

AGREED-UPON PROCEDURES ENGAGEMENTS AND HOUSE BILL 1670

BACKGROUND

On June 9, 2005, Governor Brad Henry signed House Bill 1670 (HB 1670) providing an alternative to a full-scope financial statement audit for certain small municipal governments. The bill included an emergency clause that made the bill's provisions effective July 1, 2005. (Full text of HB 1670 is on pages 32-39) Accountants can be engaged subsequent to July 1, 2005 to perform an agreed-upon procedures engagement for eligible municipalities. The Office of the Oklahoma State Auditor and Inspector has indicated that they will accept such engagements for fiscal years ending June 30, 2005 or prior years for eligible municipalities that have not yet met the audit requirements for such periods.

ELIGIBLE MUNICIPALITIES

HB 1670 defines an "eligible municipality" as a municipality with a population as of the most recent Federal Decennial Census of less than two thousand five hundred (2,500), and for whom an annual financial statement audit is not required by another law, regulation or contract.

For example, while a municipality may have a population under 2,500, they may be required to comply with the Single Audit Act and Office of Management and Budget Circular A-133 based on the amount of federal awards expended in a specific year. The Act and Circular require a financial statement audit for the entity and compliance audit over the federal awards. As a result, such municipality would not be eligible for the agreed-upon procedures engagement in the year the Single Audit Act requirements must be met.

ADDITIONAL CAUTION:

You should contact any applicable federal or state agency that the municipality has received funds through contract or grant to determine that the agency will accept the agreed-upon procedures engagement in lieu of any audit requirements. In some cases the agency may require a program audit of those contract/grant funds. (A sample request for Specified Party's comments on procedures is shown on page 17)

It should be noted that for eligible municipalities, the agreed-upon procedures engagement is an alternative available to the entity in lieu of a financial statement audit. However, nothing in the Bill precludes the governing body of an eligible municipality from engaging an auditor to perform a financial statement audit.

In addition, while a municipality may be eligible for an agreed-upon procedures engagement, one or more of its public trusts may be required (for example by a loan agreement, bond indenture, etc.) to undergo a financial statement audit. In such a case, the municipality could opt for an agreed-upon procedures engagement, while the public trust obtains a financial statement audit.

FUTURE POSSIBLE CHANGES IN THE LAW:

Legislation was proposed in the 2006 session to amend Oklahoma Statutes §60-180.1 (A-C) regarding public trusts. That proposal would have: (A) required an audit of all public trusts without regard to population; (B) provided that trusts with less than \$500,000 of revenue could have an agreed-upon procedures engagement in lieu of an audit; and (C) provided a possible waiver for public trusts with revenue or assets of less than \$50,000. (See pages 40-41 for proposed amendatory language). These amendments did not pass out of committee but can be expected to be re-introduced in the 2007 session. Therefore, accountants should be aware that such changes could affect the eligibility for agreed-upon procedure engagements for certain qualifying entities.

KEY FEATURES OF HB 1670

As a minimum, the agreed-upon procedures would include the following, to the extent applicable:

1. Obtaining or preparing a schedule of changes in fund balances for each fund and determining compliance with the statutory prohibition of creating fund balance deficits.
2. Obtaining or preparing a budget and actual financial schedule for the General Fund and any other significant funds, including federal grant funds, and determining compliance with the legal level of appropriations by comparing expenditures and encumbrances to authorized appropriations
3. Reconciling or reviewing the reconciliations of material bank account balances to bank statements and tracing significant items to clearance.
4. Comparing uninsured deposits to fair value of pledged collateral.
5. Comparing use of material restricted revenues and resources to their restrictions.
6. Determining compliance with requirements for separate funds.
7. Determining compliance with reserve account and debt service coverage requirements of bond indentures.

A similar alternative is provided for the public trusts (authorities) whose beneficiary is a municipality with a population of less than 2,500 and more than Fifty-Thousand Dollars (\$50,000) in revenues.

EXCEPTIONS:

For very small cities/towns with less than Twenty-five Thousand Dollars (\$25,000) of total annual revenue in its General Fund, the requirements for either a financial statement audit or an agreed-upon procedures engagement do not apply. Also, public trusts with less than Fifty-Thousand Dollars (\$50,000) of total assets and whose beneficiary is a municipality with a population as of the most recent Federal Decennial Census of less than two thousand five hundred (2,500) may request a waiver of the audit and agreed-upon procedures requirements from the State Auditor and Inspector's Office.

