

July 23, 2009

**ADDENDUM No. 1**

*To*

**REQUEST FOR PROPOSALS**

*For*

**INDEPENDENT AUDITOR SERVICES**

*For the*

**SCHOOL CONSTRUCTION PROGRAM**

**ISSUED JULY 10, 2009**

*By*

**THE NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY**

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**PLEASE TAKE NOTICE:**

**PROPOSALS ARE DUE on Friday, August 7, 2009 by 5 PM**, at the Main Office of the New Jersey Schools Development Authority located at 1 West State Street, P.O. Box 991, Trenton, NJ 08625, and must be delivered in the manner set forth in the RFP.

This **ADDENDUM No. 1** includes questions submitted by 5 PM on Monday, July 20, 2009, and answers thereto, a list of firms that intend to submit proposals. Terms in this Addendum shall have the same meaning as provided in Section 1 of the Agreement, except as otherwise provided herein.

**A. FIRMS THAT INTEND TO PROPOSE**

Please refer to Attachment A.

**B. PREBID QUESTIONS & NJSDA ANSWERS**

**B.1 Question:** What is the timeline of the audit?

- a. When are records ready for audit?
- b. Can preliminary work/interim work be performed in November?
- c. When is the audit reporting deadline (due date of Draft and Final financial statements)?

**Answer:** Interim audit work usually begins in early December, and final field work is normally completed during the 3<sup>rd</sup> or 4<sup>th</sup> week of February.

- a. Due to the Authority's extensive year end accrual process, it is our preference that final field work begins on or around February 1. Records are available for review at that time.
- b. Interim audit work typically begins on or around December 1. The Authority would be open to beginning this work earlier provided that it does not prolong the issuance of the final audit report.
- c. The final audit report will be presented to the Audit Committee and Board of Directors during the Authority's regularly scheduled monthly meetings which are currently scheduled in the 1<sup>st</sup> week of March.

**B.2 Question:** Who prepares the financial statements and notes to financial statements; the Authority's finance department or the auditors?

**Answer:** The Authority's Accounting Department.

**B.3 Question:** Who prepares Management's Discussion and Analysis?

**Answer:** The Authority's Accounting Department.

**B.4 Question:** Does the NJSDA staff prepare audit work papers, supporting schedules and reconciliations?

**Answer:** The majority of the supporting schedules, reports and reconciliations are prepared by the Authority's Accounting Department. The audit work papers are prepared by the external auditor.

**B.5 Question:** Were there prior year auditor adjusting entries, and if so, how many?

**Answer:** There are no unrecorded audit adjustments to the prior year financial statements. Audit adjustments during prior audits have typically involved adjustments to the year end accruals.

**B.6 Question:** What accounting software is utilized for general ledger and other financial applications?

**Answer:** Microsoft Dynamics GP (Great Plains) is used for general ledger accounting and accounts payable processing of Authority operating expenses. SIMS is used to record the disbursement of school facilities project expenditures. A monthly journal entry is booked in GP to record SIMS monthly activity.

**B.7 Question:** Is payroll prepared in house or is outside payroll service utilized?

**Answer:** The Authority uses an outside payroll service, ADP.

**B.8 Question:** Where are school project cost records (contracts, contractor invoices, and other documentation supporting project costs) located?

**Answer:** School project cost records are stored in the Accounts Payable Department, located in Trenton, New Jersey.

**B.9 Question:** Did the audit of the 2008 or 2007 financial statements result in any of the following: material weaknesses, significant deficiencies, or management letter comments? Was a management letter issued last year and if so, may firms have a copy?

**Answer:** The 2008 and 2007 financial statement audits did not result in any material weaknesses or significant deficiencies. There were no comments in the 2008 Management Letter. The written comments in the 2007 Management Letter were minor in scope and materiality.

**B.10 Question:** What were the final amounts paid for the audit of the 2008, 2007 & 2006 financial statements and audit fees?

