

**DATE:** October 17, 2013  
**MEETING OF:** October 22, 2013  
**FROM:** Staff - Bill Barton – Volunteer Audit Consultant  
**RE:** **ACTION ITEMS X.2 – Auditor Selection for 2012**

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**BACKGROUND:** As approved in the April 2013 Board meeting, staff has completed the search for an auditor to “Review” the year-end 12/31/12 14<sup>th</sup> District Agricultural Association’s financial statements. Four companies were approached with a Request for Proposal and three CPA firms responded. They are:

Miers & Miers LLP of Barstow, Ca.  
McGilloway, Ray, Brown & Kaufman of Salinas, Ca.  
Hutchinson & Bloodgood, LLP of Watsonville, Ca.

**FISCAL IMPACT:** The proposals ranged in estimated cost from \$3,500 to \$4,500 + expenses from Miers, to \$8,500 plus expenses from H & B. After a thorough review of the proposals, both quantitatively and qualitatively the firm of McGilloway, Ray, Brown & Kaufman had the best value for the fairgrounds. Their proposal is a not to exceed \$7,000. If their time invested is lower than expected they will bill the fairgrounds at the lower amount. In addition, actual expenses are not expected to exceed \$100.

**STAFF RECOMMENDATION:** We recommend that McGilloway, Ray, Brown & Kaufman, LLP be selected to perform the year-end 12/31/12 financial statement review.

**ATTACHMENTS:**

1. 14<sup>th</sup> District Agricultural Association Request for Proposal
2. McGilloway, Ray, Brown & Kaufman Proposal

14th District Agricultural Association  
Santa Cruz County Fairgrounds  
2601 East Lake Avenue  
Watsonville, CA 95076

August XX, 2013

Mr./Mrs.  
CPA Firm  
100 West San Fernando St  
Watsonville, CA 95076

Dear :

Our organization is accepting proposals from CPA firms to provide audit review services for our organization in the future. We invite your firm to submit a proposal to us by September 30, 2013, for consideration. A description of our organization, the services needed, and other pertinent information follows:

**The 14th District Agricultural Association which operates the Fairgrounds and promotes an Annual Fair**, an organization that is part of the State of California, Department of Food and Agriculture, is a public agency that provides agricultural related services and programs in Santa Cruz County. Our annual budget is approximately \$1.4 million. During the year the organization employs one permanent employee and up to 100 part time employees. The organization has a December 31 fiscal year-end

Your proposal is expected to cover the following services:

1. Annual financial **Review for year end 2012** to be completed in compliance with the above filing requirement and meetings with the audit committee and or Board of Directors, as necessary.

#### Key Personnel

Following are key contacts for information you may seek in preparing your proposal:

President of the Board	Loretta Estrada
Vice Pres. of the Board	Don Dietrich
Manager	Dave Kegebein
Controller	Nic Keiderling
Bookkeeper	Ann Ernst

Requests for additional information, visits to our site, review of prior financial statements and, and/or appointments with the CEO or other staff can be coordinated through me. You may reach me at the number shown below my signature. Please return the completed proposal to my attention at the above address,

#### Relationship With Current CPA

Historically these services have been provided by **California Department of Food & Agriculture Audit Office**. Since the State is no longer funding the Annual Audit the Board of the **14th District Agricultural Association** finds it necessary to review its options. In preparing your proposal, be advised that management will give permission to contact the **Current Auditor**. Although the RFP is for a "Review" we are also interested in your capabilities to provide an audit, if so requested in the future.