APPLICABLE STANDARDS FOR HB 1670

HB 1670 provides that the agreed-upon procedures engagement will be conducted in accordance with the standards of the American Institute of Certified Public Accountants (AICPA) applicable to attestation engagements and the fieldwork and reporting standards of *Government Auditing Standards* of the Comptroller General of the United States (the Yellow Book). It should be noted that standards referenced in HB 1670 excludes the general standards of the Yellow Book. As a result, the accountant must comply with the general standards of the AICPA applicable to attestation engagements, and may perform such engagements even though they may not meet the general standards of the Yellow Book.

SPECIFIC AICPA STANDARDS

The objective of an audit of financial statements by the independent auditor is the expression of an opinion on the financial statements in accordance with generally accepted auditing standards in the United States of America. Generally accepted auditing standards include general, field work and reporting standards (AU 150.02). The fourth standard of reporting states:

The report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

An agreed-upon procedures compliance attestation engagement is one in which a practitioner (accountant) is engaged to issue a report of findings based on specific procedures performed on assertions or subject matter that will assist users in evaluating an entity's compliance with specified requirements. Statements on Standards for Attestation Engagements (SSAE) (AT Section 101) discusses general, fieldwork, and reporting standards that should be followed by a practitioner in performing and reporting on agreed-upon procedures engagements. AT Section 201 provides guidance for *Agreed-Upon Procedures Engagements* and AT 601 provides additional guidance when the agreed-upon procedures also relate to an entity's compliance with requirements of specified laws, regulations, rules, contracts or grants. In an agreed-upon procedures engagement, the practitioner does not perform an examination or a review (as discussed in AT 101) and does not provide an opinion or negative assurance.

Statements on Standards for Accounting and Review Services¹ (SSARS) (AR100.01) set forth the performance and communication requirements when an accountant submits unaudited financial statements of a nonpublic entity to his or her client or third parties. The accountant should not submit unaudited financial statements of a nonpublic entity to his or her client or a third party unless, as a minimum, he or she complies with the provisions of the sections applicable to a compilation engagement.

If an accountant is engaged to report on compiled financial statements or submits financial statements to a client that are or reasonably expected to be used by a third party paragraphs .11 through .19 of AR 100 describe the reporting requirements.

SSARS (AR 100.04) defines a financial statement as a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles (GAAP) or a comprehensive basis of accounting other than GAAP (OCBOA). Financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not financial statements for purposes of SSARS. The following financial presentations are examples of financial statements.

- Balance sheet
- Statement of income
- Statement of comprehensive income
- Statement of retained earnings
- Statement of cash flows
- Statement of changes in owners' equity

¹ The Accounting and Review Services Committee of the AICPA expects to issue an exposure draft in late May 2006 eliminating certain references to Statements on Auditing Standards (SAS's) and an omnibus clarifying the adequacy of disclosures in financial statements prepared in conformity with OCBOA and to provide guidance with respect to the accountant's consideration of subsequent events in a compilation or review engagement. These documents will be available to members at the AICPA web site aicpa.org.

- Statement of assets and liabilities (with or without owners' equity accounts)
- Statement of revenue and expenses
- Statement of financial position
- Statement of activities
- Summary of operations
- Statement of operations by product lines
- Statement of cash receipts and disbursements

A financial statement may be, for example, that of a corporation, a consolidated group of corporations, a combined group of affiliated entities, a not-for-profit organization, a governmental entity, an estate or trust, a partnership, a proprietorship, a segment of any of these, or an individual. The method of preparation (for example, manual or computer preparation) is not relevant to the definition of a financial statement.

The financial information expected to be issued in conjunction with the agreed-upon procedures report for an engagement performed under the authority of HB1670 clearly meets the definition of a financial statement under SSARS.

SSARS defines the submission of financial statements as presenting to a client or third parties financial statements that the accountant has prepared either manually or through the use of computer software. Therefore, an accountant's compilation report would normally be considered necessary unless the municipality prepared their own financial statements for inclusion with the agreed-upon procedures report. In that case the accountant's agreed-upon procedures report should be modified accordingly.

Statements on Standards for Accounting and Review Services (AR100.03) states that an accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements of a nonpublic entity unless (a) the accountant has compiled or reviewed the financial statements in compliance with the provisions of this Statement or (b) the financial statements are accompanied by an indication that the accountant has not compiled or reviewed the financial statements and that the accountant assumes no responsibility for them. For example, the indication may be worded as follows:

The accompanying balance sheet of X Company as of December 31, 20X1, the related statements of income, and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Two sample independent accountant's reports on applying agreed-upon procedures are included on pages 18-24. One sample engagement letter includes appropriate language when the accountant also compiles the financial statements and another sample engagement letter includes appropriate language when the entity prepares their own financial statements for inclusion with the agreed-upon procedures report. Sample financial statements are shown on pages 27-31.

