

Brown, Samuel

From: Corey Arvizu <carvizu@heinfeldmeech.com>
Sent: Tuesday, July 8, 2014 2:38 PM
To: Brown, Samuel
Cc: Casey Good
Subject: USP discussion
Attachments: AUP Engagement Letter (Draft) (2) - C Arvizu review.docx

Sam,
Below is some additional information for our conference call.

The following is from our professional standards -

AT Section 601 – Compliance Attestation

An important consideration in determining the type of engagement to be performed is expectations by users of the practitioner's report. Since the users decide the procedures to be performed in an agreed-upon procedures engagement, it often will be in the best interests of the practitioner and users (including the client) to have an agreed-upon procedures engagement rather than an examination engagement.

A primary reason for this is an examination/audit provides for materiality considerations which is often not appropriate in a compliance situation. In addition, an audit provides for the auditor in determining which audit procedures are necessary to achieve the audit objectives. As the procedures are mutually developed and specified in an AUP it does allow clearer understanding by the users of the report as to the procedures performed and the entity's compliance with the procedure performed. In many circumstances such as this an AUP is more effective than an audit if the agreed upon procedures are properly developed.

Also, please note that the standards applicable to AUPs are issued by the AICPA Auditing Standards Board, the same senior level committee that issues auditing standards. In addition, a CPA performing an AUP must comply with the AICPA Code of Conduct just as required when performing an audit.

As you have identified we are unfortunately in a terminology discussion in how the profession uses certain terms, that being said a properly designed AUP will achieve the same or greater results as an examination/audit.

Lastly, attached are some engagement letter edits for discussion.

Thanks, Corey

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[Heinfeld, Meech & Co. Logo]

June 17, 2014

Management of Tucson Unified School District No. 1

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for Tucson Unified School District No. 1 (District).

Section X.B.7 of the USP states:

The District will provide the Plaintiffs and the Special Master with an audit report of each year's USP Budget. The audit report shall indicate whether the funds allocated in the USP Budget were spent in accordance with that budget and such other information as may be necessary to provide the Plaintiffs, the Special Master, and the public with full disclosure concerning how funds allocated to the USP Budget were spent. The audit shall be conducted by an outside accounting firm and shall be posted on the USP Web Page as required by Section (X)(D)(1). Each audit report shall be delivered by January 31 after the conclusion of the fiscal year that is the subject of the audit.

We currently expect to apply the agreed-upon procedures specified as follows to assist in determining Tucson Unified School District No. 1's compliance with Section X.B.7. of the Consent Order. In the Accounting profession, the term "audit" has a specific connotation that does not align with the language and intent of USP section X.B.7. Therefore, we provide for clarification the following definitions of terms used throughout this agreement:

- **Audit** An unbiased examination and evaluation of the financial statements of an organization. It can be done internally (by employees of the organization) or externally (by an outside firm). The American Institute of CPAs (AICPA) states that an "independent auditor's objective and responsibility, under generally accepted auditing standards (GAAS), are to express an opinion on whether the *financial statements* are fairly presented in conformity with generally accepted accounting principles, and that the related supplemental information is presented fairly, in all material respects, when considered in conjunction with the financial statements taken as a whole."
- **Agreed-Upon Procedures** Auditing activities conducted for the specific purpose of determining whether the funds allocated in the USP Budget were spent in accordance with that budget and such other information as may be necessary to provide the Plaintiffs, the Special Master, and the public with full disclosure concerning how funds allocated to the USP Budget were spent.
- **Audit Report** An annual report for the Plaintiffs and the Special Master that shall indicate whether the funds allocated in the USP Budget were spent in accordance with that budget and that includes such other information as may be necessary to provide the Plaintiffs, the Special Master, and the public with full disclosure concerning how funds allocated to the USP Budget were spent. Each audit report shall be delivered by January 31 after the conclusion of the fiscal year that is the subject of the audit.

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Heinfeld and Meech conducts "Audits" of financial organizations to evaluate financial statements, including funding from all sources, to check for accuracy and full representation of financial activities and claims and considering those activities and claims when considered in conjunction with the financial statements taken as a whole.

What is described as an "Audit Report" in the USP is focused on evaluating specific information focused on one specific set of activities (implementing the USP) and therefore does not constitute an "Audit" as the term is used in our profession because there are no related financial statements to which procedures may be applied. Therefore, H&M is hereby agreeing to conduct "Agreed-Upon Procedures" to produce an "Audit Report" pursuant to USP section X.B.7, but is not conducting a ~~more inclusive~~ "Audit" of financial statements as the term is used in our profession. The procedures outlined below have been specifically designed to allow the specified users in evaluating the subject matter that would not normally be within the scope of a financial statement audit.

Management of Tucson Unified School District No. 1 has presented the below procedures to the Special Master and the procedures are sufficient for their purposes. This engagement is solely to assist in determining Tucson Unified School District No. 1's compliance as to whether the funds allocated in the USP Budget were spent in accordance with the that budget for the fiscal year ended June 30, 2014.

This engagement is solely to engage in "Agreed-Upon Procedures" in order to produce an "Audit Report" which achieves the following objectives, as stated by USP section X.B.7:

1. To indicate whether the funds allocated in the USP Budget were spent in accordance with that budget for the fiscal year ending on June 30, 2014, and
2. To provide such other information as may be necessary to provide the Plaintiffs, the Special Master, and the public with full disclosure concerning how funds allocated to the USP Budget were spent.

The procedures to be performed are as follows:

The Agreed-Upon Procedures, intended to achieve the above-stated objectives, are as follows:

- Determine whether the USP Budget was properly reviewed and approved in accordance with Section X.B.1. through X.B.6 of the Consent Order.
- Determine approved budget allocations were properly input in the District's accounting system.
- Compare the USP Budget to actual expenditures recorded in the District's accounting system to identify budget variances in excess of 10%.
- Compare the USP Budget to actual payroll expenditures recorded in the District's accounting system to identify budget variances in excess of \$54,000.
- Test a sample of 30 USP Budget line items to determine expenditures recorded in the District's accounting system are in accordance with the approved budget item.
- Test a sample of 80 payroll transactions to determine the expenditure had supporting documentation and was an approved USP Budget allocation.

- Test a sample of 30 non-payroll transactions to determine expenditure had supporting documentation and was an approved USP Budget allocation.
- Review a sample of 20 changes in budget allocations for proper approval.

Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures do not constitute an ~~examination~~ “Audit”, we will not express an opinion on Tucson Unified School District No. 1’s compliance with the Consent Order. ~~We will submit an “Audit Report” that will provide the Plaintiffs, the Special Master, and the public with full disclosure concerning how funds allocated to the USP Budget were spent.~~

In addition, we have no obligation to perform any procedures beyond those listed above.

We will submit ~~an “Audit Report” a report~~ listing the procedures to be performed and our findings. This report is intended solely for the use of the Special ~~Master, the Plaintiffs, and Master~~ and Tucson Unified School District No. 1 ~~with the purpose of determining how funds allocated to the USP Budget were spent, and~~ The report should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Corey Arvizu is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management’s responsibility for compliance with the Consent Order.

We estimate that our fees for these services will be at the amount outlined in our proposal. The fee estimated is based on anticipated cooperation from District personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new estimate before we incur the additional costs.

We appreciate the opportunity to be of service to Tucson Unified School District No. 1 and believe that this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy of this letter and return it to our office.

Very truly yours,

[signature]