In responding to this request, we request the following information:

1. Detail your firm's experience in providing auditing to companies in the public agency sector, as well as organizations of a comparable size to **the 14th Agricultural Association**, with particular attention to those requiring public agency audits.
2. Discuss the firm's independence with respect to **the 14th District Agricultural Association and related Fairgrounds and Fair**.
3. Identify the partner, manager, and in-charge accountant who will be assigned to our job if you are successful in your bid, and provide biographies. Indicate any complaints against them that have been leveled by the state board of accountancy or other regulatory authority, if any. Indicate any corrective actions that have been taken by the firm with respect to these people.
4. Describe how your firm will approach the audit of the organization, including the use of any association or affiliate member firm personnel and the areas that will receive primary emphasis. Also discuss the firm's use of technology in the audit. And finally, discuss the communication process used by the firm to discuss issues with the management and audit committees of the board.
5. Set forth your fee proposal for the 2012 Financial Statement Review, with whatever guarantees can be given regarding increases in future years.
6. Furnish standard billing rates for classes of professional personnel for each of the last three years.
7. Provide the names and contact information for other, similarly sized nonprofit clients of the partner and manager that will be assigned to our organization for reference purposes.
8. Describe how and why your firm is different from other firms being considered, and why our selection of your firm as our independent accountants is the best decision we could make.
9. Include a copy of your firm's most recent peer review report, the related letter of comments, and the firm's response to the letter of comments, if participating.

**The Santa Cruz County Fair** will evaluate proposals on a qualitative basis. This includes our review of all materials provided, interviews with senior engagement personnel to be assigned to our organization, results of discussions with other clients, and the firm's completeness and timeliness in its response to us.

Please submit your response to this request for proposal by September 30, 2013. We would also appreciate a response if you decline to submit a proposal. If you have any questions please call me at the phone number below.

Sincerely,

William E. Barton  
Audit Chair  
wbarton1@mac.com  
cell: 831 251-1691

**PROPOSAL FOR PERFORMING  
AN ANNUAL INDEPENDENT REVIEW  
of  
14<sup>th</sup> DISTRICT AGRICULTURAL ASSOCIATION**

**SUBMITTED  
October 16, 2013**

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AN ANNUAL INDEPENDENT REVIEW  
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October 16, 2013**

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### **APPENDICES**

Appendix A: Audit Approach

Appendix B: A-Peer Review

# McGILLOWAY, RAY, BROWN & KAUFMAN

*Accountants & Consultants*

2511 Garden Road, Suite A180  
Monterey, CA 93940-5301  
831-373-3337 Fax 831-373-3437  
Toll Free 866-373-2511

379 West Market Street  
Salinas, CA 93901  
831-424-2737  
Fax 831-424-7936

October 16, 2013

Board of Directors  
14<sup>th</sup> District Agricultural Association  
Santa Cruz County Fairgrounds  
2601 East Lake Avenue  
Watsonville, California 95076

Thank you for the opportunity to submit this proposal to 14<sup>th</sup> District Agricultural Association (Organization) for the year ending December 31, 2012, including an optional two-year extension for years ending December 31, 2013, and 2014.

Over the past thirty years, McGilloyay, Ray, Brown & Kaufman has accumulated a staff of top quality professionals, dedicated to serving our clients and maintaining high professional standards. We take pride in our role as well-rounded professionals to whom our clients can look to for informed support year-round in all phases of interest or concern.

Our success has been driven by utilizing staff that is experienced and well trained in nonprofit operations. McGilloyay, Ray, Brown & Kaufman (the Firm) recognizes that its most important product is prompt and effective service of the highest quality. The quality of our service allows us an opportunity to be an integral part of your finance team. We believe that communication, expertise, education and audit approach are important factors in the Organization's relationship with an audit firm.

Our proposal is based on the information provided by your Organization and our firm's experience in serving nonprofit organizations. We understand the scope, nature, and specific complexities of the engagement as outlined in our proposal's Review Approach section, with reports to be issued as follows:

- Financial review conducted in accordance with the Statements on Standards for Accounting and Review Services issues by American Institute of Certified Public Accountants.