**Answer:** Actual amounts paid were approximately: 2008 - \$109,000; 2007 - \$115,000; 2006 - \$105,000.

**B.11 Question:** How many days or hours were incurred by the prior auditor at NJSDA during the audit? How many full time staff?

**Answer:** The *total* amount of time incurred by the prior auditor cannot be accurately determined. The interim work was completed in approximately 2-3 weeks. The final audit field work took approximately 3 to 4 weeks to complete. This does not include the time the auditors spent at their office for such activities as planning, consultation, work paper reviews, preparing their reports, etc. The primary audit team for the engagement consisted of a partner, manager, senior and lower level staff person. In addition, an independent reviewer was assigned to the audit.

**B.12 Question:** Has the NJSDA adopted any policies regarding rotation of auditing firms? If so, can NJSDA provide a copy to firms?

**Answer:** The NJSDA has not adopted any policies regarding rotation of auditing firms.

**B.13 Question:** In the introduction section of the RFP, the Authority states that it seeks to engage a qualified Public Accounting Firm that is registered with the Public Company Accounting Oversight Board ("PCAOB"). Further, it states that the Firm shall be required to perform a financial statement audit in compliance with generally accepted government auditing standards ("GAGAS"), standards promulgated by the PCAOB, the Government Accounting Standards Board ("GASB"), the Financial Accounting Standards Board ("FASB"), and with all applicable Federal and State laws, rules, regulations, and standards, as well as professional standards and requirements mandated by the American Institute of Certified Public Accountants ("AICPA"). It is somewhat unusual that a governmental agency would require that the accounting firm performing their audit to be registered with the PCAOB, as it is not a requirement established by any standard setting board or the State of New Jersey. Is this an internal policy decision? Additionally, related to the requirement that the audit be performed in accordance with standards promulgated by the PCAOB, is this a new requirement that has been implemented by the Authority? During our review of the Independent Auditor's report issued by Ernst & Young on February 25, 2009, there is no mention of performing the audit in accordance with the standards of the PCAOB. Further, as a government agency, the Authority is not required to comply with the standards promulgated by the PCAOB. If it is not the intention of the Authority to have its audit performed in

accordance with the standards promulgated by the PCAOB, the Authority should not require prospective bidders to be registered with the PCAOB.

**Answer:** Please refer to C.1 and C.2 below.

**B.14 Question:** In Appendix A (Special Conditions), of the Agreement between the New Jersey Schools Development Authority and the Consultant for Independent Auditor Services (“Attachment A”), under subsection B (“General Role”), it states the following: Pursuant to Executive Order No. 122 (McGreevey), the Consultant shall be responsible for performing financial statement audits in compliance with generally accepted government auditing standards (“GAGAS”), standards promulgated by the Public Company Accounting Oversight Board (“PCAOB”), the Government Accounting Standards Board (“GASB”), the Financial Accounting Standards Board (“FASB”), and with all applicable Federal and State laws, rules, regulations, and standards, as well as professional standards and requirements mandated by the American Institute of Certified Public Accountants (“AICPA”). Our review of Executive Order No. 122 (McGreevey), as well as, Executive Order No. 37 (Corzine), indicates that there is no requirement to perform the audit in accordance with standards promulgated by the PCAOB. **The statement made in this section is not correct.** Executive Order No. 122 (McGreevey) requires that the audit be performed in accordance with GAGAS. If the audit is not required to be performed in accordance with the standards promulgated by the PCAOB, why has the Authority included this requirement in the RFP? Additionally, is it the intention of the Authority to fully comply and has the Authority implemented all of the requirements of the PCAOB? Implementation of the standards and requirements of the PCAOB would appear to be costly and not required by any standard setting board or the State of New Jersey. If it is not the intention of the Authority to have its audit performed in accordance with the standards promulgated by the PCAOB, the Authority should not require prospective bidders to be registered with the PCAOB.