ADDITIONAL GOVERNMENT AUDITING STANDARDS

Agreed-upon procedures engagements performed in compliance with HB 1670 must also comply with the fieldwork and reporting standards of the Yellow Book applicable to attestation engagements. Generally Accepted Government Auditing Standards (GAGAS) for Attestation engagements are found in Chapter 6 of the 2003 Revision the Yellow Book. Although GAGAS provides for additional general standards those standards are not applicable in an agreed-upon procedures engagement performed to comply with HB 1670. However, GAGAS prescribes additional attestation engagement fieldwork and reporting standards that go beyond the requirements contained in the AICPA SSAE's. Those additional standards **are** applicable to an agreed-upon procedures engagement performed to comply with HB 1670.

The following pages summarize both the AICPA and GAO requirements for performing agreed-upon procedure engagements. Note that this information has been tailored to agreed-upon procedures engagements performed in compliance with HB 1670. Additional requirements may be applicable in another type of attestation engagement (AICPA or GAO); therefore, you should consult with applicable authoritative literature when performing such engagements. Excellent authoritative sources are the AICPA codifications of Statements on Auditing Standards (including the Statements on Standards for Attestation Engagements), Statements on Standards for Accounting and Review Services) (www.cpa2biz.com or 888-777-7077) and Government Auditing Standards (www.gao.gov). Another good source for guidance materials and practice aids is the Practitioners Publishing Company's (PPC) Guide to Non-Traditional Engagements (including agreed-upon procedures and attestations) (ppc.thomson.com or 800-323-8724)

AGREED-UPON PROCEDURES (ATTESTATION) STANDARDS

AICPA GENERAL STANDARDS

1. Training and Proficiency

- *The engagement shall be performed by a practitioner having adequate technical training and proficiency in the attest function.*

2. Adequate Knowledge of Subject Matter

- *The engagement shall be performed by a practitioner having adequate knowledge of the subject matter.*

3. Suitability and Availability of Criteria

- *The practitioner shall perform the engagement only if he or she has reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users. (Suitable criteria includes Objectivity, Measurability, Completeness, and Relevance)*

4. Independence

- *In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner.*

5. Due Professional Care

- *Due professional care shall be exercised in the planning and performance of the engagement.*

STANDARDS OF FIELDWORK

AICPA FIELDWORK STANDARDS

1. Planning and Supervision

- *The work shall be adequately planned and assistants, if any, shall be properly supervised.*

*AT 101.46 and AT 201.10 states that the practitioner should establish an understanding with the client regarding the services to be performed for each engagement. The practitioner should document the understanding in the working papers, preferably through a written communication with the client. The understanding should include the objectives of the engagement, management's responsibilities, the practitioner's responsibilities, and limitations of the engagements. AT 201.10 lists additional matters that might be included in such an understanding. (A **sample engagement letter is shown on pages 11-16**)*

2. Obtaining Sufficient Evidence

- *Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.*

*During an attest engagement, the responsible party makes many representations to the practitioner, both oral and written, in response to specific inquiries or through the presentation of subject matter. Such representations from the responsible party are part of the evidential matter the practitioner obtains. AT 601.68 requires a practitioner to obtain written representations from the responsible party in an agreed-upon procedures engagement related to compliance with specified requirements. (A **sample management representation letter is shown on pages 25-26**)*

ADDITIONAL GAO FIELDWORK STANDARDS

3. Auditor Communication (GAO paragraphs 6.06 through 6.09)

- *The accountant should communicate information regarding the nature, timing, and extend of planned testing and reporting on the subject matter or assertion about the subject matter, including the level of assurance provided, to officials of the entity and to the individuals contracting for or requesting the attestation engagement.*

4. Consider the results of previous audits and attestation engagements (GAO paragraphs 6.10 through 6.12)
 - *The accountant should consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the subject matter or the assertion of the attestation engagement being undertaken.*
5. Consider fraud, illegal acts, violations of contract provisions or grant agreements, and abuse that could have a material effect on the subject matter (GAO paragraphs 6.15 through 6.20)
 - *In planning agreed-upon procedure level attestation engagements, the accountant should be alert to situations or transactions that could be indicative of fraud, illegal acts, violations of provisions of contracts or grant agreements, and if indications of fraud, illegal acts, violations of provisions of contracts or grant agreements exist that could materially affect the subject matter or assertion, auditors should apply procedures specifically directed to ascertain whether violations of provisions of contracts or grant agreements, and if indications of fraud, illegal acts, violations of provisions of contracts or grant agreements has occurred and the effect on the subject matter or assertion.*
 - *The accountant should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the results of the attestation engagement the accountant should apply procedures specifically directed to ascertain whether abuse has occurred and the effect on the results of the attestation engagement.*
6. Consider developing elements of findings (GAO paragraph 6.21)
 - *When problems are identified, to the extent possible, accountants should plan attest procedures to develop the elements of a finding to facilitate developing the accountant's report.*
7. Attest documentation (GAO paragraphs 6.22 through 6.26)
 - *Attest documentation related to planning, conducting and reporting on the attestation engagement should contain sufficient information to enable an experienced auditor who has had no previous connection with the attestation engagement to ascertain from the attest documentation the evidence that supports the accountant's significant judgments and conclusions. Attest documentation should contain support for findings, conclusions, and recommendations before accountants issue their report.*