*Daniel M. McGilloyay, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA,  
Larry W. Rollins, CPA, Helen Grace H. Rodriguez, CPA, CFE*

*Sarita C. Shannon, CPA, Deanna Lozano, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA,  
Nancy H. Rimberg, CPA, Jesus Montemayor, CPA, Smriti Shrescha, CPA*

Should the Organization elect to have an audit in the future, we understand the scope, nature, and specific complexities of the engagement as outlined in our proposal's Appendix A: Audit Approach, with reports to be issued as follows:

- Independent Auditor's Report on the basic financial statements of 14<sup>th</sup> District Agricultural Association for requested year(s) ending December 31<sup>st</sup>
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with *Governmental Auditing Standards*
- Completion of a management letter, if necessary, to report on the adequacy and effectiveness of Organization's current accounting procedures and controls
- Attendance and presentation of the firm's findings and recommendations to the Audit Committee

We understand the importance for 14<sup>th</sup> District Agricultural Association to receive dependable, reliable and timely service from your accountants. We are committed to providing you with such a level of service, and we commit to the personnel, time commitment, and fee quotes for the fiscal year contained in this proposal. We look forward to meeting with you to answer any questions you may have concerning our proposal.

Yours very truly,



Patricia M. Kaufman, CPA  
Partner



## **COMPANY PROFILE**

### **McGilloway, Ray, Brown & Kaufman, Accountants & Consultants, Qualifications and Experience**

McGilloway, Ray, Brown & Kaufman, Accountants & Consultants (the Firm) has been a leading provider of accounting, audit, tax, and advisory services for governmental and non-profit clients for over thirty years. The Firm has five principles, one senior audit manager, four audit managers, seven staff accountants, and five clerical members located in two offices, Monterey and Salinas, California.

We believe our commitment to the highest quality standards is evidenced by our firm's experience providing us with the ability to add value to our clients' services.

The Firm is a member of the American Institute of Certified Public Accountants (AICPA) Division of CPA Firms. We are proud to belong to the AICPA Private Companies Practice Section and the AICPA Governmental Audit Quality Center. Membership is voluntary and is dedicated to improving the quality of audits through a combination of training, internal quality procedures and peer reviews.

Our accountants attend and participate in presentations at many conferences and seminars through the California Society of Certified Public Accountants which helps us keep up with the constantly changing world of state and federal accounting and auditing requirements.

### **License to Practice in California**

The Firm and all Certified Public Accountants in the Firm are licensed by the California Board of Accountancy to practice in the State of California. All licenses are in good standing.

### **Independence**

Our standards require that we be without bias with respect to your operations. The Firm is independent and has no conflict of interest with the 14<sup>th</sup> District Agricultural Association, as defined by auditing standards generally accepted in the United States of America. Our firm is not currently, or has not in the past five years been in a professional relationship with the 14<sup>th</sup> District Agricultural Association.

We will review the basic financial statements of the Organization for the year ending December 31, 2012 (2013 and 2014, optional), in accordance with the following standards:

- Statements on Standards for Accounting and Review Services

**COMPANY PROFILE (continued)**

**Peer Review**

As a member of the American Institute of Certified Public Accountants Division of CPA Firms, another member of the Division conducted a peer review of our practice in August, 2010. We are pleased to have received a rating of pass. All of our reviews had nonprofit and governmental clients selected with a single audit engagement. A copy of the latest review is included with our proposal as Appendix B.

**Federal and State Reviews**

McGilloway, Ray, Brown & Kaufman has had all federal and state compliance reports approved by the appropriate agency and has not had a report rejected or disciplinary action taken. The Firm has not had any disciplinary action taken or pending against it with state regulatory bodies or professional organizations.

**TEAM'S EXPERIENCE AND EDUCATION**

Patricia M. Kaufman, CPA - Partner-In-Charge

As Partner-In-Charge of the engagement, Mrs. Patricia Kaufman will have overall responsibility for the review of the 14<sup>th</sup> District Agricultural Association's financial statements. Mrs. Kaufman has over twenty-five years of auditing experience, serving organizations throughout Southern and Central California.

