLICATION FOR APPOINTMENT TO THE LIST OF INDEPENDENT PUBLIC ACCOUNTANTS AND ACCOUNTING FIRMS APPROVED TO CONDUCT CHIEF INSPECTOR AUDITS AND REVIEWS INSPECTOR AUDITS AND REVIEWS**. All information submitted on the application is subject to Chief Inspector verification and your firm is required to provide additional information as requested.

2.2.1 General Firm Information

All areas of this section must be completed. You must designate a primary contact person for your firm. This individual will receive all correspondence from the Chief Inspector Division. Applications are for fiscal years from July 1 through June 30th. You must indicate the fiscal year for which your application applies.

You must list all of the personnel of the firm who will be conducting audits/reviews during the application period. It is not necessary to list clerical office staff. All members listed under this section are subject to the continuing professional education requirements in Section III. CID must be notified of any additions or deletions to this listing related to senior management staff during the course of the application period. You are not required to notify CID of routine additions and deletions to audit staff. Changes to this general information section can be accomplished by mailing the revised Section I to the Chief Inspector Division and writing “revised” in the upper left hand corner. NOTE: No changes may be made to Sections II, III and IV of the application. You must promptly notify the Chief Inspector Division of any change in the status of the information provided in these sections by contacting our main office.

2.2.2 Peer Review

Auditing Standards (GAAS) issued by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States require audit organizations performing audits to have an appropriate internal quality control system in place and to undergo an external peer review. The Chief Inspector Division adopted the provisions of GAGAS as the framework for fulfilling this professional requirement. *Government Auditing Standards* states in part:

“Audit organizations performing audits and attestation engagements in accordance with GAGAS should have an external peer review of their auditing and attestation engagement practices at least once every 3 years by reviewers independent of the audit organization being reviewed.[Footnote 38] The external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards. Audit organizations should take remedial, corrective actions as needed based on the results of the peer review.”

Footnote 38 stipulates that external peer reviews must be conducted within three years of the last peer review and that GAO can only grant extensions under extraordinary circumstances. Therefore, to eliminate confusion and promote consistency in the peer review process, the Chief Inspector Division requires the following:

- All firms **MUST** have the peer review **ISSUED** within three years of the last peer review report date. For example, if the firm that conducted your last peer review dated their report on July 1, 2005, your peer review must be completed, reviewed and released before July 1, 2008. This includes any reviews conducted by the WV Society of Certified Public Accountants (WVSCPA) or the AICPA.
- Firms that have not previously had a peer review done in accordance with GAGAS shall have their first peer review completed within 18 months of the first day of field work.
- Firms that have been previously on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* but have been voluntarily removed or have been suspended from the list by the Chief Inspector must still meet this requirement before they are considered to be reinstated on the list. Therefore, it is not acceptable to disregard any time for which the firm was not on the list when applying this 3 year or 18 month requirement.

EXAMPLE:

A new firm was placed on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* and began their first governmental audit on August 8, 2007. The firm was subsequently suspended from the list for a period of one year (from 1/1/08 through 12/31/08) due to the multiple failure to properly meet contract due dates. The firm then reapplied in January of 2009. The due date for the peer review would be February 8, 2009 which is 18 months after the original start date.

GAGAS also requires that the peer review include at least one governmental audit engagement. Section 3.54 of *Government Auditing Standards* states in part:

“The review team should use one of the following approaches to selecting audits and attestation engagements for review: (1) select audits and attestation engagements that provide a reasonable cross section of the assignments performed by the reviewed audit organization in accordance with GAGAS or (2) select audits and attestation engagements that provide a reasonable cross section of the reviewed audit organization's work subject to quality control requirements, including one or more assignments performed in accordance with GAGAS.”

“The review team should prepare a written report(s) communicating the results of the external peer review. The report should indicate the scope of the review, including any limitations thereon, and should express an opinion on whether the system of quality control of the reviewed audit organization's audit and/or attestation engagement practices was adequate and was being complied with during the year reviewed to provide the audit organization with reasonable assurance of conforming with professional standards for audits and attestation engagements. The report should state the professional standards [Footnote 39] to which the reviewed audit organization is being held. The report should also describe the reasons for any modification of the opinion. When there are matters that resulted in a modification to the opinion, reviewers should report a detailed description of the findings and recommendations, either in the peer review report or in a separate letter of comment or management letter, to enable the reviewed audit organization to take appropriate actions. The written report should refer to the letter of comment or management letter if such a letter is issued along with a modified report.”

The failure for the peer review report to meet these requirements may preclude a firm from being appointed to *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

If you answered “yes” to question 1 in Section II, you **MUST** submit a copy of your firm’s latest peer review report (together with any applicable letter of comment) with the **APPLICATION FOR APPOINTMENT TO THE LIST OF INDEPENDENT PUBLIC ACCOUNTANTS AND ACCOUNTING FIRMS APPROVED TO CONDUCT CHIEF INSPECTOR AUDITS AND REVIEWS INSPECTOR AUDITS AND REVIEWS**.

2.2.3 Continuing Professional Education

All individuals assigned to conduct audits/reviews in accordance with GAGAS must meet the minimum CPE requirements as stipulated in the current version of *Government Auditing Standards*. Currently, Section 3.45 of those standards stipulates the following:

“Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, need to maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements.[Footnote 35] At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.[Footnote 36] At least 20 hours of the 80 should be completed in any 1 year of the 2-year period.”

The Chief Inspector may also require firms approved for the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* to attend Office of the State Auditor sponsored CPE courses if deemed necessary and/or appropriate.

The Chief Inspector Division may request CPE records from your firm at any time during an application year.

2.2.4 Miscellaneous Provisions for Eligibility

Both resident and non-resident firms must be currently licensed by the West Virginia Board of Accountancy to perform accounting and auditing services in the State of West Virginia. Further information may be obtained at www.wvboacc.org.

Both resident and non-resident firms must possess a valid West Virginia Business Registration Certificate. Further information may be obtained at <http://www.state.wv.us/taxrev/busreg.html>.

Both resident and non-resident firms must be registered as a vendor with the West Virginia Department of Administration, Purchasing Division. Further information may be obtained at <http://www.state.wv.us/admin/purchase/VRC/pforms.htm>.

The firm must have no outstanding or delinquent payments to the WV Commissioner of Employment Programs. See section 1.16 of this manual for further detail.

2.2.5 Payment of Application Fee, Verification of Information and Change in Status of Information and Other Provisions

- All firms are required to submit the application annually.
- Effective August 1, 2007, the non-refundable application fee shall be \$200.00.
- Firms not previously on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* can apply anytime during the fiscal year but the application year ends on June 30th and the application fee will not be prorated.
- Firms suspended from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* must submit a new application upon the expiration of the suspension term.
- Your firm will be notified in writing of the disposition of the application.
- The failure to provide additional information by a specified date will preclude the approval of a firm's application.
- With the exception of routine personnel changes associated with audit staff contained in Section I, you must notify the Chief Inspector Division, in writing, of

any changes related to the information provided on the original application. Some examples are a newly issued peer review report or a member of the firm not meeting their CPE requirements. The failure to provide such amendments in a timely manner may result in suspension of the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

- If, during the verification process, the Chief Inspector determines the firm circumvented the eligibility requirements, the application may be rejected and/or the firm may be immediately suspended from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* (see Section 2.12)
- The Chief Inspector Division will maintain an up to date firm listing and send that listing with every *list of entities available for audit* (commonly referred to as the bid list). Additionally, a current *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* will be available on our web-site (www.wvsao.gov).
- You may not submit bid proposals on outstanding RFP's unless your firm is currently on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*. Any firms undertaking this type of action may be subject to penalties (see Section 2.12).
- The firm must have no delinquent **UNIFORM CONTRACT TO AUDIT/REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** outstanding, with consideration given for written extension requests approved by the Chief Inspector.

2.3 THE PROCUREMENT PROCESS

Please refer to Section 1.2 through Section 1.11 of this manual for detailed information related to audit scheduling, requests for proposals, scoring the individual bid proposals, summarizing the individual score sheets, excel based scoring sheets, awarding the contract and approval of the contract. Much of this information applies to the CPA firms and there have been many changes in both the forms and the provisions of this manual to foster an open, competitive environment while streamlining the process. Firms should be familiar with all aspects of the Entity Section as this section contains information specific to the firms not otherwise addressed in this manual.

2.3.1 Audit Scheduling

The Chief Inspector Division shall make every effort to provide timely *lists of entities available for audit* to facilitate the timely issuance of governmental audit reports, especially insomuch as it relates to *Single Audits in Accordance with Circular A-133*. Multiple year RFP's will be issued when possible. Obviously, we must schedule our staff and it is difficult to forecast future workloads but we shall continue to improve this process. Each firm appointed to the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* will be notified in writing when a new *list of entities available for audit* is issued. UNDER NO CIRCUMSTANCES CAN

YOUR PROPOSALS EXTEND BEYOND THE PERIOD STIPULATED ON THE LIST.