STANDARDS OF REPORTING

AICPA REPORTING STANDARDS

1. The report shall identify the subject matter or the assertion being reported on and state the character of the engagements.
2. The report shall state the practitioner's conclusion about the subject matter or the assertion in relation to the criteria against when the subject matter was evaluated.
3. The report shall state all of the practitioner's significant reservations about the engagement, the subject matter, and if applicable, the assertion related thereto.
4. The report shall state that the use of the report is restricted to specified parties.

ADDITIONAL GAO REPORTING STANDARDS

5. The report on attestation engagements should state that the engagement was made in accordance with GAGAS (GAO paragraphs 6.29 through 6.31).
6. Report fraud and illegal acts, violations of provisions of contracts or grant agreements and abuse (GAO paragraphs 6.32 through 6.40).
 - *The report on an attestation engagement should disclose all instances of fraud and illegal acts unless clearly inconsequential and violations of provisions of contracts or grant agreements and abuse that are material to the subject matter or assertion of the engagement.*
 - *To the extent possible, in presenting findings, accountants should develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the entity in understanding the need for taking corrective action. In addition, if the accountant is able to sufficiently develop the findings, he or she should provide recommendations for corrective action.*
7. Report views of responsible officials (GAO paragraphs 6.41 through 6.45)
 - *If the accountant's report on the attestation engagement discloses instances of fraud or illegal acts, violations of provisions of contracts or grant agreements, or abuse, accountants should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective action.*
8. Reporting privileged and confidential information (GAO paragraphs 6.46 through 6.48)
 - *If certain pertinent information is prohibited from general disclosure, the report on the attestation engagement should state the nature of the information omitted and the requirement that makes the omission necessary.*

9. Report issuance and distribution (GAO paragraphs 6.49 through 6.54)

- *Although AICPA standards require that an agreed-upon procedures report should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures, such a statement does not require that the report distribution be limited as in the availability for public inspection.*

ADDITIONAL DISTRIBUTION ISSUES

Oklahoma Statutes §11-17-105.1 provides that in addition to the agreed-upon procedures report, two copies of SA&I Form 2643 must be compiled and filed (with an accountant’s compilation report) by December 31 of each year. Additionally, Oklahoma Statutes §74-201A-2 requires the \$40.00 filing fee for processing the agreed-upon procedures report.

Note that the shorter SA&I Form 2644 is required by those small entities that are not required to have an audit or agreed-upon procedures engagement.

CONDITIONS FOR PERFORMING AGREED-UPON PROCEDURES ENGAGEMENTS PURSUANT TO HB 1670

1. The practitioner is independent.
2. The party wishing to engage the practitioner is responsible for the subject matter, or has a reasonable basis for providing a written assertion on the subject matter.
3. The practitioner and the specified parties agree upon the procedures performed or to be performed by the practitioner.
4. The specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes.
5. The specific subject matter to which the procedures are to be applied is subject to reasonably consistent measurement.
6. Criteria to be used in the determination of findings are agreed upon between the practitioner and the specified parties.
7. The procedures to be applied to the specific subject matter are expected to result in reasonably consistent findings using the criteria.
8. Evidential matter related to the specific subject matter to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the practitioner’s report.
9. Where applicable, the practitioner and the specified parties agree on any materiality limits for reporting purposes.
10. Use of the report is restricted to the specified parties.

REQUIRED ELEMENTS OF AN AGREED-UPON PROCEDURES REPORT PURSUANT TO HB 1670

1. A title that includes the word *independent*.
2. Identification of the specified parties.
3. Identification of the subject matter (or written assertion related thereto) and the character of the engagement.
4. Identification of the responsible party.
5. A statement that the subject matter is the responsibility of the responsible party.
6. A statement that the procedures performed were those agreed to by the specified parties identified in the report.
7. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA and the fieldwork and reporting standards contained in *Government Auditing Standards*.
8. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
9. A list of the procedures performed (or reference thereto) and related findings. The practitioner should not provide negative assurance. (*Findings, other than those of no instances noted, should be reported in the manner identified in the Yellow Book where applicable – criteria, condition, cause, effect, recommendation, management’s views and planned corrective action*)
10. Where applicable, a description of any agreed-upon materiality limits.
11. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his attention that would have been reported.
12. A statement of restrictions on the use of the report because it is intended to be used solely by the specified parties.
13. Where applicable, reservations or restrictions concerning procedures or findings.
14. Where applicable, a description of the nature of the assistance provided by a specialist.
15. The manual or printed signature of the practitioner’s firm.
16. The date of the report.

