

**A PROPOSAL FOR AN AUDIT
OF THE
BILLINGS SCHOOL DISTRICT
YELLOWSTONE COUNTY, MONTANA**

Submitted by:

Denning, Downey & Associates, P.C.
Certified Public Accountants
P.O. Box 1957
Kalispell, MT 59903-1957
(406) 756-6879

May 15, 2012

Contact:

Kim M. Downey, CPA, CGFM, CFF, CITP
Robert K. Denning, CPA, CGFM, CFF, CITP

TABLE OF CONTENTS

Letter of Transmittal.....	1-2
-----------------------------------	------------

Firm Profile

A. Technical Qualifications.....	3-5
B. Approach to the Audit.....	5-6
C. Qualifications of the Firm.....	7-9
D. Staff Qualifications Governmental Accounting Experience.....	10
E. Peer Review Opinion.....	11
F. Appendix C – Schedule of Professional Fees and Expenses.....	12-17

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

*P.O. Box 1957 Kalispell, MT 59903-1957
(406) 756-6879 • FAX (406) 257-7879 • E-Mail dda@ddaudit.com*

Kim M. Downey, CPA, CGFM, CFF, CITP

Robert K. Denning, CPA, CGFM, CFF, CITP

May 15, 2012

Billings School District
Attn: Patricia Hubbard, Director of Business Services
415 North 30th Street, Room 210
Billings, MT. 59101

We are pleased to present our proposal for an audit of the financial statements of the Billings School District for the fiscal year ending June 30, 2012, June 30, 2013, and June 30, 2014.

We will perform a financial audit in accordance with generally accepted auditing standards; the standards for financial audit contained in *Government Auditing Standards*, issued by the U.S. General Accounting Office, the Single Audit Act of 1996, and the provisions of OMB Circular A-133, "*Audits of State and Local Government and Non-Profit Organizations*".

We will begin audit process in September of the year following end of the District's fiscal year and completed by the end of November of that same year. The audit report will be issued within 90 days of the completion of the audit.

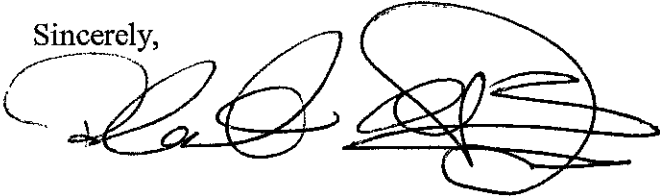
We will have a draft of the audit report for your review by October 31, 2013, and a formal report by March 31, 2013.

Our proposal assumes that the accounting records are complete and in balance and that unusual problems will not be encountered during the audit. If, during the course of the audit, material errors or irregularities are encountered, we will consult with you and mutually agree as to the extent and cost of any additional work required. This proposal does not include any audit work necessary on component units of the District as described in GASB#14 & #39

Our proposal is a firm and irrevocable offer for 45 days from the receipt of this letter.

We appreciate the opportunity to present this proposal. Should you have any questions regarding this proposal, or any other financial matter, please do not hesitate to call. Upon acceptance of the enclosed proposal, please contact our office. We will promptly send a Standard Audit Contract and engagement letter.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Denning', with a large, stylized flourish at the end.

Robert K. Denning, CPA, CGFM, CFF, CITP
Denning, Downey & Associates, CPA's, P.C.

RD/sh
Enclosure

A. Technical Qualifications

1. Description of Firm: Denning, Downey and Associates, CPA's PC started business in January 1994 with a focus on servicing Montana local governments and school districts complex and continually changing accounting and auditing needs. 18 years later, **Montana local government's accounting needs still account for 85% of our business.**

We have offices located in Kalispell and Helena Montana.

A summary of the staff positions and the percentage of total firm revenues are detailed below:

Audit Division (85% of total firm revenues)

Shareholders	2
Audit Managers	1
Professional audit staff	6
Professional audit review staff	1
Support staff	<u>2</u>
Total audit division	<u>11</u>

Tax Division (15% of total firm revenues)

Professional tax staff	1
Paraprofessional tax staff	<u>1</u>
Total tax division	<u>2</u>

Prior to forming Denning, Downey, and Associates, CPA's, P.C., the shareholders, Bob Denning and Kim Downey, both CPA's, are Certified Government Financial Managers (CGFM), Certified in Financial Forensics (CFF), and are Certified Information Technology Professionals (CITP), were local government auditors from the Montana Department of Commerce. Together they bring a total of more than 40 years of Montana local government expertise to each of our clients. Because our focus is Montana local governments, we are able to provide the highest quality, most comprehensive service in the State of Montana.