Mrs. Kaufman commits to hands-on participation in each and every phase of your engagement, from planning, to field work, to review of your financial reports, to presentation of the reports to management and the Board of Directors. We believe that with her day-to-day involvement in your audit, she can share her proficient knowledge and experiences of nonprofit accounting, first hand, with the Organization's personnel. Mrs. Kaufman's hands-on approach enables McGilloway, Ray, Brown & Kaufman to provide the Organization with a proven experienced, knowledgeable and technical resource to which few firms can compare at this level.

Mrs. Kaufman is in compliance with the American Institute of Certified Public Accountants (AICPA) and Government Auditing Standards (Yellow Book) CPE requirements for audits of nonprofit organizations and governmental entities. Mrs. Kaufman is a director of the California Society of Certified Public Accountants, the chair of the CalCPA Silicon Valley San Jose Chapter Governmental Accounting and Auditing Committee, and an active member of the Nonprofit Committee. Mrs. Kaufman has managed audits of federal assistance programs pursuant to OMB Circular A-133 and evaluated the effectiveness and efficiency of internal control structures. Mrs. Kaufman has supervised the audit engagement with many local

**TEAM'S EXPERIENCE AND EDUCATION (continued)**

nonprofit and governmental clients, including City of Salinas, San Benito County Water District, Salinas Redevelopment Agency, Leon and Sylvia Panetta Institute for Public Policy, Salinas Valley Solid Waste Authority, Monterey Jazz Festival, Shelter Outreach Plus, Kuumbwa Jazz Society, Gateway Center of Monterey County, National Steinbeck Center and Sea Studios Foundation. She has consulted as a financial advisor to the Monterey Educational Risk Management Authority as well as served on numerous other special districts, community colleges, and nonprofits.

Helen Rodriguez, CPA – Partner

Mrs. Rodriguez has over twenty-five years experience in governmental, nonprofit and for-profit accounting and auditing. Mrs. Rodriguez brings a wealth of practical experience to our firm from her previous posts as Chief Financial Officer and Controller in the private sector. She has served as partner and audit manager on such engagements as City of Salinas, Salinas Redevelopment Agency, Salinas Valley Solid Waste Authority, Monterey County Parks Foundation, and San Benito County Water District. Mrs. Rodriguez is currently acting as an external controller and consultant for various nonprofit organizations and joint powers authorities as well as providing audits, reviews and accounting services to the following industries: agriculture, nonprofit, and service organizations. Mrs. Rodriguez is in compliance with the American Institute of Certified Public Accountants (AICPA) and Government Auditing Standards (Yellow Book) CPE requirements for audits of nonprofit organizations and governmental entities.

Deanna Lozano, CPA – Audit Manager

Ms. Lozano is an audit manager. She has over ten years experience in governmental, nonprofit corporate accounting and auditing. She has worked on such engagements as City of Salinas, Animal Friends Rescue Project, Second Chance Youth Program, and Sunrise House. Ms. Lozano has served as a federal auditor for the U.S. Department of Health and Human Services. In addition, Ms. Lozano is in compliance with the American Institute of Certified Public Accountants (AICPA) and Government Auditing Standards (Yellow Book) CPE requirements.

Staff Accountant Support

Other staff members will assist the team as considered necessary during the review process.

All professionals have and will continue to meet their general and governmental (Yellow Book) Continuing Professional Education compliance requirements.

Our firm's policy is to rotate audit managers every five years and we rotate audit partners as needed. We also perform random internal monitoring of audit files on an annual basis.

In the event it is necessary for the Firm to replace a team member, Mrs. Kaufman will notify the Board of Directors immediately. In addition, the Firm will be available to answer any questions or concerns the Board of Directors may have in regards to the replacement.