2.3.2 Request for Proposal Forms

There have been some changes on the entity **REQUEST FOR PROPOSAL FORM** that will facilitate a firm's ability to prepare adequate proposals. Additionally, the following requirements have been enacted and/or clarified to enhance the competitive process:

- Entities **MUST** allow any interested firm the opportunity to submit a proposal.
- Entities **MUST** allow at least 10 business days after the date the **REQUEST FOR PROPOSAL FORM** was provided to the firm for firms to submit proposals.
- Firms should provide entities with a **DECLARATION OF DECLINE TO BID DOCUMENT** when the firm is not interested in submitting a proposal. An example of this type of correspondence is contained in Appendix B of this manual. This document should be either on the Firm's letterhead and signed by a responsible party with the firm or in an inalterable electronic format containing the firm's identifying information. If a firm chooses not to provide this documentation then you may be contacted by CID during the contract review to verify a "no bid" entry for your firm.
- Although this has always been required, a Firm must provide a **BID SUMMARY AND CERTIFICATION** for all proposals submitted. This is required when the entity submits their contract with supporting documentation in order to consider the proposal valid and eligible for scoring. We have had a number of firms refuse to prepare this document when they were aware they were not awarded the contract. It is acceptable to prepare one **BID SUMMARY AND CERTIFICATION** for a multiple year RFP but each year's fee and issue date must be separately stated on the certification. It is also acceptable to prepare one **BID SUMMARY AND CERTIFICATION** for each year on a multiple year RFP. If a firm fails to provide the **DECLARATION OF DECLINE TO BID DOCUMENT** or the **BID SUMMARY AND CERTIFICATION** then they may be suspended (See section 2.12) from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities..*
- Type E (unknown) engagements have been removed from the contract and procurement process. Entities must now designate the type of engagement, even if the time period applies to future years. See Section 2.6.1 for detailed instructions on amending contracts for which the type contracted has changed subsequent to execution of the agreement.
- Entities must now solicit proposals from at least 4 firms.

2.3.3 Scoring the Individual Proposals

- The Technical Experience section of the **INDIVIDUAL AUDIT PROPOSAL SCORE SHEET** has been modified. One question has been eliminated because

it is redundant. There is an additional question related to the assessment of the firm's peer review and any applicable letter of comments that is worth up to 3 points. One of the questions value was reduced from a maximum value of 6 to a maximum value of 4 points. The total value for this section has been reduced from 36 to 31 points.

- The Cost Criteria Average section now has a maximum of 25 points.
- Under the Technical Experience section there is a question that is not subjective since entities will award 3 points if the firm is a member of the *AICPA Governmental Audit Quality Control Center*. If not, 0 points are awarded. This provision is effective for RFP's issued in the calendar year 2008 (prefix 08) and after.
- There is now a maximum amount of points awarded for each question.

2.3.4 Approval of the Contract

- No firms are authorized to conduct any activity associated with a signed contract until the firm receives a notice of approved contract from the Chief Inspector Division. Frequently there are issues with the submitted documents that require remedial action. If your firm commences with audit/review engagement activities prior to receipt of the notice of approved contract then the firm is subject to possible suspension (see Section 2.12) from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

2.3.5 Violation of Procurement Procedures by the Entity

If you feel an entity has violated the provisions contained in this manual during the procurement of their audit then you may petition the Chief Inspector, in writing, to mediate the dispute. Your petition must include all of the pertinent facts and clearly stipulate the section of the manual which was violated. You will be notified, in writing, of the ultimate disposition of the complaint.

2.4 INFORMATION RECEIVED WHEN THE CONTRACT IS AWARDED

Once the Chief Inspector Division approves the contract, you will receive the following information:

- A Notice of Approved Contract.
- A Copy of the Approved Contract.
- Audit Information Files that should at a minimum contain the following
 - (1) Trial Balances
 - (2) Audit Adjusting Entries
 - (3) A passed audit adjustment sheet or a statement that there were no passed audit adjustments.

You may also receive information that was received by our office from outside sources that may potentially affect your engagement.

You should contact the client and predecessor auditor if you desire additional information beyond what is received from the Chief Inspector Division. AU Section 315. 11 states:

“The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review certain of the working papers. The predecessor auditor should determine which working papers are to be made available for review and which may be copied. The predecessor auditor should ordinarily permit the successor auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts, and those relating to contingencies. Also, the predecessor auditor should reach an understanding with the successor auditor as to the use of the working papers. The extent, if any, to which a predecessor auditor permits access to the working papers is a matter of judgment.” (see section 2.10 for further information)

2.5 CONDUCTING THE AUDIT

2.5.1 Professional Standards

All firms appointed to the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* are required to follow all applicable professional standards including auditing standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. Any *quality control reviews* performed by CID will utilize forms and checklists designed to ensure compliance with those standards.

2.5.2 Basis of Accounting for Local Governments

Effective for fiscal years June 30, 2007 and after, all local governments are required to prepare their financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This has been promulgated by the Chief Inspector through the authority derived by West Virginia Code §6-9-2 which states in part:

“The chief inspector shall formulate, prescribe and install a system of accounting and reporting in conformity with the provisions of this article, which shall be uniform for all local governmental offices and agencies and for all public accounts of the same class and which shall exhibit true accounts and detailed statements...”

- All local governments, except local county boards of education, were required to have GAAP basis financial statements as a result of GASB Statement Number 34 (effective for smaller governments for fiscal year ending June 30, 2004).
- Local County Boards of Education were authorized to issue financial statements in accordance with an Other Comprehensive Basis of Accounting (OCBOA) that was promulgated by the West Virginia Department of Education prior to June 30, 2007.

- Auditor opinions should be modified appropriately for entities that do not present their financial statements in accordance with accounting principles generally accepted in the United States of America.

2.5.3 Discretely Presented Component Units, Blended Component Units, Joint Ventures or Jointly Governed Organizations

The Chief Inspector Division is responsible for conducting and overseeing all local government examinations in the State of West Virginia. This authority is derived from West Virginia Code §6-9-7 and the definition of a local government is contained in §6-9-1(a). See Section 1.1 of this manual for a detailed discussion of the types of entities that may be subject to the authority of the Chief Inspector.

If a *primary government* is required to undergo a *Single Audit in Accordance with Circular A-133* or a *Financial and Compliance Audit Performed in Accordance with Government Auditing Standards issued by the Comptroller General* then a *discretely presented component unit, blended component unit, joint venture* or *jointly governed organization* of that primary government IS NOT eligible for a *Financial and Compliance Review Performed in Accordance with Government Auditing Standards issued by the Comptroller General* when contracting for an engagement under a separate cover from the primary government.

You should be certain the entity has prepared their financial statements on the proper basis of accounting. Frequently, there is uncertainty whether an entity should be presented as an enterprise or governmental fund. The narrow definition of an enterprise fund is provided in GASB Statement Number 34 which states in part:

“Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).”

If your firm conducts an engagement on an entity that is subject to the provisions of this manual without a **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** then the firm may be subject to the remedial provisions stipulated in Section 2.12 of this manual.

2.5.4 Subcontracting Work to Others

A firm assigned to perform a Chief Inspector audit or review is expressly prohibited from subcontracting all or any portion of the work to another accountant or accounting firm, except as noted on the RFP response or as approved, in writing by the Chief Inspector. In either case, the subcontractor, accountant and/or accounting firm, must meet all professional criteria for conducting governmental audits and must be listed on the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

2.5.5 Audit Personnel

The use of audit management and supervisory personnel other than those listed on the **BID SUMMARY AND CERTIFICATION** form to perform the specified audit is prohibited unless prior written approval is obtained from the Chief Inspector.

2.5.6 Use of Chief Inspector Prepared Manuals

The Chief Inspector Division may periodically develop compliance manuals for West Virginia statutes to aid firms in conducting audits and reviews of local governments. Firms are required to utilize these manuals to perform testing of compliance with certain provisions of laws and regulations which may directly and materially effect the financial statements.

2.5.7 Audit Risk Alerts

The Chief Inspector Division may periodically issue audit risk alerts specific to local governments in West Virginia. These audit risk alerts should be taken into consideration when planning and performing your engagement.

2.5.8 Immediate Notice of Fraudulent Activities to the Chief Inspector

If during the course of an examination you determine fraudulent activity exists, you are required to promptly notify, in writing, the Director of the Chief Inspector Division.

2.5.9 Auxiliary Work with Audit/ Review Clients

Your firm is responsible for adhering to professional independence standards. No auxiliary services that would impair independence should be conducted with an audit/review client. If after, reviewing professional standards, you are uncertain whether a particular service violates standards then you may request a written opinion from the Chief Inspector Division before performing the service. The Chief Inspector will periodically provide guidance to firms related to this area through independence policy statements. If the Chief Inspector determines your firm has clearly violated the professional independence standards or independence policy statements issued by the Chief Inspector; you may be subject to the remedial provision contained in Section 2.12.