We currently audit;

- **12 of the 56 Counties,**
- **24 of the 91 Cities and Towns, and**
- **52 of the 218 School Districts**
- **13 Other Districts and Component Units**
- **2 of the 3 State Community Colleges**

of the State of Montana governments that are required to have audits per the Montana Department of Administration audit status report. Those numbers represent **24%** of the audited local governments in Montana. Our audit staff of 15 is responsible for auditing more Montana local governments than any other firm in the State.

A. Technical Qualifications (continued):

2. Independence: We require that all professional staff members be familiar with, and adhere to, the independence rules, regulations, interpretations, and rulings of the AICPA, the State of Montana Board of Public Accountants, and the U.S. General Accounting Office. Each member of our staff is independent of your entity, and each individual assigned to the audit will sign an independence representation for the engagement.

3. Conflict of interest: Denning, Downey & Associates CPA's PC is aware of and complies with the independence rules of the AICPA, State Board of Accountancy and the U.S. General Accounting Office regarding possible conflicts of interest.

4. Strengths: The strength of our firm lies in our overall auditing expertise. Individually and collectively we have a strong understanding of internal control, both conceptually and the practical aspects; of audit procedures and techniques; of federal program audit requirements; and of state legal compliance requirements. We have a thorough audit review process starting with the assignment of an owner as "In-Charge" of every client. The "In-Charge" ensures that all appropriate audit procedures are performed, the work is complete, and all conclusions are proper. Upon completion of the field work, an overall audit review and technical review of the audit report is performed by our in-house "audit reviewer." The audit reviewer is responsible for informing all audit staff of potential deficiencies in the work performed.

5. Audit Philosophy: Our firm is committed to conducting audits of the highest quality in the most efficient and effective manner possible. Efficiency and effectiveness is gained through extensive experience with similar entities and an organized planning process specifically designed to each individual audit. We are committed to providing technical assistance on an on-going basis. Although we define and utilize the concept of materiality in conducting our audits, we also firmly believe that the internal control work should include all cash collection areas, regardless of the amount collected and some testing should be performed in these areas. Denning, Downey & Associates, CPAs P.C.'s philosophy that audits should be conducted in a friendly, helpful, but completely objective and professional manner has helped us to establish an excellent reputation in our field of expertise.

6. Relate and Interact:

We will establish a professional, friendly, and courteous relationship with your administration and employees. Because of our many years of experience and individual personalities, we will conduct the audit with the least disruption possible to your employees. You will be kept informed on the audit progress and timely informed on any problem or potential problem areas of the audit. All audit findings will be reviewed and explained to the appropriate individuals.

7. Communication:

It is our philosophy to communicate fully with appropriate client personnel at the proper time as the audit progresses. We encourage full discussion of sensitive and complex issues in order to resolve all audit issues. The findings and recommendations, if any, that may be included in the various auditors' reports, including the management letter, will be constructive in nature, intended to be helpful, and informative.

8. Strategy for the Future: The base of our practice is, and will continue to be, in auditing and consulting of Montana local governments. We keep on top of emerging local government and auditing issues by subscribing to the appropriate reference material and by maintaining a complete library. In the past three years we have kept our clients current by providing annual update seminars.

9. Continuing Professional Education: Denning, Downey & Associates CPA's PC is committed to providing training for all staff in order to maintain the highest quality of audit possible.

Governmental Auditing Standards requires all staff to have at least 24 hours of CPE related to government accounting every two years.

Our firm requires that all professional staff have at least 80 hours of governmental CPE every two years. In addition we require that all non-professional staff have at least 24 hours of governmental CPE annually.

A complete listing of courses taken by the shareholders of the firm is available upon request.

10. GASB #34 to #63:

Since 1999, the GASB has been quite busy issuing 30 additional statements. We keep current on all the new requirements and will provide technical advice on topics that affect you. Annually we present a GASB update which is available to all of our clients.

11. Results of Peer Review: Our most recent peer review was completed in August, 2010 and received an unqualified opinion. A copy of the opinion is provided on Page #11 of this proposal. The Firm has never been the object of any disciplinary action.

B. Approach to the Audit

Kim M. Downey, CPA, CGFM, CFF, CITP is the shareholder assigned to your engagement. She will be your main contact, feel free to contact her or Robert K. Denning, CPA, CGFM, CFF, CITP shareholder at any time.

Once the contract is signed Kim or Bob will contact you and set an appointment for the onsite fieldwork. Prior to the onsite fieldwork, you will receive a list of information that will be needed to conduct your audit.

Once the audit is completed, we will review any audit findings or problems encountered during the audit process with the staff and board. Any questions can be answered at this visit.