**APPROACH TO EXAMINATION**

**Review Approach**

We will review the basic financial statements of the Organization for the year(s) ending December 31, 2012 (2013 and 2014, optional), in accordance with the following standards:

- Statement on Standards for Accounting and Review Services

Our review will be for the primary purpose of expressing an opinion regarding the financial statements as a whole, and will include such procedures as considered necessary to accomplish this purpose. We anticipate issuing the following reports:

- Independent Accountant's Review Report on financial statements

Also, we will assist the Organization with preparation of the following:

- Notes to the financial statements

***Staff Level and Expectation of Hours***

Our fees are determined based upon the hourly rates of the individuals to be assigned to complete the review. The following schedule is preliminary and dependent on the Organization's ability to complete the trial balance for the review of the 2012 financial statements:

Date/Segment	Hours				Total
	Partner	Manager	Staff	Clerical	
<i>Dates (Tentative)</i>					
November 2013					
PBC schedules due to Organization	2	4	-	2	8
November 2013					
Planning and Preliminary fieldwork	2	2	4	-	8
Analytics/Inquiry	2	5	9	-	16
December 2013					
Report preparation/review	3	3	8	2	16
Total	9	14	21	4	48

**FEES AND EXPENSES**

***Standard Hourly Rates***

Our professional fees are based on actual time devoted to an engagement, at hourly rates commensurate to the experience levels of the individuals performing the work. While our rate structure is comparable to those of other public accounting firms, we believe that the quality of our professionals and the efficiency of our review techniques enable us to provide services of unsurpassed quality and value.

**Standard Hourly Rates (continued)**

<u>Classification</u>	<u>Hourly Rate</u>
Partner	\$250
Manager	\$195
Senior Accountant	\$145
Staff Accountant	\$125
Clerical Support	\$85

The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the work performed. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

**Total All-Inclusive Maximum Price**

For the year ending December 31, 2012, the Firm estimates fees to range from \$5,500 to \$7,100, with an all-inclusive maximum of \$7,100. If the Firm's costs total an amount below \$7,100, the Organization will be billed appropriately. Furthermore, if the Organization elects for the optional two-year extension, the Firm will adjust its future estimates accordingly.

Our fee for the review services is identified on the following schedule.

<u>Segments</u>	<u>Hours</u>	<u>For the Years Ending December 31,</u>		
		<u>2012</u>	<u>2013</u>	<u>2014</u>
Planning	8			
Preliminary Fieldwork	8			
Analytics/Inquiry	16			
Report Preparation and Review	16			
Subtotal Audit	<u>48</u>	5500-7000	5800-7400	6100-7800
Out of pocket expenses		100	150	250
Total Audit		<u>5600-7100</u>	<u>5950-7550</u>	<u>6350-8050</u>
Total	<u>48</u>	<u>5600-7000</u>	<u>5950-7550</u>	<u>6350-8050</u>

**ADDITIONAL SERVICES**

We believe our role extends beyond the delivery of an audit or review report. We have experience in many other non-audit areas that make us a solid source for the Organization. Additional areas where we provide non-audit services are listed below:

- a. Conduct seminar on the audit process "No Sweat Audit"
- b. Preparation of federal and state information returns

14<sup>th</sup> District Agricultural Association  
Review Proposal  
October 16, 2013

## **SUMMARY**

The Firm is pleased to provide this proposal for review services to the Organization.

- Extensive experience with cities and other local government agencies and nonprofit organizations
- Highly skilled staff that focuses on your needs and looks forward to providing assistance at every opportunity
- The Firm prides itself with having active partner/manager participation in the review process. They are on-site to resolve issues and answer questions our clients may have regarding the reporting of any other issues

## **REFERENCES**

Monterey Institute of Technology and Education  
Mr. Don Cohen  
P. O. Box 890, Marina, CA 93933  
805-395-0230  
Services Provided: 2012 annual financial audit

