

APPROVE TERMINATING THE AGREEMENT WITH ARTHUR ANDERSEN LLP FOR EXTERNAL AUDIT SERVICES, APPROVE FINAL PAYMENT TO ARTHUR ANDERSEN FOR ADDITIONAL SERVICES RENDERED, AND APPROVE ENTERING INTO AN AGREEMENT WITH DELOITTE & TOUCHE LLP FOR EXTERNAL AUDIT SERVICES

THE CHIEF EXECUTIVE OFFICER REPORTS THE FOLLOWING DECISIONS:

Approve terminating the agreement with Arthur Andersen LLP for external audit services, approve payment to Arthur Andersen for activities to close out its current agreement in the amount of \$52,848, and approve entering into an agreement with Deloitte & Touche LLP to provide external audit services to the Office Of School Financial Services at an annual cost not to exceed \$920,000 for professional services and \$50,000 for printing and mailing costs of the annual financial report. The Board has determined that it is necessary and in its best interests to retain a nationally recognized accounting firm for its external audit services. Deloitte & Touche LLP was selected on a non-competitive basis pursuant to an informal negotiated solicitation for non-biddable goods and services. Deloitte & Touche was chosen because (i) it offered the Board a competitive price for these services, (ii) key personnel from Arthur Andersen who have provided external audit services to the Board have been offered positions at Deloitte & Touche and will participate in the Board's engagement, and (iii) it met the criteria established by the Chief Fiscal Officer and Controller. A written letter terminating the services of Arthur Andersen as of May 22, 2002 shall be issued by the Law Department, including the final payment for services rendered by Arthur Andersen as described below. A written agreement for Deloitte & Touche's services is currently being negotiated. No payment shall be made to Deloitte & Touche prior to the execution of the written agreement. The authority granted herein shall automatically rescind in the event a written agreement with Deloitte & Touche is not executed within 90 days of the date of this Board Report. Information pertinent to this Agreement is stated below.

CONSULTANT: Deloitte & Touche LLP
 180 N. Stetson
 Chicago, IL 60601-6779
 Patrick Hagan, Regional Partner
 312-946-3044
 Vendor No. 46243

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

TERM: The term of the agreement with Deloitte & Touche shall commence the date the agreement is signed and shall end three years later. 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 shall have the right to terminate this Agreement with thirty (30) days written notice.

SCOPE OF SERVICES: Deloitte & Touche 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 certain 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)

Deloitte & Touche will assist with:

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

DELIVERABLES: Deloitte & Touche will deliver the following associated with the annual audit:

- Opinion of the financial statements
- Presentation of audited financial results to the Board Members
- Management letter

ADDITIONAL SCOPE OF SERVICES FROM ARTHUR ANDERSEN: Due to termination of the contract, Arthur Andersen will be paid \$52,848 for the following services rendered:

- Review and advice on transition work plan
- Copying and providing access to new auditor of 2001 audit work papers
- Benchmarking Analysis of Federal Revenues and preparation of presentation materials
- Audit adjustments requested after delivery of final document to auditors
- Quality control for changes to the annual financial report and increased costs incurred by printer due to change requests
- Audit and preparation of Form 990 Tax Return for Student Science Fair, Inc.

OUTCOMES: The annual audit will result in:

- A report to the audit committee that will present business and information processing risks that might impact the financial statement.
- Letter of recommendation commenting on assessment of risk controls to identify and evaluate the effectiveness of internal controls and management risks within the key business processes.

COMPENSATION: Payment to Arthur Andersen LLP: A lump sum payment will be made to Arthur Andersen for the additional scope of services detailed above in the amount of \$52,848.

Payment to Deloitte & Touche LLP Consultant shall be paid in three installments each year of the agreement (not to exceed \$920,000 for each year), and shall be reimbursed for printing and mailing costs of the annual financial report (not to exceed \$50,000 for each year of the agreement); the total aggregate annual sum not to exceed \$970,000. A contingency authorization not to exceed 15% annually of the professional service fees is authorized upon approval of the Chief Fiscal Officer to cover unanticipated increases in costs related to the transition to new auditors, implementing new government accounting standards, including new GASB guidelines, and other audit related services. Compliance with Affirmative Action provisions will be documented for any contingency authorizations at the time of approval.

REIMBURSABLE EXPENSES: Deloitte & Touche shall be reimbursed for annual printing and mailing costs not to exceed \$50,000.

AUTHORIZATION: Authorize the General Counsel to execute a termination document with Arthur Andersen LLP terminating the existing agreement and enclosing final payment. Authorize the General Counsel to include other relevant terms and conditions in the written agreement with Deloitte & Touche. Authorize the President and Secretary to execute the new agreement with Deloitte & Touche. Authorize the Chief Fiscal Officer to execute all ancillary documents required to administer or effectuate the agreement with Deloitte & Touche.

AFFIRMATIVE ACTION: As a condition of this award, Deloitte & Touche agrees to comply with the provisions of the Revised Remedial Plan for M/WBE Economic Participation and has identified the following firms and percentages for the \$920,000 professional service fees:

23% African American:

- | | | |
|-------|---|-----------------|
| (i) | Washington Pittman & McKeever, 819 S. Wabash, Chicago, IL | \$114,000 – 12% |
| (ii) | Odell Hicks & Company, 180 N. Stetson, Chicago IL | \$61,000 - 7% |
| (iii) | Indirect participation, Clifton Rogers & Assoc., 15525 S. Park, South Holland, IL | \$36,600 - 4% |

12% Hispanic:

- | | | |
|-----|---|-----------------|
| (i) | Prado & Renteria, 1837 S. Michigan, Chicago, IL | \$114,000 – 12% |
|-----|---|-----------------|

3% Woman Owned

(i) Indirect participation: Vendor Name Pending Negotiations \$27,600 - 3%

2% Asian

(i) Wong & Knowles, 340 W. Butterfield Rd., Elmhurst, IL \$18,400 - 2%

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

FINANCIAL:

Charge to the Bureau of General Accounting: **\$52,848**

Fiscal Year: **2002**

Charge to the Bureau of General Accounting: **\$970,000**

Fiscal Year: **2002/2003**

Charge to the Bureau of General Accounting: **Up to \$145,000**

Fiscal Year: **2003** Contingency authorization

Budget Classification: 0230-210-000-1120-5410

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).

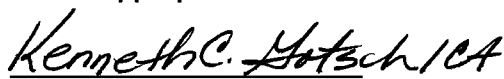
Approved for Consideration:


Anita Rocha
Chief Purchasing Officer

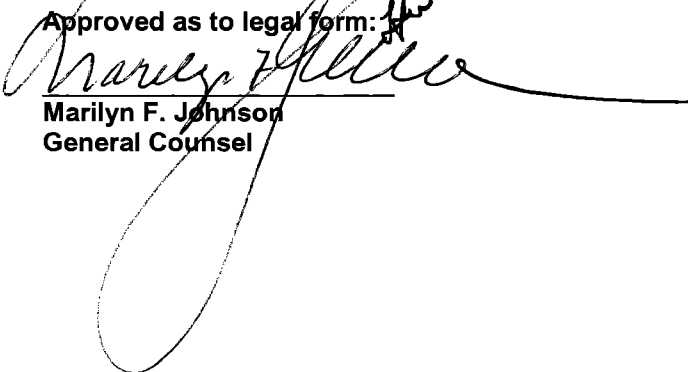
Approved:


Arne Duncan
Chief Executive Officer

Within Appropriation:


Kenneth C. Gotsch
Chief Fiscal Officer

Approved as to legal form:


Marilyn F. Johnson
General Counsel