**SAMPLE COMBINED ENGAGEMENT LETTER FOR A COMPILATION
AND AGREED-UPON PROCEDURES ENGAGEMENT**

Date

Mayor and Town Council
Example Town and Public Trusts
Example City, Oklahoma

Honorable Mayor and Town Council:

This letter is to confirm our understanding of the nature, timing, objectives, and limitations of the services we are to provide to you.

We will compile, from information you provide, a Summary of Changes in Fund Balances-Cash Basis of the Town of Example and Public Trusts, Example, Oklahoma as of June 30, 2006 and the related Budgetary Comparison Schedule of General Fund-Cash Basis, Statement of Revenues, Expenses and Changes in Fund Balance of Public Works Authority-Cash Basis, and Schedule of Grant Activity-Cash Basis for the fiscal year ended June 30, 2006 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. We will also separately compile and file the Annual Survey of City and Town Finances (form SA&I 2643), described in Oklahoma Statutes §11-17-105.1. The financial statements will be prepared in a format and basis of accounting, as prescribed by Oklahoma Statutes, that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements will omit all of the disclosures ordinarily included in financial statements prepared on the cash basis of accounting. Accordingly, these financial statements are not designed for those who are not informed about such matters.

A compilation is limited to presenting information in the form of financial statements prescribed by Oklahoma Statutes that is the representation of the management. We will not audit or review the aforementioned financial statements and, accordingly, will not express an opinion or any other form of assurance on them.

Additionally, we will apply the agreed-upon procedures which the specified parties (Town Council of the Town of Example, Trustees of Example Public Works Authority, Office of the Oklahoma State Auditor and Inspector, *and Granting Agency, if applicable*) have specified, listed in the attached schedule, to selected financial information and compliance requirements of Town of Example and Public Trusts as of and for the fiscal year ended June 30, 2006 as prescribed by Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3. This engagement is solely to assist the Town, Public Trust, and other specified parties in meeting its financial accountability requirements as prescribed by such state laws and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 2006. Management of the Town of Example is responsible for the Town's financial accountability and its compliance with those legal and contractual requirements. Our engagement to apply agreed-upon procedures will be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of

Agreed-Upon Procedures Engagements and HB 1670
CBEW Professional Group, LLP

the Comptroller General of the United States of America. 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 in the attached schedule 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 listed in the attached schedule do not constitute an examination, we will not express an opinion on the financial information and compliance. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule. If, however, as a result of the procedures or through other means, matters come to our attention that cause us to believe that the financial information is not presented in compliance with Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3, we will disclose those matters in our report. Such disclosures, if any, may not necessarily include all matters which might have come to our attention had we performed additional procedures or an examination.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of the specified parties, and 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.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, our report of findings will disclose any instances of fraud and illegal acts unless clearly inconsequential that comes to our attention during the performance of the agreed-upon procedures. Additionally, our report of findings will disclose any violations of provisions of contracts or grant agreements and abuse that are material to the subject matter or assertion of the engagement that comes to our attention during the performance of the agreed-upon procedures. In addition, we have no responsibility to identify and communicate significant deficiencies or material weaknesses in your internal control as part of this engagement. In the event that our report on agreed-upon procedures discloses fraud, illegal acts, violations of contract or grant agreements, or abuse as described above we will be required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective action.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the presentation of the financial information and compliance with applicable laws, regulations, and provisions of contracts and grant agreements; and for selecting the criteria and for determining that such criteria are appropriate for your purposes. You are also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee the compilation services (*or other non-attest services*) we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them. As part of our engagement, we may also propose standard, adjusting, or correcting journal entries to your financial statements. Management has final responsibility for review of the proposed entries and understanding the nature and impact of the proposed entries to the financial statements. We will not

perform management functions or make management decisions on your behalf although we may provide advice and recommendations to assist you in performing management functions and making decisions.

We plan to begin our procedures on approximately [date] and, unless unforeseeable problems are encountered, the engagement should be completed by [date]. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the Town's financial accountability and its compliance with those legal and contractual requirements required by state law or agreement.

We estimate that our fees for these services will range from \$_____ to \$_____. The fee estimate is based on anticipated cooperation from your 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 fee estimate before we incur the additional costs.