City of Salinas  
Mrs. Elizabeth Mariano, Supervising Accountant  
Mr. Miguel Gutierrez, Accounting Officer  
200 Lincoln Street, Salinas CA 93901  
831-758-7423 – Elizabeth Mariano  
831-758-7317 – Miguel Gutierrez  
Services Provided: 2012 annual financial audit, single audit

Ag Land Trust  
Mr. Louis Frizzell, CPA  
66 Monterey Salinas Highway, Salinas, CA 93908  
831-424-3012  
Services Provided: 2012 annual financial audit, single audit

**APPENDIX A**

## AUDIT APPROACH

We would audit the basic financial statements of the Organization for the year ending December 31<sup>st</sup> for the year(s) requested in accordance with the following standards:

- Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

Our audit will be for the purpose of expressing an opinion on the basic financial statements, and will include such auditing procedures as considered necessary to accomplish this purpose. We anticipate issuing the following reports:

- Independent Auditor's Report on the basic financial statements
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*

Also, we will assist the Organization with preparation of the following:

- Notes to the financial statements

In addition, we will provide the Organization with a management letter that will give written appraisals of its accounting and related systems. This letter will identify any control deficiencies, significant control deficiencies or material weaknesses that are identified during the audit. We will work with management before audit fieldwork and during the course of the audit to assess internal controls and review mitigating controls in place in an effort to reduce the control deficiencies and material weaknesses that need to be reported to management in writing, assuming there are mitigating controls in place. The letter will also offer recommendations for the elimination of weaknesses that we identify and we will suggest any methods we discover to help improve efficiency and effectiveness. We will schedule an appearance with the Organization's Audit Committee and/or Board of Directors that allows an opportunity for us to present the audit and management letter. This is an excellent time for the Organization to resolve any questions they have regarding our audit or management letter. As mentioned earlier, the value in hiring our Firm comes from not only the audit but from our experience and the education we can provide. We hope that as questions or concerns arise throughout the year, the Organization staff will contact us and draw on our knowledge and experience.

Non-significant deficiencies discovered during the audit process shall be reported in a separate letter to management and the Board of Directors. This separate letter also informs the Organization's Board of Directors of the following:

1. The auditor's responsibility under auditing standards generally accepted in the United States of America.
2. Significant accounting policies.
3. Management judgments and accounting estimates.
4. Significant audit adjustments.
5. Other information in documents containing audited financial statements.



6. Disagreements with management.
7. Management consultation with other accountants.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.

The Firm has been paperless for ten years. In addition, we have purchased a trial balance and financial reporting software for producing financial statements that are directly linked to your trial balance, which we will download from your system at the start of the audit. Likewise, we expect to extract various other information from your accounting system and other various electronic spreadsheets that the Organization staff have prepared.

All working papers and reports will be retained at the Firm's expense for a minimum of ten (10) years, unless the Firm is notified in writing by the Organization of the need to extend the retention period. The auditor will be required to make working papers available, upon request, whether or not the auditor is engaged by the Organization, to the following parties or their designees.

1. 14<sup>th</sup> District Agricultural Association.
2. Controller's Office of the State of California.
3. Parties designated by the federal or State governments or by the Organization as part of an audit quality review process.

In addition, the Firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

### ***Segmentation of Engagement***

#### **Preliminary Fieldwork**

Our goal in preliminary fieldwork is to gain a thorough understanding of your internal controls, processes and procedures. Our goal is to accomplish as much interim fieldwork as possible so that our stay during fieldwork is kept to a minimum. Our preliminary work focuses on planning and internal control documentation.

#### ***Planning***

We envision the following process during preliminary fieldwork:

1. Establish understanding of services to be performed.
2. Complete our client continuance procedures and address any independence issues.
3. Document our understanding of your entity and compile risks identified.
4. Document significant processes and activities.
5. Perform required fraud "brainstorming" with audit team.
6. Assess risk of material misstatement arising from errors or fraud at entity level.
7. Agree on timing and deliverables thru an entrance meeting.
8. Develop overall audit strategy.