1. Audit Plan:

- a. An audit plan is unique to each individual audit and is impossible to set forth, except in general terms, until an understanding of the internal control structure has been obtained, control risk for financial assertions has been assessed, materiality determined, and other planning procedures completed.
- b. We perceive several phases to an audit, as follows:
 - 1) Office review of requested information;
 - 2) Field testing and Internal Control Review;
 - 3) Post-balance sheet review, exit conferences, and audit report preparation.
- c. Staff members will be assigned to areas that they have special expertise in and to other areas as needed.
- d. We will use internal control questionnaires, and/or flow charts, and detailed listings of segregation of duties to gain and document an understanding of the internal control structure. This understanding and documentation will include five elements: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The completed questionnaires will be verified by conducting interviews with appropriate individuals and by observation of duties and procedures being performed. Our programs allow us to assess control risk for each area. Tests of controls will be made as deemed appropriate.
- e. Analytical review procedures will be used in the planning process and in the overall audit review process as required by AU Section 329 (SAS No. 56). Analytical review procedures are an important part of the audit process and will be utilized when we deem them to be more effective or efficient than tests of details for achieving specific substantive testing objectives.
- f. We will use legal compliance programs in testing for laws and regulations. Compliance questions, which could potentially have a material effect on the financial statements, will be predetermined and identified on the programs. These questions will be tested on each audit. Tests of legal compliance, to the extent possible, will be performed on those transactions selected for substantive testing of revenues and expenditures. Certain legal compliance matters will be tested by requesting specific documentation, others through inquiry and observation.
- g. We use computer-assisted procedures on all audit engagements. Each member of the firm has a laptop computer with software specifically designed for auditing local governments. Our investment in audit software for virtually every area of the audit has resulted in more thorough testing, fewer errors, and lower costs to our clients as a result of a more efficient audit.
- h. We use computer assisted sampling techniques (both statistical and non-statistical) to perform either substantive tests or tests of controls. The size of our sample is affected by the internal controls in place and the potential risk of material misstatement.

C. Qualifications of the Firm

1. **Firm Description:** We are a firm of certified public accountants located in Kalispell and Helena, Montana. Our office consists of two (2) partners, eight (8) professionals, and three (3) para-professionals. Over 85% of the work performed by our firm is directly related to audits of Montana local governments.
2. **Corporate Officers and staff:**

Kim M. Downey, CPA, CGFM, CFF, CITP Owner	Robert K. Denning, CPA, CGFM, CFF, CITP Owner
Thomas P. Hayes, CPA, Auditor	Olga Ilin, Auditor
JohnPaul Poelman, CPA, Auditor	Lynda Sting, Accounting Specialist
Tammy Tierney, CPA, Reviewer	Stephen Hamblin, Office Manager
Dana Gullickson, Auditor	Violet Cox, Assistant Office Manager
Christa Schallock, Auditor	Della Kienas, Tax Specialist
3. **References:** The following is a partial list of our clients; please feel free to contact any of them for a reference.

Counties

Beaverhead County	Madison County
Broadwater County	Pondera County
Jefferson County	Richland County
Judith Basin County	Sheridan County
Lake County	Sanders County
Liberty County	Sweet Grass County
Lincoln County	Toole County

Cities and Towns

City of Boulder	Town of Browning
City of Conrad	Town of Cascade
City of Cut Bank	Town of Chester
City of Dillon	Town of Eureka
City of East Helena	Town of Manhattan
City of Hardin	Town of Philipsburg
City of Kalispell	Town of Sheridan
City of Red Lodge	Town of Stanford
City of Shelby	Town of Stevensville
City of Thompson Falls	Town of Sunburst
City of Whitefish	Town of Twin Bridges
	Town of Virginia City

School Districts

Townsend School District	Arlee School District
Sun River Valley School District	Valley View School District
Ulm School District	Swan Lake-Salmon School District
Anaconda School District	Augusta School District
West Valley School District	Troy School District
Deer Park School District	Libby School District
Fair-Mont-Egan School District	Eureka School District
Swan River School District	Fortine School District
Kalispell School District	McCormick School District
Columbia Fall School District	Sunset School District
Cayuse Prairie School District	Swan Valley School District
Helena Flats School District	Seeley Lake School District
Kila School District	Whitewater School District
Somers School District	Stevensville School District
Bigfork School District	Victor School District
Whitefish School District	Darby School District
Evergreen School District	Lone Rock School District
Olney-Bissell School District	Florence-Carlton School District
Philipsburg School District	Thompson Falls School District
Havre School District	Trout Creek School District
Rocky Boy School District	Hot Springs School District
Montana City School District	Malta School District
Browning School District	Smith Valley School District
Belgrade School District	Trego School District
Ronan School District	Laurel School District
Upper West Shore School District	