The attest documentation for this engagement is the property of [CPA firm] and constitutes confidential information. However, we may be requested to make certain attest documentation available to a Federal or State agency pursuant to authority given to it by law or regulation. We will notify you of any such request. If requested, access to such attest documentation will be provided under the supervision of our personnel. Furthermore, upon request, we may provide copies of selected attest documentation to the aforementioned agency. Such agency may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

Our firm, as well as other accounting firms, participates in the AICPA's peer review program covering our audit and accounting practice. Under this program, our system of quality control is subjected to a peer review by a team of certified public accountants approved by the state administering entity. As part of this peer review, the team will review a sample of our work. It is possible that the work performed for you may be selected for their review. If it is, the team is bound by professional standards to keep all information confidential.

We appreciate the opportunity to assist you and believe that this letter accurately summarized 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 and return it to us. If the need for additional procedures arises, our agreement with you will need to be revised. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of the procedures.

Sincerely,

CPA Firm

Town of Example and Public Trusts

Date

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ACKNOWLEDGMENT:

This letter correctly sets forth our understanding of the services to be performed and is accepted by us.

TOWN OF EXAMPLE AND PUBLIC TRUST

By: _____

Title: _____

Date: _____

TOWN OF EXAMPLE AND PUBLIC TRUSTS**SCHEDULE OF AGREED-UPON PROCEDURES TO BE PERFORMED****For the Fiscal Year Ended June 30, 2006**

This schedule by reference is made a part of our engagement agreement setting forth the terms of this agreed-upon procedures engagement. The following procedures described in Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3 will be performed as of and for the fiscal year ended June 30, 2006. *(Additionally, if applicable, certain agreed-upon procedures will be performed with respect to grant agreements.)* The sufficiency of the procedures is solely the responsibility of those parties specified in the engagement letter.

Procedures to be performed as to the Town of Example:

1. From the Town's trial balances, we will prepare a schedule of changes in fund balances for each fund and compare the schedule results to the statutory prohibition of creating fund balance deficits to report any noted instances of noncompliance.
2. From the Town's trial balances, we will prepare a budget and actual financial schedule for the General Fund and any other significant funds listing separately each federal fund and compare the actual expenditures and encumbrances reported to the authorized appropriations to report any noted instances of noncompliance with the appropriation limitations.
3. We will agree the Town's material bank account balances to bank statements, and trace the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.
4. We will compare the Town's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.
5. We will compare the use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.
6. We will compare the accounting for the Town's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.
7. We will compare the Town's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

TOWN OF EXAMPLE AND PUBLIC TRUSTS**SCHEDULE OF AGREED-UPON PROCEDURES TO BE PERFORMED
For the Fiscal Year Ended June 30, 2006****Procedures to be performed as to the Example Public Works Authority:**

1. From the Authority's trial balances, we prepared a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund (see accompanying Exhibit 3) and compared the schedule results to the applicable trust prohibitions for creating fund balance deficits to report any noted instance of noncompliance.
2. We will agree the Authority's material bank account balances to bank statements, and trace the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.
3. We will compare the Authority's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.
4. We will compare the Authority's use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.
5. We will compare the accounting for the Authority's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.
6. We will compare the Authority's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

(If applicable include additional procedures with respect to grant agreements.)

Procedures to be performed as to the Town of Example and Public Works Grant Programs:

1. From the Town and Authority's trial balances, we will prepare a schedule of grant activity for each grant/contract and compared the receipts and disbursements to grant agreements and supporting information to report any noted instances of noncompliance with the grant agreement.

SAMPLE REQUEST FOR SPECIFIED PARTY’S COMMENTS ON AGREED-UPON PROCEDURES

[CPA Firm’s Letterhead]

Date

(Specified Party’s Name and Address)
Oklahoma Department of XYZ (*Granting Agency*)
Oklahoma City, Oklahoma

We have been requested by Town of Example and Public Trust to apply the agreed-upon procedures listed in the attached engagement letter. 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 in the attached schedule either for the purpose for which this report has been requested or for any other purpose.

Because the agreed-upon procedures listed in the attached schedule to the engagement letter do not constitute an examination, we will not express an opinion on the financial information and compliance. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule.

As a specified user of the report, please review the proposed procedures and acknowledge the sufficiency of the procedures by signing the enclosed copy of this letter and returning it to us. If the procedures are not considered to be sufficient, or are not in accordance with your understanding, please provide comments in the space provided below.

Sincerely,

CPA Firm

RESPONSE:

The procedures listed in the proposed engagement letter are _____ are not _____ sufficient for purposes of the engagement.