2.5.10 Exit Conference

At the conclusion of field work, you are required to provide the appropriate officials of the entity, with the results of your audit or review.

2.6 RESCISSION OR AMENDMENTS TO THE CONTRACT

2.6.1 Amendments to the Contract

Certain situations may arise that require an amendment to the originally agreed upon contract amount. Paragraph 13 of the **UNIFORM CONTRACT TO AUDIT/REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** states:

“The terms of this contract shall not be amended without the express written approval of the Chief Inspector.”

In order to foster a fair and competitive environment, contract amendments should be kept to a minimum. Contract amendments can be initiated by utilizing the **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT**. These amendments may be initiated by the entity or CPA but must be approved by the Chief Inspector Division. Some common examples of justifiable reasons for an amendment as outlined on the form are as follows:

- (1) The type of engagement listed on the Request for Proposal was incorrect causing additional time to conduct the proper type of engagement.
- (2) Additional funds not previously included in the Request for Proposal to be included in the engagement.
- (3) Additional component units not previously included on the Request for Proposal to be included in the engagement.
- (4) Additional federal programs not previously included on the Request for Proposal to be included in the A-133 portion of the audit.

Even if one of these justifiable conditions is present, the Chief Inspector Division may not approve an amendment if it is deemed unreasonable under the particular circumstances present. The Chief Inspector may require additional detailed information, in writing, from the party requesting the amendment. If the Chief Inspector Division does not approve an amendment and the CPA does not want to proceed with the engagement under the original contract terms, then the CPA may petition the Chief Inspector Division to rescind the contract. Both the CPA and entity must agree and sign the **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT**.

The entity and CPA will be notified, by the Chief Inspector, of the ultimate disposition of a requested amendment. The CID signed **AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT** will serve as notification of approval.

2.6.2 Rescission of Contract

Certain situations may arise that require a contract to be rescinded. The most common reasons for rescinding a contract are outlined on the **NOTICE OF RESCISSION OF CONTRACT OR RFP FORM** as follows:

- (1) A special or unusual situation which requires CID to conduct the audit.
 - The Chief Inspector Division can exercise this statutory authority when a special or unusual situation warrants the engagement being performed by CID staff.
- (2) Breach of contract due to failure of the CPA firm to complete the engagement within the contractual due date.
 - See Section 2.12 for a detailed explanation and the potential remedial action associated with the failure to meet contractual due dates.
- (3) CID determined an amendment to the contract to be unreasonable.
- (4) Entity records were not adequate and complete.
- (5) CPA cannot meet the contract obligation due to over scheduling.
 - The nature and specific circumstances will be analyzed before approving a rescission for this reason. Firms should keep this to an absolute minimum. Additionally, it is not acceptable to submit this type of request near the due date of the contract. This should be used only after the firm has determined that after bidding on a large number of audits, and the subsequent awarding and approval to the firm, they will be unable to satisfy contract obligations.
- (6) Disagreements with management or the CPA.
- (7) CPA failing to continue to meet any eligibility requirements to conduct audits.
 - See Section 2.12 for a detailed explanation and potential remedial action associated with the failure to meet eligibility requirements.
- (8) Substandard and/or significantly inadequate audit reports and documentation.
- (9) CPA Suspension from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

The **NOTICE OF RESCISSION OF CONTRACT OR RFP FORM** can be initiated by any party, including the Chief Inspector Division. If it is initiated by the Chief Inspector Division then CID is the only party required to sign the Notice. If it is initiated by the Entity or CPA then it must be signed by the initiating party. It is optional for the CPA or entity to sign the Notice when it was initiated by the other party. If it is approved,

the entity and CPA will be notified by receiving a signed copy of the form. If it is initiated by the entity or CPA, and denied by CID, then the appropriate parties will be notified in writing as to the reason for the denial.

2.7 RESCISSION OF RFP'S BY THE CHIEF INSPECTOR

Certain situations may arise that require the Chief Inspector to rescind outstanding RFP's. These situations apply when the audit procurement process has not yet progressed to the selection of a firm. Some common reasons for this action as outlined on the **NOTICE OF RESCISSION OF CONTRACT OR RFP FORM** are as follows:

- (1) A special or unusual situation which requires CID to conduct the audit.
- (2) Entity requested additional years to be added to RFP.
 - As stipulated throughout this manual, all audit /review periods **MUST** correspond with the time frame indicated on the bid lists. There are no exceptions to this requirement. If, after being placed on a bid list, an entity petitions CID to add additional years and CID decides to honor that request then the existing RFP may be cancelled so the entity can be placed on a future bid list.
- (3) Entity failed to procure services within the prescribed time frame.
 - This is the most common reason why a RFP would be cancelled. Entities have 90 days after they are placed on a bid list to submit the contract and supporting documentation to CID for approval. After that time frame has elapsed, CID may elect to cancel the RFP and either assign the engagement to CID staff, place the entity on another bid list, or procure bids for the entity in accordance with Section 1.15 of this manual.

2.8 AUDIT CONTRACT EXTENSIONS

Certain situations may arise, that make it difficult for a firm to meet the due date for an issued audit report as stipulated in the contract. In those circumstances, the CPA should utilize the **CONTRACT EXTENSION REQUEST**.

As outlined in the form the following circumstances may justify an extension:

- (1) Scheduling conflicts of the CPA.
 - (2) Scheduling conflicts with the entity.
 - (3) Entity records were not supplied in a timely manner.
 - (4) Third party verifications are pending.
 - (5) Other- including incapacitating accidents or illnesses.
- All firms must exercise due care and responsibility by not accepting more audit contracts than can be reasonably completed within the due dates specified in the original contract. The repeated or routine inability

to complete audit contracts will be a significant evaluation factor in the annual prequalification process for approval to perform Chief Inspector audits. At the discretion of the Chief Inspector, this may prevent a firm from being approved to the list in future years (See Section 2.12 for potential remedial action).

- Additionally, the Chief Inspector reserves the right to reject any extension for any reason.
- Contract Extensions should be submitted as early as possible but must be submitted within 7 business days of the contract due date. If a contract extension is submitted in less than 7 business days before the contract is due then your firm is subject to the remedial action outlined in Section 2.12 of this manual. However, if your contract extension is not approved and your firm has waited until near the due date of the contract you will be required to fulfill your contract obligation and the failure to do so will place your firm in Breach of Contract. If your firm submits a contract extension form after the due date of the contract then the contract has already been breached. See the remedial action associated with a breach of contract in Section 2.12 of this manual.
- If your firm does not submit the report by the contract due date or the approved extension date, the contract will be considered breached and you will be subject to the provisions outlined in Section 2.12 of this manual.
- If you are requesting an extension for a type A *Single Audit in Accordance with Circular A-133* then you must follow the procedures outlined in Section 1.13 of this manual. It is imperative that these types of audits are issued within the stipulated contract issue date or extension date approved by the federal oversight agency. It is your responsibility to aid the client in understanding this process and obtain the extension from the proper oversight agency. CID will not authorize an extension unless the procedures outlined in Section 1.13 are adhered to. If we are unable to approve an extension you may be subject to the remedial provisions outlined in Section 2.12 of this manual.

2.9 BREACH OF CONTRACT, SUBMISSION OF THE AUDIT REPORT

2.9.1 Breach of Contract

- (1) All reports are to be submitted to the Chief Inspector on or before the issue date specified in the **UNIFORM CONTRACT TO AUDIT/ REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS** or the extension date authorized in writing by the Chief Inspector.

- (2) If the report is not submitted to the Chief Inspector within the specified period (determined with regard to any authorized written extension of time), the contract may be deemed to have been breached and, therefore, void as of that date. Both the firm and the entity will be notified of the breach. The firm must return all books and records of the entity by the date specified in the notice.
- (3) When the Chief Inspector declares a contract to have been breached and void as specified in item 2 above, the firm shall not be paid any portion of the contract price, and must reimburse the entity for any payments received. However, if the firm is able to provide documented evidence that the failure to complete the field work and issue the report by the completion date was entirely the fault of the entity, and no unreasonable demands have been placed upon the entity, and the entity does not dispute the documented evidence, the firm may be reimbursed by the entity for actual costs incurred for the work performed upon review and approval of the Chief Inspector.
- (4) Once the Chief Inspector has issued notice that the contract has been breached, the Chief Inspector will:
 - a. direct the entity to select another firm from the original proposals, or
 - b. direct the entity to secure new bids/quotes for the audit, or
 - c. perform the audit using Chief Inspector staff auditors.
- (5) As outlined in Section 2.12 of this manual, any firm which has a contract breach may be removed from the ***Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*** for a period of up to 12 months.

