



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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May 11, 2012

Warren County School District
Attn: Mr. James Grosch, Director of Business Services
185 Hospital Drive
Warren, PA 16365

Dear Jim.

You have asked me to provide a fee estimate in connection with our services in preparing the PLANCON Part J audits for the Russell Elementary and Warren Area Elementary Center construction/addition projects.

As background related to these audits, the state reimburses school districts a portion of their bond payments related to approved construction/renovation of school buildings. The process for obtaining state approval for reimbursement is referred to as PLANCON. Part of that process includes having the construction activity audited.

When I was first hired by the District in 2009, I was told that the District had not submitted PLANCON audits for some construction projects which were completed several years earlier. As a result of not submitting these audits, the state was reimbursing the District's bond payments at less than the full rate. Shortly after that, Dr. Kennerknecht provided me with copies of his worksheets which showed the amount of contracts approved with each contractor/vendor and payments approved to each contractor/vendor.

These worksheets and supporting documents have proven to be key in our efforts to prepare the PLANCON audits and we would not have been able to complete the audits without them. However, they did not provide adequate audit evidence, such as banking records or accounting records, nor did they provide information about how the projects were funded. The source of funding is a required part of the PLANCON report since it identifies the bond issues used for the construction and therefore determines the reimbursement rates.

For the next two and one-half years, I made many efforts to obtain the needed documentation, but never received it. I was given many reasons for this, such as changes in personnel, the moving of the fiscal office and changes in accounting software since the projects were built. All this time, I was being asked on a regular basis by senior administrators about the status of the audits. This was most frustrating to me, because I was being asked to complete audits of financial information which was not provided to me.

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When you came to the District, we discussed the lack of progress in completing the PLANCON audits. After much searching, your staff did locate and provide me with banking records which related to the construction projects in February of this year. We still didn't have accounting records which showed the sources of deposits to the various accounts, but at least we did have the beginnings needed to construct the needed records.

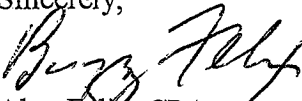
The projects were funded by five different sources – the 2002 Bonds, the 2003 Bonds, interest on the bond proceeds, insurance money from the Allegheny Valley Elementary School fire, and the general fund. Expenses of the projects were paid out of four different bank accounts. Preparing the necessary accounting records for the projects involved going through every bank deposit for every account and determining the source of the funds and the disbursements on Dr. Kennerknecht's worksheets to determine how they were paid.

After much work by my staff during these past few months, we have been able to complete the necessary accounting records for the projects and draft the PLANCON audit reports. At this point, we have about \$15,000 in time at our standard rates on these audits. I still need to have our required quality control review completed, and have the reports processed for delivery to you. I expect that that will take another \$1,000 in time, bringing the total fees to about \$8,000 for each of the two audits. This is about twice what "typical" PLANCON audits would normally cost if complete and accurate accounting records are provided by the District. I know this is a lot of money, but given the circumstances, I don't see how these audits would have been completed if we didn't take the time to prepare the needed records.

As your auditor, I am well aware of the District's financial challenges. Given those challenges, and given my interest in supporting the District's efforts to manage its expenditures, I am offering to take a \$2,000 haircut on each audit. This would reduce my fees to \$6,000 for each audit. I also will mention that I have agreed to prepare the District's current year financial statement audit and its Single audit reports for the same fees as in the prior two years.

Please let me know if you have any questions or comments about this fee information.

Sincerely,


Alan Felix, CPA
Principal