**Answer:** Please refer to C.1 and C.2 below.

## **C. CLARIFICATIONS TO THE RFP**

**C.1** Please refer to the RFP Introduction for the following revision:

Pursuant to Governor James E. McGreevey’s Executive Order No. 122 (“EO 122”), effective on July 23, 2004, and Governor Jon S. Corzine’s Executive Order No. 37 (“EO 37”), effective on September 26, 2006, the Board of Directors (“Board”) of the New Jersey Schools Development Authority (“Authority” or “NJSDA”), by and through the Board’s Audit Committee (“Audit Committee”), seeks to engage a qualified Public Accounting firm (a “Consultant”), ~~registered with the Public Company Accounting Oversight Board~~

(“PCAOB”), to provide independent auditor services. The NJSDA was established on August 6, 2007 to replace the New Jersey Schools Construction Corporation (“SCC”) pursuant to reform legislation (P.L. 2007, c.137) enacted by Governor Jon S. Corzine. As of the date of the legislation, the SCC was dissolved and all its functions, powers, duties and employees were transferred to the NJSDA. Organizationally, the Authority is situated in, but not of, the New Jersey Department of the Treasury. The firm selected as the Consultant shall be required to perform a financial statement audit in compliance with generally accepted government auditing standards (“GAGAS”), ~~standards promulgated PCAOB~~, Government Accounting Standards Board (“GASB”) and Financial Accounting Standards Board (“FASB”), and with all applicable Federal and State laws, rules, regulations and standards, as well as professional standards and requirements mandated by the American Institute of Certified Public Accountants (“AICPA”). These services shall be required with respect to the Authority’s financial statements for its (calendar) fiscal years ending December 31, 2009, 2010 and 2011, with an option, exercisable solely by the NJSDA, for two one-year renewals covering the fiscal years ending December 31, 2012 and 2013. As provided in EO 122, the Consultant shall be responsible for: publicly attesting to the fairness of the Authority’s financial statements; considering the effectiveness of internal controls as a basis for designing audit procedures and; through the issuance of management letters, making comments and recommendations which, when implemented, would improve the design or operation of internal control systems.

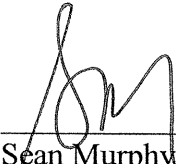
**C.2** Please refer to Item B, General Role, in the Scope of Services, Appendix B to the Independent Auditor Services Agreement, Attachment A to the RFP, for the following revision:

Pursuant to Executive Order No. 122 (McGreevey), the Consultant shall be responsible for performing financial statement audits in compliance with generally accepted government auditing standards (“GAGAS”), ~~standards promulgated by the Public Company Accounting Oversight Board (“PCAOB”)~~, Government Accounting Standards Board (“GASB”) and Financial Accounting Standards Board (“FASB”), and with all applicable Federal and State laws, rules, regulations and standards, as well as professional standards and requirements mandated by the American Institute of Certified Public Accountants (“AICPA”). These Services shall be required with respect to the NJSDA’s financial statements for Fiscal Years ending on December 31<sup>st</sup> of 2009, 2010 and 2011, with an option, exercisable solely by the NJSDA, for two one-year renewals covering Fiscal Years ending on December 31<sup>st</sup> of 2012 and 2013. The Consultant shall be responsible for publicly attesting to the fairness of NJSDA financial statements, evaluating the effectiveness of internal controls and, through the issuance of management letters, making comments and recommendations which, when implemented, may improve the design or operation of internal control systems. The scope of services set forth in this Agreement does not include an audit of the NJSDA’s internal control over financial reporting. The Services shall meet all standards required by Executive

Order No. 122 (McGreevey).

*Please, there shall be absolutely no contact between our staff and you.*

Issued by:



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Sean Murphy  
Manager  
Procurement & Contract Services

Issued: July 23, 2009

## ATTACHMENT A

### **Ernst & Young, LLP**

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