2.9.2 Reports to Submit to the Chief Inspector, the Entity and Other Agencies

- Chief Inspector Reports must be received in the Chief Inspector's Office by the due date of the contract or approved extension. Firms must submit at least 2 copies to CID; one bound in a durable cover and another unbound. If the examination reported any violations of laws, regulation or contracts (hereinafter referred to as noncompliance) then an additional 2 bound copies must be submitted. The name of the entity must be visible on the front cover. The county and RFP for the engagement must be written or typed on the upper right hand corner of the durable cover(s). Reports for CID are to be submitted to the following address:

Office of the State Auditor
Chief Inspector Division
1900 Kanawha Blvd. East
Building 1 – Room W-420
Charleston, WV 25305

- The entity is entitled to receive the number of reports that was specified on their request for proposal. Additionally, if the audit is a ***Single Audit in Accordance with Circular A-133*** you must provide the entity the additional copies as

stipulated on the *Data Collection Form for Reporting on Audits of State, Local Governments, and Non-Profit Organizations*.

- Special instructions for Local Boards of Education, RESA and Vocational Technical Centers audits – in addition to any other required copies, firms must submit one copy to the following address:

West Virginia Department of Education
1900 Kanawha Blvd. East – Building 6
Charleston, WV 25305

- Special Instructions for Solid Waste Authorities - in addition to any other required copies, firms must submit one copy to the following address:

WV Solid Waste Management Board
501 57th Street, S.E.
Charleston, WV 25304

The failure to provide the required number of copies to the specified parties may subject a firm to the remedial action stipulated in Section 2.12.

2.9.3 Special Reporting Requirements for Solid Waste Authority Audits

The following schedules must be included in the audit reports of solid waste authorities:

- (1) A schedule of State Assistance detailing the activity of grant awards, i.e. revenue, expenditures, and balances.
- (2) A cumulative inventory list of all equipment purchased with grant money. Items to be included in the cumulative equipment schedule include type of equipment, date of purchase, purchase price, vendor, and the identification (serial) number. Also, include the same information for retirement of equipment. For reporting purposes, the threshold for inclusion of equipment is a purchase price of \$1,000 or more and a useful life greater than one year.
- (3) Even if an authority does not receive a grant every year, the equipment schedule is to be carried forward in each year's audit report so that the West Virginia Solid Waste Management Board may properly account for the equipment.

2.9.4 Other Special Reporting Requirements

If other special reporting requirements should arise the CPA is required to comply with any such special reporting requirements promulgated by CID.

2.10 AUDIT DOCUMENTATION REQUIREMENTS

Firms are required to submit copies of certain audit documentation to the Chief Inspector along with the report. At a minimum, firms must submit the following audit documentation which will be provided to the subsequent year auditor:

- (1) Trial Balances for every fund.
- (2) Audit adjustment entries for all funds
- (3) Passed audit adjustments for all funds. If there were no passed entries, then you must stipulate that fact in writing.

Additionally, firms are required to allow access to their audit documentation to a firm performing the subsequent year audit in accordance with AU §315.11 which states in part:

“The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized.⁶ It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review certain of the working papers. The predecessor auditor should determine which working papers are to be made available for review and which may be copied. The predecessor auditor should ordinarily permit the successor auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts, and those relating to contingencies. Also, the predecessor auditor should reach an understanding with the successor auditor as to the use of the working papers. The extent, if any, to which a predecessor auditor permits access to the working papers is a matter of judgment.”

This information must be submitted even if your firm has the subsequent year's contract. Failure to provide audit documentation in the manner set forth in this section may subject a firm to the remedial provisions contained in Section 2.12.

As a condition of approval to perform Chief Inspector audits, the firm agrees that access to audit documentation shall be made available promptly upon request to the Chief Inspector Division, subsequent auditors of the entity, and regulators as defined in AU §339. Access includes the right to obtain reasonable and necessary copies of working papers no charge. Failure to provide access to audit documentation may subject the firm to the remedial provisions contained in Section 2.12.

2.11 CHIEF INSPECTOR QUALITY CONTROL MONITORING SECTION

The reports and audit documentation prepared by firms to the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* are subject to review by the Chief Inspector Division. Selection for the review may be random or based on any methodology deemed appropriate by CID. Should the report and/or audit documentation reviewed by the Chief Inspector, federal or state regulatory

agencies fail to accord with the applicable professional standards required and specified for Chief Inspector appointed audits, the Chief Inspector may require the CPA to perform additional work, including possible report revisions.

2.11.1 Chief Inspector Desktop Review of Audit Reports and/or Audit Documentation

The Chief Inspector's Quality Control Monitoring Section will periodically review audit reports submitted by firms utilizing a standardized and uniform guide such as the peer review guide issued by the National State Auditor's Association (NSAA).

After reports and/or audit documentation are reviewed, firms will be notified, in writing, of the results. CID will utilize the same criteria as was developed for the *Report on National Single Audit Report issued by the President's Council on Integrity and Efficiency*. The results of each desktop review will be categorized into one of three groups and one of five categories within the groups. The standard groups and categories within that group are as follows:

Group:	Category:
Acceptable	Acceptable (AC) Acceptable with Deficiencies (AD)
Limited Reliability	Significant Deficiencies (SD)
Unacceptable	Material Reporting Errors (MRE) Substandard (SU)

Whether an audit report and/or documentation is deemed acceptable, of limited reliability or unacceptable, and in which category, is a judgment made based on the severity of the deficiencies. The following criteria will be utilized in determining the proper group and category of reports reviewed and related deficiencies (if any):

Acceptable (AC) – No deficiencies were noted or only one or two insignificant deficiencies were noted.

Acceptable with Deficiencies (AD) – One or more deficiencies with applicable auditing criteria were noted that do not require corrective action for the engagement, but should be corrected on future engagements.

Significant Deficiencies (SD) – Significant deficiencies with applicable auditing criteria were noted and require corrective action to afford unquestioned reliance upon the audit.

Substandard Audits (SU) – audits found with deficiencies so serious that the auditor's opinion on the financial statement, and major federal programs (if applicable) cannot be relied upon.

Material Reporting Errors (MRE) – No serious deficiencies were noted; however, serious reporting errors were noted.

You will be apprised, in writing, of the results and required corrective action associated with a review of a report and/or audit documentation. The firm will also be notified as of

the deadline for the completion of remedial action. As described in Section 2.12 corrective action may require the re-issuance of the audit report, a refund of fees charged to the client, cancellation of future years on a contract and potential removal from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*.

2.12 REMEDIAL ACTION AND TYPES OF SUSPENSIONS

2.12.1 Remedial Action

This section provides a centralized source for remedial action associated with the provisions of this manual. For purposes of the section the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities* is referred to as the “list”. Additionally, this section describes the type of suspensions that may be imposed on a firm.

Section of Manual	Description of Violation	Potential Action(s)
2.2.4	Firm circumvents the eligibility requirements.	Rejection of application; suspension from listing for a period up to 12 months.
2.2.4	Firm submits bid proposal while on suspension or not otherwise on approved list.	Suspension from applying or reapplying to be on approved list for a period of up to 12 months.
2.3.2	Firm refuses to provide a Bid Summary and Certification	Suspension from listing for a period up to 12 months.
2.3.4	Firm conducts audit work before receiving an approved contract from the Chief Inspector on a specific client.	Suspension from listing for a period up to 12 months. Rejection of audit and reassignment of RFP; forfeiture of fees associated with the engagement.
2.5.3	Firm conducts audit/review on an entity subject to the provisions of this manual without an approved contract from the Chief Inspector.	Suspension from listing for a period up to 12 months. Rejection of audit and reassignment of RFP; forfeiture of fees associated with the engagement.
2.5.9	Auxiliary services provided to an audit client in violation of professional independence standards or CID independence policy statements.	Suspension from listing for a period up to 12 months.
2.6.2	Breach of contract due to failure of the firm to complete the engagement within the contractual due date.	Suspension from listing for a period up to 12 months. Rejection of audit and reassignment of RFP; forfeiture of fees associated with the engagement.
Section		

of Manual	Description of Violation	Potential Action(s)
2.6.2	Firm fails to continue to meet eligibility requirements.	Suspension from list until requirements are met.
2.8	Firm initiates repeated contract extensions due to over-scheduling.	Suspension from list for a period up to 12 months.
2.8	Contract extension not submitted in a timely manner.	Suspension from list for a period up to 12 months.
2.8	Contract extension submitted after the approved audit or extension due date.	See Breach of Contract.
2.8	Single Audit extension request cannot be approved due to the firm submitting incomplete and/or inaccurate supporting documentation with extension request.	Suspension from list for a period up to 12 months. Firm may be disallowed from conducted audits in accordance with Circular A-133 for a period of up to 12 months.
2.9.2	Firm's failure to provide necessary copies of the audit/review report	Copying fee of \$1.00 per page; Suspension from list for a period up to 12 months.
2.10	Firm's failure to provide copies of audit documentation.	Suspension from list for a period up to 12 months.
2.10	Firm's failure to provide access to audit documentation.	Suspension from list for a period up to 12 months.
2.11	Deficiencies noted during desktop reviews of reports and/or audit documentation	Required remedial corrections and re-issuance; refund of fees to client if reassigned or if corrections are not performed in a timely manner.
2.11	Repeated substandard audits issued.	Suspension from list for a period up to 12 months.