### *Internal Control Documentation*

Our internal control documentation usually occurs prior to our arrival for fieldwork. Our documentation process will be as follows:

1. Gather or update documentation for significant processes defined in our preliminary fieldwork.
2. Perform a "walk-through" of significant processes, if necessary.
3. Ask "what can go wrong" questions.
4. Identify controls in place. This will include both preventative and detective controls.
5. Evaluate the design of internal controls.
6. Decide whether to test and rely on controls.

### Fieldwork

We assess risks, design procedures and obtain evidence to support financial statement amounts and disclosures during fieldwork. Our Firm utilizes a methodology designed for government units. Our process emphasizes continuous communication with your staff.

### *Assess Risks and Design Procedures*

As outlined in the risk based suite of audit standards, our Firm will use a risk-based approach to the audit. Our procedures to assess risks and design procedures are as follows:

1. Assess risk of material misstatement from errors or fraud based on internal controls combined with inherent risk of significant accounts.
2. Design procedures to test controls if considered necessary.
3. Design procedures to test details of account balances and classes of transactions based on risk.

### *Interim and Year End Testing*

1. Perform tests of controls if considered necessary.
2. Perform tests of details of account balances and classes of transactions.
3. Evaluate quality and sufficiency of audit evidence.
4. Evaluate misstatements.

### Preparation of Audit Report and Management Letter

After reviewing the financial statements, notes and required supplementary schedules, we will agree the data to our working papers and provide a thorough review of all information by using written Firm standards and checklists. We will also review and incorporate any statistical data. This will verify appropriate presentation and disclosure. We will also, at this time, prepare our management letter that identifies financial trends and recommendations for improvement, reports required communications to the Organization's Audit Committee and discuss changes in the environment in which government operates.

### Audit Completion

After the previous segments mentioned are complete, we will be ready to finalize our audit. During this stage we will complete the following procedures:

1. Complete subsequent events review procedures and review legal and representation letters.
2. Complete final overall analytical review procedures.
3. Communicate significant deficiencies and material weaknesses.
4. Conduct exit conference.
5. Issue audit opinion.
6. Assemble audit documentation.

### *Approach to be Taken in Determining Laws and Regulations Subject to Audit Test Work*

We are required to obtain an understanding of the possible financial statement effect of laws and regulations that have a direct and material effect on the determination of financial statement amounts. The determination of laws and regulations is addressed in the planning stage through reading available grant documentation, inquiry of the client, a preliminary review of finance system accounts and search of the Organization's minutes. We also have working knowledge of the types of laws and regulations California governments operate under.

### *Approach to be Taken in Drawing Audit Samples for Purposes of Tests of Compliance*

Since each program or grant agreement is different, we use many different approaches to sampling in our tests of compliance. The size of the sample considers many factors; size of the program, program maturity, complexity, level of oversight and prior audit findings. Ultimately, our professional judgment determines that a representative number of transactions have been selected. You can be confident in our judgment because only senior level (Partner or Manager) staff makes decisions on planned compliance testing.

### *Identification of Anticipated Potential Audit Problems*

At this time we do not anticipate any potential audit problems. If problems did arise, we would discuss fully with the Organization to resolve the issue.

**Thad Scott & Company**

**555 W. Shaw Suite B-5**

**Fresno, CA 93704**

**559-230-575 Fax 559-230-1187**

System Review Report

To the Partners: McGilloway, Ray, Brown & Kaufman Accountants and Consultants  
and the Peer Review Committee of the California Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of McGilloway, Ray, Brown & Kaufman in effect for the year ended May 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the Government Auditing Standards.

In our opinion, the system of quality control for the accounting and auditing practice of McGilloway, Ray, Brown & Kaufman in effect for the year ended May 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. McGilloway, Ray, Brown & Kaufman has received a peer review rating of *pass*.

*Thad Scott & Company*

August 11, 2010