COMMENTS: _____

By: _____

Title: _____

Date: _____

SAMPLE INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES THAT INCLUDES AN ACCOUNTANT’S COMPILATION REPORT ON ACCOMPANYING FINANCIAL STATEMENTS COMPILED BY THE ACCOUNTANT

Independent Accountant’s Report

To the Specified Users of the Report:

Town Board, Town of Example
Example, Oklahoma

Trustees of the Example Public Works Authority
Example, Oklahoma

Oklahoma Office of State Auditor and Inspector
Oklahoma City, Oklahoma

Oklahoma Department of XYZ (*Granting Agency*)
Oklahoma City, Oklahoma

We have compiled the accompanying Summary of Changes in Fund Balances-Cash Basis of the Town of Example and Public Trusts, Example, Oklahoma as of June 30, 2006 and the related Budgetary Comparison Schedule of General Fund-Cash Basis, Statement of Revenues, Expenses and Changes in Fund Balance of Public Works Authority-Cash Basis, and Schedule of Grant Activity-Cash Basis for the fiscal year ended June 30, 2006 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared in a format and basis of accounting, as prescribed by Oklahoma Statutes, that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting information in the form of financial statements prescribed by Oklahoma Statutes that is the representation of the management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the cash basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the Town’s assets, liabilities, equity, revenues and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Additionally, we have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town and Public Works Authority in meeting its financial accountability requirements as prescribed by Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3 and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 2006. Management of the Town of Example is responsible for the Town’s financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As to the **Town of Example** as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Town's trial balances, we prepared a schedule of changes in fund balances for each fund (see accompanying Exhibit 1) and compared the schedule results to the statutory prohibition of creating fund balance deficits to report any noted instances of noncompliance.

Findings: *(Findings, other than those of no instances noted, should be reported in the manner identified in the Yellow Book where applicable – criteria, condition, cause, effect, recommendation, management's views and planned corrective action)*

2. **Procedures Performed:** From the Town's trial balances, we prepared a budget and actual financial schedule for the General Fund and any other significant funds listing separately each federal fund (see accompanying Exhibit 2) and compared the actual expenditures and encumbrances reported to the authorized appropriations to report any noted instances of noncompliance with the appropriation limitations.

Findings:

3. **Procedures Performed:** We agreed the Town's material bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

Findings:

4. **Procedures Performed:** We compared the Town's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Findings:

5. **Procedures Performed:** We compared use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

Findings:

6. **Procedures Performed:** We compared the accounting for the Town's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings:

7. **Procedures Performed:** We compared the Town's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

Findings:

As to the **Example Public Works Authority**, as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Authority's trial balances, we prepared a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund (see accompanying Exhibit 3) and compared the schedule results to the applicable trust prohibitions for creating fund balance deficits to report any noted instance of noncompliance.

Findings:

2. **Procedures Performed:** We agreed the Authority's material bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

Findings:

3. **Procedures Performed:** We compared the Authority's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Findings:

4. **Procedures Performed:** We compared the Authority's use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

Findings:

5. **Procedures Performed:** We compared the accounting for the Authority's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings:

6. **Procedures Performed:** We compared the Authority's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

Findings:

As to the **Town of Example and Public Works Grant Programs**, as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Town and Authority's trial balances, we prepared a schedule of grant activity for each grant/contract (see accompanying Exhibit 4) and compared the receipts and disbursements to grant agreements and supporting information to report any noted instances of noncompliance with the grant agreement.

Findings:

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

CPA Firm Signature

Date

**SAMPLE INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON
PROCEDURES WHERE FINANCIAL STATEMENTS ARE INCLUDED THAT WERE
PROVIDED BY THE ENTITY AND NOT COMPILED BY THE ACCOUNTANT**

Independent Accountant’s Report

To the Specified Users of the Report:

Town Board, Town of Example
Example, Oklahoma

Trustees of the Example Public Works Authority
Example, Oklahoma

Oklahoma Office of State Auditor and Inspector
Oklahoma City, Oklahoma

Oklahoma Department of XYZ (*Granting Agency*)
Oklahoma City, Oklahoma

We have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town and Public Works Authority in meeting its financial accountability requirements as prescribed by Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3 and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 2006. Management of the Town of Example is responsible for the Town’s financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As to the **Town of Example** as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Town’s trial balances, we obtained a schedule of changes in fund balances for each fund (see accompanying Exhibit 1) and compared the schedule results to the statutory prohibition of creating fund balance deficits to report any noted instances of noncompliance.