2.12.2 Types of Suspensions

Firms will be notified, via certified notification of action, of suspension from the *Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities*. The following types of CPA firm suspension may occur if a firm is subject to the remedial provisions stipulated above:

- Full Suspension – the firm is not authorized to conduct any WV local government audit/review work during the suspension period. Existing contracts will be rescinded and reassigned in the manner stipulated in Section 2.9.1. The Chief Inspector will determine what, if any, fees are due and payable to the firm through correspondence with the firm and entity for the rescinded contract. Any fees collected on a rescinded contract may be required to be returned to the client. During suspension, the firm is not authorized to submit a bid proposal for any **Request for Proposals** that were issued before or during the suspension period. For purposes of this section, the issue date of a request for proposal is the date the entity was placed on the *list of entities available for audit*. If reinstated, the firm is not authorized to submit bid proposals for any **Request for Proposal number**

that was issued before or during the suspension period. However, the firm may submit bid proposals issued subsequent to reinstatement.

- Conditional Suspension - During suspension, the firm is not authorized to submit bid proposals for any **Request for Proposal** number that was issued before or during the suspension period. For purposes of this section, the issue date of a request for proposal is the date the entity was placed on the *list of entities available for audit*. If reinstated, the firm is not authorized to submit bid proposals for any **Request for Proposal** number that was issued before or during the suspension period. However, the firm may submit bid proposals issued subsequent to reinstatement. *The firm may be authorized to complete all or a portion of their existing contract obligations at the discretion of the Chief Inspector during the suspension period.* If any existing contracts are rescinded in the manner stipulated in Section 2.9.1, the Chief Inspector will determine what, if any, fees are due and payable to the firm through correspondence with the firm and entity of any rescinded contract.

2.12.3 Suspension Protest

If a firm disagrees with any of the findings or action taken pursuant to this section, they may request a hearing with the Chief Inspector to discuss objections. A request for hearing should be mailed within ten business days of the notification of action and should specify each and every objection.

2.13 COMMUNICATION METHODS BETWEEN CPA FIRMS AND CID

This section will provide details concerning a form to be provided by CID to allow the firm to stipulate its preferred manner of regular communication.

GLOSSARY

The following glossary provides definitions of the various specialized terms used in the manual. It also contains a listing of useful web-sites that are referred to in the manual. The following abbreviations are used throughout the glossary:

AICPA – American Institute of Certified Public Accountants
GAAP – Generally Accepted accounting Principles
GAAS – Generally Accepted Auditing Standards
GAGAS - Generally Accepted Government Auditing Standards
GASB – Governmental Accounting Standards Board
SAS – Statements on Auditing Standards

AICPA Governmental Audit Quality Control Center - The Governmental Audit Quality Center is a firm-based voluntary membership Center designed to help CPAs meet the challenges of performing quality audits in this unique and complex area. Effective in calendar year 2008, firms that are members are required to receive a 3 point bonus in scoring.

Blended component unit – Legally separate organizations that primarily serve the needs of the primary government or the governing body is substantially the same as the primary government. The method of reporting the financial data of a component unit that presents it's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government.

Capital lease agreements – an agreement in which property is acquired through periodic payments.

Catalog of Federal Domestic Assistance - Catalog of Federal Domestic Assistance gives you access to a database of all Federal programs available to State and local governments. It is available at www.CFDA.gov.

Data Collection Form for Reporting on Audits of State, Local Governments, and Non-Profit Organizations – Form utilized to report auditor's results on a *Single Audit in Accordance with Circular A-133*. The form, along with the applicable number of audit reports must be submitted to the federal audit clearinghouse.

Defined benefit plans – A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation.

Defined contribution plans – a pension plan having terms that specify how contributions to a plan member's account are to be determined, rather than the amount of retirement income the member is to receive. The amounts received by a member will depend only on the amount contributed to the member's account and earnings on investment of those contributions.

Discretely presented component unit – Legally separate organizations which are reported in separate columns from the primary government in order to demonstrate their separate legal standing. An organization created as a body corporate or a body corporate and politic or otherwise possessing similar corporate powers. An organization that has separate legal standing has an identity of its own as an “artificial person” with a personality and existence distinct from that of its creator and others.

Enterprise fund – Proprietary fund type used to report an activity for which a fee is charged to external users for goods and services.

Financial accountability - Accountability flows from the notion that individuals are obliged to account for their acts, including the acts of the officials they appoint to operate governmental agencies. Thus, elected officials are accountable for an organization if they appoint a voting majority of the organization's governing board. Sometimes, however, appointments are not substantive; other governments (usually at a lower level) may have oversight responsibility for those officials.

Financial and Compliance Audit Performed in Accordance with Government Auditing Standards issued by the Comptroller General - This type of engagement applies when your entity expends less than \$500,000 in federal funds AND is not eligible for a Review.

Financial and Compliance Review Performed in Accordance with Government Auditing Standards issued by the Comptroller General - Your entity must meet certain requirements to be eligible for this type of engagement. The scope of an auditor's work in this type of attestation engagement is less than financial and compliance audit. Therefore, typically the engagement cost is less than an audit.

General obligation bonds – debt secured by the full faith and credit of the issuing government.

Governmental Accounting Standards Board – The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984.

Governmental funds – funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund; special revenue funds; debt service funds; capital projects funds; and permanent funds.

Jointly governed organization - A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

Joint venture - A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.

Appointed List of CPA Firms Approved to Conduct Audits and Reviews of Local Government Entities – CPA firms approved by the Chief Inspector to conduct local government audits/reviews.

Letter of comment - Comments associated with the peer review process. Comments are made when deficiencies are detected in the firm’s quality control system.

Lists of entities available for audit – Entities eligible to procure audit services through the Chief Inspector.

Local government – as defined in West Virginia statutes, a local government is any unit of local government within the state, including a county, county board of education, municipality, and any other authority, board, commission, district, office, public authority, public corporation, or other instrumentality of a county, county board of education, or municipality or any combination of two or more local governments.

Park fund – A separate fund in which park and recreational activity is reflected. If a Class III or IV municipality has a park fund an additional \$2,000 may be added to the maximum bid amount for the engagement.

Pass Through Granting Agencies – Agencies that receive federal grants and disseminate the federal funds to other entities (including local governments).

Peer review report - A report on a firm’s system of quality control. Quality Control encompassed a firm’s organizational structure and policies and procedures in order to provide reasonable assurance that audits are performed in conformance with Government Auditing Standards.

Pension fund – A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans, defined contribution plans, or other employee benefit plans.

Primary governments – Term used in conjunction with defining the reporting entity; a state or general purpose local government; also, a special purpose government that has a separately elected governing body.

Quality control reviews – a review of the system of auditor independence, integrity, and objectivity; audit personnel management; acceptance and continuance of audit clients and engagements; audit engagement performance; and firm quality control monitoring. Professional standards include generally accepted auditing standards (GAAS), generally accepted accounting principles (GAAP), generally accepted government auditing standards (GAGAS), and the standards on auditor independence.

Request for proposal number – A number assigned to local governments by the Chief Inspector when directed to procure audit services. The first two digits are the calendar year (i.e. 07) and the last three digits is the unique number assigned to the entity.

Revenue bonds – Debt which is secured through a specific revenue source.

Schedule of Expenditures of Federal Awards – Supplementary information which is included in a Single Audit in Accordance with Circular A-133. The schedule lists federal expenditures made during the fiscal year by CFDA number.

Separate legal organizations - An organization created as a body corporate or a body corporate and politic or otherwise possessing similar corporate powers. An organization that has separate legal standing has an identity of its own as an “artificial person” with a personality and existence distinct from that of its creator and others.

Single Audit in Accordance with Circular A-133 - this type of engagement is required when your entity expends \$500,000 or more in federal financial assistance during the fiscal year.

Utility fund – A fund (typically water and/or sewerage) maintained by a government that provides utility services to the citizens. The utility must be regulated by the Public Service Commission in order for an additional \$2,000 per utility fund to be authorized for maximum audit billing.