Other Entities

Bigfork Rural Fire District	Joint Board of Control
Evergreen No 1 Rural Fire District	Madison Valley Rural Fire District
Bigfork Water & Sewer District	Northern Montana Joint Refuse Disposal District
Pablo/Lake County Water & Sewer	Flathead Special Education Cooperative
Pondera Regional Port Authority	Park County Special Education Cooperative
Flathead Irrigation District	Bitterroot Valley Special Education Cooperative
Helena Valley Irrigation District	Sanders County Special Education Cooperative
Sheaver's Creek Water & Sewer	Tri-City Interlocal
Woods Bay Homesite Water & Sewer	Flathead County Economic Development Authority
Jette Meadows Water & Sewer District	

4. Similar Engagements:

Kalispell School District – Audit Services

<u>Fiscal Year</u>	<u>Fees Charged</u>	<u>Total Hours</u>
2006	\$ 11,430	254
2007	\$ 11,895	265
2008	\$ 15,900	354
2009	\$ 16,675	370
2010	\$ 17,525	390
2011	\$18,955	420

Contact Information

Gwyn Andersen, District Clerk
233 First Avenue East
Kalispell, MT 59901
(406) 751-3412

Whitefish School District – Audit Services

<u>Fiscal Year</u>	<u>Fees Charged</u>	<u>Total Hours</u>
2006	\$ 7,875	175
2007	\$ 8,575	191
2008	\$ 8,900	197
2009	\$ 9,250	205
2010	\$ 9,620	215
2011	\$10,000	220

Contact Information

Danelle Reisch, District Clerk
600 East Second Street
Whitefish, MT 59937
(406) 862-8643

Bigfork School District – Audit Services

<u>Fiscal Year</u>	<u>Fees Charged</u>	<u>Total Hours</u>
2006	\$ 9,960	222
2007	\$ 10,350	230
2008	\$ 10,775	239
2009	\$ 11,200	248
2010	\$ 11,650	260
2011	\$12,115	270

Contact Information

Eda Taylor, District Clerk
PO Box 188
Bigfork, MT 59911
(406) 837-7402

D. Staff Qualifications

Corporate Officers

Robert K. Denning, CPA, CGFM, CFF, CITP

Bob is a 1987 graduate of Pacific Lutheran University in Tacoma, Washington. Prior to becoming a partner with Denning, Downey & Associates, CPA's, P.C., Bob spent four years with Hughes, Woodring, and Associates of Tacoma, Washington and over two years with Local Government Services Bureau of the Montana State Department of Commerce. While employed with Hughes, Woodring, and Associates, his duties included auditing for-profit, not-for-profit, and government subsidized entities, compilations, reviews, management advisory services, and tax preparation. During his years with Local Government Services, Bob was a senior auditor and served as in-charge auditor of many local government audits. He has performed seminars on GASB 14, 18, 31, and 34. Bob is a member of the Montana Society of CPA's, the AICPA, and the Association of Government Accountants (AGA), is a Certified Government Financial Manager (CGFM), is a Certified in Financial Forensics (CFF) and is a Certified Information Technology Professional (CITP).

Governmental Accounting Experience:

Bob has amassed in excess of 40,000 hours of governmental audit experience over the past 21 years.

Kim M. Downey, CPA, CGFM, CFF, CITP

Kim is a 1988 graduate of the University of Montana. She has twenty years of audit experience. Kim was a senior auditor, and served as in-charge auditor of many local government audits while previously employed by the Montana Department of Commerce, Local Government Services Division. She is a member of the Montana Society of CPA's, past president and member of the Governmental Accounting, Auditing, Financial Reporting Committee, the AICPA, the Association of Government Accountants (AGA), is a Certified Government Financial Manager (CGFM) is a Certified in Financial Forensics (CFF) and is a Certified Information Technology Professional (CITP).

Governmental Accounting Experience:

Kim has amassed in excess of 40,000 hours of governmental audit experience over the past 20 years.

5. Personnel Commitment

Number level of personnel and percent of time which would be committed to this engagement

<u>Level</u>	<u>Percent of Proposed Time Budget</u>
Partner/Owner	20%
Manager	35%
Reviewer	10%
Assistant	35%

E. Peer Review



Magnuson, McHugh
& Company, P.A.
CPAs and Consultants

System Review Report

August 25, 2010

To the Partners of
Denning, Downey & Associates, P.C.
and the Peer Review Committee of the Montana Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Denning, Downey & Associates, P.C. (the firm) 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 with 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.