Findings: (*Findings, other than those of no instances noted, should be reported in the manner identified in the Yellow Book where applicable – criteria, condition, cause, effect, recommendation, management’s views and planned corrective action*)

2. **Procedures Performed:** From the Town’s trial balances, we obtained a budget and actual financial schedule for the General Fund and any other significant funds listing separately each federal fund (see accompanying Exhibit 2) and compared the actual expenditures and encumbrances reported to the authorized appropriations to report any noted instances of noncompliance with the appropriation limitations.

Findings:

3. **Procedures Performed:** We agreed the Town's material bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

Findings:

4. **Procedures Performed:** We compared the Town's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Findings:

5. **Procedures Performed:** We compared use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

Findings:

6. **Procedures Performed:** We compared the accounting for the Town's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings:

7. **Procedures Performed:** We compared the Town's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

Findings:

As to the **Example Public Works Authority**, as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Authority's trial balances, we obtained a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund (see accompanying Exhibit 3) and compared the schedule results to the applicable trust prohibitions for creating fund balance deficits to report any noted instance of noncompliance.

Findings:

2. **Procedures Performed:** We agreed the Authority's material bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

Findings:

3. **Procedures Performed:** We compared the Authority's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Findings:

4. **Procedures Performed:** We compared the Authority's use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

Findings:

5. **Procedures Performed:** We compared the accounting for the Authority's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings:

6. **Procedures Performed:** We compared the Authority's account balances in reserve accounts to contractually required balances and debt service coverage requirements of bond indentures to the actual coverage to report any noted instances of noncompliance.

Findings:

As to the **Town of Example and Public Works Grant Programs**, as of and for the fiscal year ended June 30, 2006:

1. **Procedures Performed:** From the Town and Authority's trial balances, we prepared a schedule of grant activity for each grant/contract (see accompanying Exhibit 4) and compared the receipts and disbursements to grant agreements and supporting information to report any noted instances of noncompliance with the grant agreement.

Findings:

The accompanying Summary of Changes in Fund Balances-Cash Basis of the Town of Example and Public Trusts, Example, Oklahoma as of June 30, 2006 and the related Budgetary Comparison Schedule of General Fund-Cash Basis, Statement of Revenues, Expenses and Changes in Fund Balance of Public Works Authority-Cash Basis, and Schedule of Grant Activity-Cash Basis for the fiscal year ended June 30, 2006 are presented as prescribed by Oklahoma Statutes and were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

CPA Firm Signature

Date

**SAMPLE MANAGEMENT REPRESENTATION LETTER RELATING TO
COMPLIANCE AND AGREED-UPON PROCEDURES**

[CPA Firm's Name and Address]

In connection with your engagement to apply agreed-upon procedures to certain financial information and compliance requirement as of and for the fiscal year ended June 30, 2006, we confirm, to the best of our knowledge and belief, as of [date of report], the following representations made to you during your engagement.

1. We are responsible for the presentation of the financial statements as of and for the fiscal year ended June 30, 2006 as prescribed by Oklahoma Statutes §11-17 (105-107) and §60-180 (1-3).
2. We are responsible for complying with laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statements amounts, including legal and contractual provisions for reporting specific activities in separate funds.
3. We are responsible for establishing and maintaining effective internal control over compliance.
4. The Town and Public Trust have complied with all aspects of contractual agreements that would have a material effect on the financial information in the event of noncompliance.
5. There have been no communications from regulatory agencies, internal auditors, or other independent accountants or consultants regarding possible noncompliance with provisions of Oklahoma Statutes or contractual agreements between June 30, 2006 and the date of this letter.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving administrative officials or employees who have significant roles in internal control or others where the fraud could have a material effect on the financial information.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have made available to you, if and to the extent requested by you all, all information that we believe is relevant to the financial information and documentation and other information related to compliance requirements.
10. We are responsible for the sufficiency of the agreed-upon procedures criteria and it is appropriate for our purposes.
11. We have responded fully to all inquiries made to us by you during the engagement and have not knowingly withheld from you any financial records or related data that in our judgment would be relevant to your engagement.
12. To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to June 30, 2006 and through the date of this letter that would require adjustment to the selected financial information or to our assertions.
13. In regards to the compilation (nonattest) services performed by you, we have –
 - a. Made all management decisions and performed all management functions.
 - b. Designated an individual with suitable skill, knowledge, and/or experience within senior management to oversee the services.
 - c. Evaluated the adequacy and results of the services performed, including any proposed journal entries.
 - d. Accepted responsibility for the results of the services.
 - e. Established and maintained internal controls, including monitoring ongoing activities.
14. We understand that your report is intended solely for the information and use of the Town of Example, Example Public Works Authority, Oklahoma State Auditor and Inspector, and Federal and State Granting Agencies and is not intended to be and should not be used by anyone other than those specified parties.

Signed: _____

Signed: _____

Title: _____

Title: _____

Date: _____

Date: _____