List of Useful Web-Site Links

www.wvsao.gov - West Virginia State Auditor’s office

www.cfda.gov - Catalog of Federal Domestic Assistance

www.wvbep.org/bep/uc/ - WV Bureau of Employment programs

www.wvboacc.org – WV Board of Accountancy

<http://www.state.wv.us/taxrev/busreg.html> - WV State Tax Department

<http://www.state.wv.us/admin/purchase/VRC/pforms.htm> - WV Department of Administration

www.gao.gov – Government Accounting Office

www.gasb.org – Governmental Accounting Standards Board

<http://gaqc.aicpa.org> – AICPA Government Audit Quality Control Center

<http://harvester.census.gov/sac> - Federal Audit Clearinghouse

<http://www.whitehouse.gov/omb/circulars> - Federal Office of Management and Budget Circulars

AUDIT PROCUREMENT FORMS

REQUEST FOR PROPOSAL
For Audit/Review Services

As of (date proposal is sent to firms), the Name of Entity is seeking written proposals to perform our annual examination in accordance with the standards, requirements, terms, and conditions specified by the WV State Auditor's Office, Chief Inspector Division's *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*, which is incorporated into this Request For Proposal by reference. The audit proposal and cost must be received by _____.

Firms must be given two weeks or greater from date proposal is sent.

1. Entity name and address:
2. Contact person and phone number:
3. Location and phone number of the office where the accounting records are maintained, if different from above.
4. Audit year(s) to be contracted (**This must correspond with years listed on CID bid list**):

Type of Audit Use Code A,B or C

A - Single Audit in accordance with OMB Circular A-133;

B - Financial and Compliance Audit Performed in Accordance with *Government Auditing Standards* issued by the Comptroller General;

C - Financial and Compliance Review Performed in Accordance with *Government Auditing Standards* issued by the Comptroller General;

Note if this RFP contains future fiscal years please review section 1.6 of the *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*

Date Audit(s) need to be completed (**This must match the completion date listed on number 5 of the contract**):

	FYE	FYE	FYE	FYE	FYE
	_____	_____	_____	_____	_____
Type of Audit Code	_____	_____	_____	_____	_____
Date(s) the Audit(s) Need(s) to be Completed by	_____	_____	_____	_____	_____

5. Financial statements and accounting records will be ready for audit on:
6. Approximate date we would like the audit to be scheduled:
7. We would like the following separate legal organizations (i.e. component units) audited with our entity:

<u>Name of Organization</u>	<u>Total Annual Revenue</u>
_____	_____
_____	_____
_____	_____
_____	_____

8. The primary type(s) of service(s) provided to our citizens:
9. The total number of bank accounts maintained:

16. Our employees participate in the following pension plans:

17. We instituted the following material accounting pronouncements that were not previously applicable:

18. We entered into the following material debt agreements that were not applicable in the previous year:

19. The following billing limitation applies to this engagement (for Class III and Class IV municipalities only)

Fiscal Years Ending	_____	_____	_____	_____	_____
Type of Audit Code	_____	_____	_____	_____	_____
# of Utility/Park Funds	_____	_____	_____	_____	_____
Max. per year amount (for type A audit codes Enter "none")	_____	_____	_____	_____	_____

20. We require the following number of copies of the issued report the following individual to disseminate to officials within the entity:

No. of copies _____ Individual _____ Title _____

21. We request the firm to provide any other pertinent information in order for the proposal to be evaluated in accordance with the criteria outlined in the Chief Inspector Division's *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*.

Entity: _____

By: _____
Signature

Title: _____

Date: _____

AUDIT PROPOSAL SCORE SHEET SUMMARY

County:

RFP Number:

Entity:

Address:

Audit Year(s) Ending:		Responsiveness to the Proposal	Understanding of the Audit to be Performed	Technical Experience	Cost Criteria Average ÷ Cost X 10	Entity Preference + 1 to 5 Points (to ONE preferred firm)	Total Points
Audit Report Due Date:							
Number of Bids Received:	0						
ACCOUNTING FIRMS	Bid Amount	0-15	0-24	0-31	0-25	+ 1 to 5	Maximum of 100
Total							

Scored by: (Signatures of Audit Committee)	Date:	
1.		
2.		
3.		
4.		
5.		

INDIVIDUAL AUDIT PROPOSAL SCORE SHEET

Firm Name: _____
 RFP Number: _____
 Number of committee members scoring proposals (1 to 5) _____
 Bid Amount _____

re 7/24/2007

	Scorer #					
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Totals</u>
<u>Responsiveness to the proposal:</u> Maximum 15 points						
Up to 5 points per question						
Does the Proposal indicate a sincere interest in your entity and was it provided in a timely manner?	_____	_____	_____	_____	_____	_____
Is the language in the proposal clear?	_____	_____	_____	_____	_____	_____
Does the proposing firm understand your government's organization and its accounting system and records?	_____	_____	_____	_____	_____	_____
Total Points	_____	_____	_____	_____	_____	=====

<u>Understanding of the audit to be conducted:</u> Maximum 24 points						
Up to 6 points per question						
Does the proposal specify the type of audit to be performed and does the proposal indicate a clear understanding of the funds and financial statements that are applicable to you particular entity?	_____	_____	_____	_____	_____	_____
Does the proposal describe in clear language the work plan to conduct the engagement including planning, analysis of internal controls, substantive testing, and federal award testing (if applicable) necessary for your entity?	_____	_____	_____	_____	_____	_____
Does the proposal demonstrate an understanding of the audit resources/manpower requirements?	_____	_____	_____	_____	_____	_____
Does the proposal demonstrate the firm has the ability to complete the audit within the required period?	_____	_____	_____	_____	_____	_____
Total Points	_____	_____	_____	_____	_____	=====

Technical Experience: Maximum 31 points

Do the audit supervisor and the assigned staff have experience in this entity type (i.e. Class II Cities)? **Up to 6 points**

Does the majority of the key audit team have three or more years of governmental auditing experience? **Up to 6 points**

Does the firm have extensive experience with federal grants and the Single Audit (if this is not a Single Audit performed in accordance with Circular A-133, leave blank)? **Up to 6 points**

Does the firm have experience auditing different types of governments in WV in the last three years? **Up to 4 points**

Are the majority of the key audit team members CPAs and do the professional affiliations of the firm demonstrate a dedication to governmental accounting and auditing? **Up to 6 points**

In reviewing the firms most recent peer review report and letter of comments (if applicable), does the report and comments (if applicable) indicate the firm is meeting professional standards? **Up to 3 points**

Total Points

Cost Criteria: Maximum 25 points

1. Calculate the grand total of all bids received.
2. Divide the grand total of all bids by the number of bids received to get the average bid amount.
3. Divide each bid into the average bid amount. Multiply this answer by 10 to get the cost criteria for each proposal. Round the final number to the nearest whole number (Ex. 9.4=9, 9.5=10).

Cost Criteria Total

=====

Grand Total

=====

Scored By: _____
Signature-Scorer #1

Date: _____

Scored By: _____
Signature Scorer #3

Date: _____

Scored By: _____
Signature Scorer #5

Date: _____

Scored By: _____
Signature-Scorer #2

Date: _____

Scored By: _____
Signature Scorer #4

Date: _____

INSTRUCTIONS FOR THE AUDIT PROPOSAL SCORE SHEET

- A. The audit proposal score sheet consists of four sections. Each section and question has been assigned a maximum number of points. Each section has a series of questions.

As an example, the first section "Responsiveness of the proposal" has three questions and a maximum point total of 15. Each question has a maximum point value of 5. Thus, three questions with a maximum of 5 points equals the section's maximum 15 points.

Each question is to be scored based upon the written responses on the Independent Public Accountant's audit proposal. As an example of a scored proposal for the first section the scores may look like the following:

First question	1
Second question	2
Third question	<u>5</u>
Total	8

- B. Repeat the same process for the second and third sections.
- C. The fourth section "Cost Criteria" is scored by making a couple of relatively simple math calculations.
1. Calculate the average cost for all submitted proposals by adding all proposal amounts together. Divide this total by the number of proposals.
 2. Divide each proposal price into the average. Multiply this answer by 10 and round to the nearest whole number not to exceed 25.

Example:

<u>FIRM</u>	<u>COST</u>		
ABC CPA's	\$5,000		
CDE CPA's	\$10,000	<u>\$31,000</u>	= \$10,333
FGH CPA's	<u>\$16,000</u>	3	
Total	\$30,000		
ABC CPAs	<u>\$10,333</u>	=	2.06 X 10 = 20.66 = 21 Points
	\$5,000		
CDE CPAs	<u>\$10,333</u>	=	1.03 X 10 = 10.3 = 10 Points
	\$10,000		
FGH CPAs	<u>\$10,333</u>	=	.65 X 10 = 6.5 = 7 Points
	\$16,000		

- D. Finally, transfer the scores for each proposal to the Audit Score Sheet Summary form. The Independent Public Accountant with the highest points must be awarded the audit contract.