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 Denning, Downey & Associates, P.C. 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 standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Denning, Downey & Associates, P.C. has received a peer review rating of *pass*.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.



2100 Northwest Blvd., Suite 400 • PO Box 1379 • Coeur d'Alene, ID 83816-1379
208-765-9500 • 800-733-1115 • fax: 208-667-9174 • cpa@mmcorp.com

Coun On It's To Care

F. Schedule of Professional Fees and Expenses**FOR THE AUDIT OF THE 2012 FINANCIAL STATEMENTS****1. Proposed Dates for Engagement:**

	<u>Date</u>
Receive Audit Information	September
Conduct Entrance Conference	September
Commence Audit Work	September
Complete Audit Work	October
Review Draft with Governing Body	October
Conduct Exit Conference	November
Submit Final Report to Governing Body	March

2. Proposed Time and Price for Engagement:

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly</u>	
			<u>Rates</u>	<u>Total</u>
Partners	70	\$ 175	\$ 175	\$ 12,250
Professionals	160	\$ 175	\$ 150	24,000
Staff	<u>125</u>	\$ 75	\$ 70	<u>8,750</u>
Subtotal	<u>355</u>			<u>\$ 45,000</u>

(Detail on Subsequent Pages): _____

Out-of-Pocket Expenses: _____ \$0.00

Meals and Lodging: _____ \$0.00

Transportation: _____ \$0.00

Other (specify): _____ \$0.00

Total all-inclusive maximum price for 2012 audit: _____ \$ 45,000

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.

A. Schedule of Professional Fees and Expenses (continued):

FOR THE AUDIT OF THE 2012 FINANCIAL STATEMENTS
CONSULTING SERVICES THROUGHOUT THE YEAR:

Classification of personnel providing consulting
services and hourly rate beyond the base bid

Partner	\$ 175
Manager	\$ 175
Staff Accountant	\$ 75

A Schedule of Professional Fees and Expenses (continued):

FOR THE AUDIT OF THE 2013 FINANCIAL STATEMENTS

1. Proposed Dates for Engagement:

	<u>Date</u>
Receive Audit Information	September
Conduct Entrance Conference	September
Commence Audit Work	September
Complete Audit Work	October
Review Draft with Governing Body	October
Conduct Exit Conference	November

2. Proposed Time and Price for Engagement:

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partners	70	\$ 182	\$ 182	\$ 12,740
Professionals	160	\$ 182	\$ 156	24,960
Staff	<u>125</u>	\$ 78	\$ 73	<u>9,125</u>
Subtotal	<u>355</u>			<u>\$ 46,825</u>

(Detail on Subsequent Pages): _____

Out-of-Pocket Expenses: _____ \$0.00

Meals and Lodging: _____ \$0.00

Transportation: _____ \$0.00

Other (specify): _____ \$0.00

Total all-inclusive maximum price for 2013 audit: _____ \$ 46,825

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.

A. Schedule of Professional Fees and Expenses (continued):

FOR THE AUDIT OF THE 2013 FINANCIAL STATEMENTS:
CONSULTING SERVICES THROUGHOUT THE YEAR:

Classification of personnel providing consulting
services and hourly rate beyond the base bid

Partner	\$ 182
Manager	\$ 182
Staff Accountant	\$ 78

A. Schedule of Professional Fees and Expenses (continued):

FOR THE AUDIT OF THE 2014 FINANCIAL STATEMENTS

1. Proposed Dates for Engagement:

	<u>Date</u>
Receive Audit Information	September
Conduct Entrance Conference	September
Commence Audit Work	September
Complete Audit Work	October
Review Draft with Governing Body	October
Conduct Exit Conference	November

2. Proposed Time and Price for Engagement:

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partners	70	\$189	\$189	\$ 13,230
Professionals	160	\$189	\$162	25,920
Staff	<u>125</u>	\$81	\$76	<u>9,500</u>
Subtotal	<u>355</u>			<u>\$ 48,650</u>

(Detail on Subsequent Pages): _____

Out-of-Pocket Expenses: _____ \$0.00

Meals and Lodging: _____ \$0.00

Transportation: _____ \$0.00

Other (specify): _____ \$0.00

Total all-inclusive maximum price for 2014 audit: _____ \$ 48,650

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum price.

A. Schedule of Professional Fees and Expenses (continued):

FOR THE AUDIT OF THE 2014 FINANCIAL STATEMENTS:
CONSULTING SERVICES THROUGHOUT THE YEAR:

Classification of personnel providing consulting
services and hourly rate beyond the base bid

Partner	\$ 189
Manager	\$ 189
Staff Accountant	\$ 81