

February 21, 2001

**APPROVE ENTERING INTO AN AGREEMENT WITH ARTHUR ANDERSEN, LLP
FOR EXTERNAL AUDIT SERVICES**

THE CHIEF EXECUTIVE OFFICER REPORTS THE FOLLOWING DECISION:

Approve entering into an agreement with Arthur Andersen, LLP to provide external audit services to the Office Of School Financial Services at an annual cost of \$795,000, plus printing and mailing costs of the annual financial report (CAFR) not to exceed \$47,900; the total annual cost not to exceed \$842,900. Arthur Andersen was selected pursuant to a duly advertised Request For Proposal (specification # 00-250655). Arthur Andersen has performed many services for the Board including the annual external audit, assisting in capital program debt issuances, creating the fixed asset database, and creating the Popular Annual Financial Report. A written agreement for these services is currently being negotiated. No services shall be provided by the Consultant, and no payment shall be made to the Consultant prior to the execution of the written agreement. The authority granted herein shall automatically rescind in the event a written Agreement is not executed within 90 days of the date of this Board Report. Information pertinent to this Agreement is stated below.

SPECIFICATION NUMBER: 00-250655

CONSULTANT: Arthur Andersen, LLP
33 West Monroe
Kevin Vaughn, Managing Director
312/507-4369
Vendor No. 33602

USER: Office of School Financial Services
125 South Clark Street
Daryl Okrzesik, Controller
773/553-2710

TERM: The term of this agreement shall commence on the date the agreement is signed and shall end three years thereafter. This agreement shall have three options to renew for periods of one year each. Fee increases for the option periods will be mutually agreed upon and shall be based upon the current annual fee, adjusted by the Consumer Price Index, and any scope changes or unusual circumstances.

EARLY TERMINATION RIGHT: Either party has the right to terminate this Agreement with thirty (30) day written notice.

SCOPE OF SERVICES: Arthur Andersen will provide an annual independent audit to the Board that will include:

- Financial Audit in accordance with generally accepted auditing standards.
- Review of Internal Controls that assess the extent to which the controls can be relied upon to ensure accurate information and to ensure compliance with law and regulations.
- Data Processing Review that reviews and compares the calculating operations of the computer system and related database with the desired results by test of transactions.
- Management Letter that contains the audit findings.
- Additional Reports: CAFR, OMB Circular A-133, Memorandum on Internal Control, and other reports required by GASB and GAAS.
- Coordinate the printing and mailing of the Comprehensive Annual Financial Report (CAFR)

DELIVERABLES: Arthur Andersen will deliver the following associated with the annual audit:

- Opinion of the financial statements
- Process maps for critical processes
- Presentation of audited financial results to the Board Members.
- Management letter

Arthur Andersen will assist with:

- Rating agency presentation
- Review of transmittal letter and supplemental schedules in CAFR
- Consulting on new accounting standards

OUTCOMES: The annual audit will result in:

- A comprehensive business analysis to prioritize business and information processing risks that might impact the financial statement.
- Assessment of Risk Controls to identify and evaluate the effectiveness of internal controls and management risks within the key business processes.
- A Business Risk Model (BRM) that provides a framework for systematically understanding and identifying the types of business risks threatening the CPS. The BRM involves participants from numerous departments within CPS.

COMPENSATION: Consultant shall be paid in eight equal monthly installments of \$99,375.00 beginning in April and ending December of each year (not to exceed \$795,000 for each year), and shall be reimbursed for printing and mailing costs of the annual financial report (CAFR) (not to exceed \$47,900 for each year); the total aggregate annual sum not to exceed \$842,900.

REIMBURSABLE EXPENSES: Arthur Andersen shall be reimbursed for annual printing and mailing costs not to exceed \$47,900.

AUTHORIZATION: Authorize the General Counsel to include other relevant terms and conditions in the written agreement. Authorize the President and Secretary to execute the agreement. Authorize the Chief Fiscal Officer to execute all ancillary documents required to administer or effectuate this agreement.

AFFIRMATIVE ACTION: As a condition of this award, Arthur Andersen agrees to comply with the provisions of the Revised Remedial Plan for M/WBE Economic Participation and agrees to make every effort to achieve full compliance with the goals for this program/project, which are: 23% Black, 10% Hispanic, 2% Asian, 5% WBE and 40% Minority.

LSC REVIEW: Local School Council approval is not applicable to this report.

FINANCIAL:

Charge to the Bureau of General Accounting: **\$842,900**
Budget Classification: 0963-210-000-1120-5410
Requisition Number: **None**

Fiscal Year: **2001/2002**
Source of Funds: **General Operating Fund**

GENERAL CONDITIONS:

Inspector General – Each party to the Agreement shall acknowledge that, in accordance with 105 ILCS 5/34-13.1, the Inspector General of the Chicago Board of Education has the authority to conduct certain investigations and that the Inspector General shall have access to all information and personnel necessary to conduct those investigations.

Conflicts – The Agreement shall not be legally binding on the Board if entered into in violation of the provisions of 105 ILCS 5/34-21.3 which restricts the employment of, or the letting of contracts to, former Board members during the one year period following expiration or other termination of their terms of office.

Indebtedness – The Board's Indebtedness Policy adopted July 26, 1995 (95-0726-EX3), as amended from time to time, shall be incorporated into and made a part of the Agreement.

Ethics – The Board's Ethics Code adopted September 27, 1995 (95-0927-RU3), as amended from time to time, shall be incorporated into and made a part of the Agreement.

Contingent Liability – The Agreement shall contain the clause that any expenditure beyond the current fiscal year is deemed a contingent liability, subject to appropriation in the subsequent fiscal year budget(s).

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Approved for Consideration:


Natalye Paquin
Chief Purchasing Officer

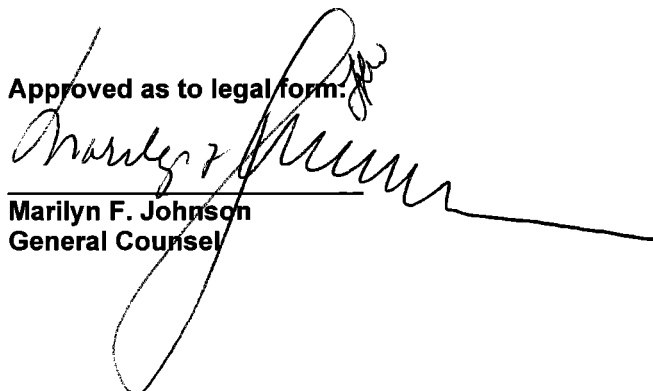
Approved:


Paul G. Vallas
Chief Executive Officer

Within Appropriation:


Kenneth C. Gotsch
Chief Fiscal Officer

Approved as to legal form:


Marilyn F. Johnson
General Counsel