UNIFORM CONTRACT TO AUDIT/REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS

(Form Prescribed by the WV State Auditor)

Uniform Contract Agreement Between:

(Local Government Name and Address/**the "Entity"**)

(CPA Name & Address /**the "CPA"**)

Sample City Building Commission and
P. O. Box 100
Sample City, WV 26000

Franklin & Associates, CPA
P. O. Box 200
Charleston, WV 25305

1. It is agreed by the parties hereto that this contract shall include paragraphs 1 through 19 inclusive as set forth on pages 1-3 inclusive hereof, and all matters set forth on such pages are hereby expressly made a part of this agreement.
2. If an audit is performed, the CPA shall express an opinion on the fair presentation of the entity's financial statements prepared in conformity with generally accepted accounting principles or other comprehensive basis of accounting. The CPA shall conduct the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, if a Single Audit is required, as defined in section 1.6 of the *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*, then such Single Audit shall be performed in accordance with Circular A-133. If a review is performed, the CPA shall express that a review was conducted in accordance with Statements on Standards for Attestation Engagements and *Government Auditing Standards* issued by the Comptroller General of the United States.
3. It is agreed that time is of the essence under this contract. All audits/reviews shall be performed and all reports, documents, audit documentation, and materials to be completed and submitted by the CPA hereunder shall be completed and submitted by the date set forth in paragraph 18, or by an extension date authorized in writing by the Chief Inspector. Such date shall hereinafter be termed the issue date or the completion date. It is agreed that the failure to submit the audit/review report within the specified time period determined with regard to any properly executed and authorized extension of time constitutes a breach of contract as of such date and that such breached contracts are subject to the penalty provisions contained in the *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*. Each audit year must list a separate due date. If the audit period encompasses more than three years, use two contracts. Each contract must be signed and filled out completely.
4. It is agreed that the contract herein referred to represents the entire and integrated agreement between the Entity (auditee), and the CPA (auditor), and supersedes all prior negotiations, representations, or agreements whether written or oral. The *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments* and the written audit proposal of the firm selected are by reference incorporated into the contract. The contract may only be amended by written agreement of the Chief Inspector, the CPA, and the Entity. Nothing herein precludes the issuance of a standard governmental audit engagement/arrangement letter. However, said letter may not alter or modify any provision of the proposal, procedures manual or this contract.
5. It is agreed that the CPA bears ultimate responsibility for determining, and will conduct and submit the audit and report for, the type of audit/review required of the entity in accordance with the requirements as specified in section 1.6 of the *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments*. It is agreed that the stated contract price is all inclusive and will not be adjusted except for unusual situations which require a significant expansion to the scope of the audit/review. In such case the CPA shall immediately notify the Chief Inspector in writing, providing documentation of the factors and the requested amount of fee adjustment. Such fee adjustments are subject to the review, revision and approval of the Chief Inspector.
6. It is agreed that the CPA's relationship with the entity is limited to that of an independent contractor/vendor. As such, the entity has the right to seek redress to recover damages or losses arising directly out of error, omission, negligent act or the failure to exercise due professional care on the part of the CPA, its subcontractor and/or joint venture parties.
7. The Uniform Contract shall be construed, interpreted and the rights of all parties determined in accordance with the laws of the State of West Virginia. The CPA further shall obey or satisfy all lawful rules, regulations, and requirements issued or promulgated under the laws of any duly authorized State or Federal officials.

UNIFORM CONTRACT TO AUDIT/REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS

(Form Prescribed by the WV State Auditor)

Uniform Contract Agreement Between:

(Local Government Name and Address/**the "Entity"**)

(CPA Name & Address /**the "CPA"**)

Sample City Building Commission and
P. O. Box 100
Sample City, WV 26000

Franklin & Associates, CPA
P. O. Box 200
Charleston, WV 25305

8. It is agreed that the CPA shall remain an independent contractor with respect to all services performed hereunder and shall accept full exclusive liability for all payments of any contributions or taxes for social security, unemployment benefits, workers' compensation benefits, pensions and annuities now or hereafter imposed under any state or federal laws which are measured by the wages, salaries or other remuneration paid to persons employed by the CPA on work performed under any Chief Inspector approved Uniform Contract to Audit/Review Financial Statements. The CPA shall indemnify and hold harmless the entity and the Chief Inspector from any contributions, taxes or liability referred to in this article.

9. It is agreed that the Entity shall pay to the CPA the consideration (excluding the Chief Inspector process fee) specified under this contract as stated in paragraph 19 of this contract within 30 days of receipt of the audit/review report by the Chief Inspector. Should payment of such consideration be delayed for any reason, other than breach of contract by the CPA, or unsatisfactory performance of this contract by the CPA, as determined by the Chief Inspector, the Entity agrees to pay interest at a rate of ten percent, compounded annually, on all amounts due to the CPA or the Chief Inspector under this contract from the date such consideration or fee should have been paid until such consideration or fee is paid in full. All parties agree that liability to pay the fee herein set forth is solely that of the Entity. However, in the event that the Chief Inspector exercises the right to reject all or any part of the audit report as specified in paragraph 11 of this contract, the Entity may suspend payment of all consideration and fees set forth in this contract until the report is deemed sufficient by the Chief Inspector.

10. It is agreed that the Entity shall pay the Chief Inspector's process fee as stated in paragraph 19. Such fee shall be paid directly to the Chief Inspector Division and payment will be made within 30 days of being invoiced by the Chief Inspector.

11. It is agreed by all parties hereto that the Chief Inspector may at any time prior to completion of performance of this contract prescribe departures from the aforesaid standards, statements, guidelines, procedures or guides which shall be followed. The Chief Inspector shall have the right to reject, for good cause shown, all or any portion of the audit and working papers of the CPA.

12. If this contract is breached in any way by the CPA, no consideration or payments of any type shall be paid or payable to the CPA. There shall be no consideration paid or payable for partial performance of the contract, and all money, partial payments or considerations paid to the CPA as full or partial, direct or indirect consideration under this contract prior to or subsequent to any breach of this contract by the CPA shall be returned to the Entity in full with ten percent interest, compounded annually, calculated for the period from the time the CPA gained control of such money to the time of repayment in full.

13. The terms of this contract shall not be amended without the express written approval of the Chief Inspector.

14. It is agreed that if this contract is for multiple years, the contract shall be subject to annual renewal or termination. Contract periods must correspond with time periods stipulated on the Chief Inspector Division bid list. Annual renewal shall be by formal motion of the entity's governing body on or after July 1 of the then current fiscal year.

15. Termination shall be by written notice via certified mail to all parties within 90 days prior to the close of the forthcoming fiscal year audit/review. The Chief Inspector retains the right to terminate the contract for forthcoming years at any time or for any reason. Conditions for renewal or termination are specified in section 1.15 of the *Procedures Manual for Procuring and Conducting Audits and Reviews of Local Governments* incorporated into this contract by paragraph 4.

UNIFORM CONTRACT TO AUDIT/REVIEW LOCAL GOVERNMENT FINANCIAL STATEMENTS

(Form Prescribed by the WV State Auditor)

Uniform Contract Agreement Between:

(Local Government Name and Address/**the "Entity"**)

(CPA Name & Address /**the "CPA"**)

Sample City Building Commission and
P. O. Box 100
Sample City, WV 26000

Franklin & Associates, CPA
P. O. Box 200
Charleston, WV 25305

16. The type of audit or review (use code A, B or C) to be performed by the CPA, subject to the provisions of paragraph 5, is as follows:

Year	2006	Year	2007	Year	2008
Type	B	Type	A	Type	

A-Single Audit in accordance with OMB Circular A-133

B-Financial and Compliance Audit in accordance with *Governmental Auditing Standards* issued by the U.S. Comptroller General

C-Financial and Compliance Review

17. The audit of the Entity shall be for the period(s) stipulated in paragraph 16 of this agreement. If this contract includes future audit years, this contract shall be subject to annual renewal or termination in accordance with the provisions of paragraph 14. **ALL CONTRACT PERIODS MUST CORRESPOND WITH THE PERIOD STIPULATED ON THE CID BID LIST.**

18. The completion date referred to in paragraph 3 shall be:

Year	2006	Year	2007	Year	2008
Completion Date	12/31/2007	Completion Date	12/31/2008	Completion Date	12/31/2009

19. The total consideration to the CPA referred to in paragraph 9 shall be _____.
An additional **8%** process fee referred to in paragraph 10 shall be remitted to the Chief Inspector Division.

Year	2006	Year	2007	Year	2008
Price	\$2,800.00	Price	\$3,500.00	Price	\$3,500.00
Process Fee	\$224.00	Process Fee	\$280.00	Process Fee	\$280.00

Entity

CPA

Sample City Building Commission

Franklin & Associates

Entity Name

Firm Name

Joan Collins, Administrator

Ben Franklin, Partner

Name and Title (Please print)

Name and Title (Please print)

Signature

Signature

Date

Date

After the contract form is completed and signed by the Entity and the CPA, return the original copy and the other required documents to: West Virginia State Auditor's Office, Chief Inspector Division, 1900 Kanawha Blvd. E., Bldg. 1, Room W-420, Charleston, WV 25305.

CONTRACT APPROVED BY THE DEPUTY STATE AUDITOR OR BY AN AUTHORIZED DESIGNEE AS CHIEF INSPECTOR:

Name and Title (Please print)

Signature

Date

AMENDMENT TO THE AUDIT/REVIEW CONTRACT AGREEMENT

(Form Prescribed by the WV State Auditor)

(Revised 07/07/07)

(Local Government Name and Address/ the "Entity")

(CPA Name & Address /the "CPA")

and

Section I - General Information

Date _____

RFP# _____

Prepared by:

Name Title

Agency

Section II - Proposed Amendment

Original Contract Amount _____ Engagement Year for which this
Proposed Amendment _____ amendment request applies _____
Proposed Revised Contract Amount _____

Section III - Reason for Request of Amendment of Contract

The type of engagement listed on the Request for Proposal was incorrect causing additional time to conduct the proper type of engagement

Additional component units not previously included on the Request for Proposal to be included in the engagement

Additional funds not previously included in the Request for Proposal to be included in the engagement.

Additional federal programs not previously included on the Request for Proposal to be included in the A-133 portion of the audit

Other

Detailed Explanation (NOTE: It is acceptable to attach a letter to satisfy the explanation portion of this section)

Section IV - Signatures

NOTE: The ENTITY and CPA must both agree and sign the proposed amendment. If the Chief Inspector determines the amendment to be unwarranted and/or unreasonable then the RFP may be cancelled at the Chief Inspector's discretion

Entity

CPA

Entity Name _____

Firm Name _____

Name and Title (Please print) _____

Name and Title (Please print) _____

Signature _____

Signature _____

Date _____

Date _____

CONTRACT AMENDMENT APPROVED BY THE DEPUTY STATE AUDITOR OR BY AN AUTHORIZED DESIGNEE OF THE CHIEF INSPECTOR'S OFFICE:

Authorized Signature _____

Date _____

NOTICE OF RESCISSION OF CONTRACT OR RFP FORM

(Form Prescribed by the WV State Auditor)

(Revised 07/07/07)

(Local Government Name and Address/ the "Entity")

(CPA Name & Address / the "CPA")

and

Section I - General Information (to be completed by the Chief Inspector Division)

Type (check one): Contract RFP RFP Number _____

Prepared by: _____
Name Agency Title

Requested By: _____
Name Agency or Firm Title

Agency or Firm

Section II - Reason for Request of Rescission of Contract or Outstanding RFP (CID Use Only)

- A special or unusual situation which requires CID to conduct the audit Entity records were not supplied in a timely manner
- CPA substandard and/or significantly inadequate audit reports or audit Entity records were not adequate and complete
- CPA failing to continue to meet any eligibility requirements to conduct audits Disagreements with management or the CPA
- Breach of contract due to failure of the CPA firm to complete the engagement within the contractual due dates Entity failed to procure services within the prescribed time frame
- CID determined an amendment to the contract to be unreasonable CPA cannot meet the contract obligation due to over scheduling
- Entity requested additional years to be added to RFP Entity requested CID to conduct the audit

Section III - Detailed Explanation for Request (to be completed by Agency/Firm requesting rescission)

Detailed Explanation (NOTE: It is acceptable to attach a letter to satisfy the explanation portion of this section)

Section IV - Signature(s)

NOTE: If the Chief Inspector's Office initiated this action, a representative from that office is the only required signature. If a CPA or entity requested this action then it must be signed by the CPA or Entity also.

Entity

CPA

Entity Name

Firm Name

Name and Title (Please print)

Name and Title (Please print)

Signature

Signature

Date

Date

CONTRACT OR RFP RESCISSION APPROVED BY THE DEPUTY STATE AUDITOR OR BY AN AUTHORIZED DESIGNEE OF THE CHIEF INSPECTOR'S OFFICE:

Authorized Signature

F-1

Date

**APPLICATION FOR APPOINTMENT TO THE LIST OF INDEPENDENT PUBLIC
ACCOUNTANTS AND ACCOUNTING FIRMS APPROVED TO CONDUCT
CHIEF INSPECTOR AUDITS AND REVIEWS**

SUBMITTED TO: OFFICE OF THE STATE AUDITOR
CHIEF INSPECTOR DIVISION
STATE CAPITOL
BUILDING 1, ROOM W-420
CHARLESTON, WV 25305

revised 07/06/2007

Section I – General Firm Information

Firm (or Individual Practitioner)

Name _____

Mailing Address _____

Telephone Number _____

Fax Number _____

Primary Contact Person _____

E-Mail Address _____

Fiscal year for which this application applies July 1, _____ to June 30, _____

Chief Inspector Use Only

Fee remitted _____ Processed by _____ Date received _____

Approved _____ Denied _____ Date of approval or denial _____

Deputy State Auditor or Designee _____

Section IV – Miscellaneous Provisions for Eligibility

1. Are members of the firm who are certified public accountants currently licensed by the West Virginia Board of Accountancy to perform accounting services in the State of West Virginia? _____

2. Does the firm possess a current West Virginia Business Registration Certificate? _____

3. Is the firm registered as a vendor with the West Virginia Department of Administration, Purchasing Division (the vendor registration form, WV-1, may be obtained by contacting the Purchasing Division at 558-2311 or online at)
<http://www.state.wv.us/admin/purchase/vrc/pforms.htm> _____

4. Does the firm have any delinquent payments due to the Bureau of Employment Programs for either Unemployment Compensation or Workers' Compensation premiums? _____

Certification

Authorized Signature of Individual Practitioner or Partner/Manager in Charge

Date

Please include the following enclosures:

- Completed Application
- A check for \$200 payable to the Chief Inspector Division
- Copy of Last Peer Review and Letter of Comments (if applicable)

Bid Summary and Certification

The Firm of _____ proposes to conduct the audit/review of (entity)_____ for the period of July 1, 20____ through June 30, 20____ and to issue the report on or before the specified date of _____ for the amount of \$_____.

The Firm's employees assigned to and who will conduct this audit, their level of audit responsibility, credentials, experience, and hourly rates are as follows:

	CPA Yes/No	Years of Audit Experience	Has Prior experience THIS ENTITY Yes/No	Has Prior experience this entity TYPE Yes/No	Hours	X	Rate/Hour	=	Total
Audit Managers	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
Audit Supervisor(s)	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
Audit Staff	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
Other Personnel	_____	_____	_____	_____	_____		_____		_____
_____	_____	_____	_____	_____	_____		_____		_____
					Total Hours		_____		_____

BREAKDOWN OF TOTAL AUDIT/REVIEW HOURS

Planning and Supervision _____	Review _____
Field Work: General _____	Report Preparation _____
Federal Grants _____	
Total Hours _____	

I/ We have not provided this entity with any services that would violate professional standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

Signature: _____ Title: _____

Date: _____

DECLARATION OF DECLINE TO BID DOCUMENT (EXAMPLE)

[Firms Letterhead]

[Date]

Entity Contact Person
Entity Name
Entity Address

Dear :

Our firm is unable to provide a proposal for audit services for RFP # [number of RFP] pursuant to your request on [date]. While we appreciate your interest, we are currently unable to provide services due to our existing work load.

Sincerely,

John Smith, Partner
ABC CPA's

**WV STATE AUDITOR'S OFFICE
CHIEF INSPECTOR DIVISION
CONTRACT EXTENSION REQUEST**

Section I (To be completed by the CPA)

(Rev. 08/07)

Date: _____ RFP# _____
Entity _____
Audit Year _____
Type of audit Single Financial and Compliance Audit Review
Method of Delivery By U.S. Mail By Facsimile By Other _____
Audit Issue Date (Per Contract) _____
Requested Extension Date _____
Type of Extension Requested:
 General Emergency (Limited to specific conditions)

Firm's Name _____
Reason for requesting an extension:
 Scheduling conflicts of the CPA
 Scheduling conflicts with the entity
 Entity records were not supplied in a timely manner
 Third party verifications are pending - attorney, banks, etc.
 Other - Specify _____

Firm's Signature _____ Date _____

Section II (To be completed by the entity)

We agree that an extension is necessary for the reason stated above by the CPA.
 We agree that an extension is necessary but not for the cited reason.

Explain reason: _____

We do not agree that an extension is necessary.
Reason: _____

Entity Signature: _____ Date _____

Title _____

Section III (Chief Inspector Division Use Only)

The disposition of your extension request is:
 Approved as requested. CID Date Received _____
 Approved with a modified due date of _____ Initials of person receiving _____
 Denied due to _____

Signature _____ Date _____

Title _____