

Chicago Public Schools Policy Manual

Title: AUDITOR INDEPENDENCE AND PROVISION OF CONSULTING SERVICES BY EXTERNAL AUDITORS

Section: 401.14

Board Report: 02-0522-PO01

Date Adopted: May 22, 2002

Policy:

BACKGROUND INFORMATION:

The Board of Education of the City of Chicago (the "Board") finds that it is in its best interests as well as the best interests of the students, residents and taxpayers of the City of Chicago that the auditors of the Board's financial statements, programs and operations (the "External Auditors") be fully independent of any conflict of interest, whether perceived or actual. To that end, effective immediately, it is the policy of the Board that no External Auditor may be hired or retained by the Board except in accordance with the provisions of this Policy. This policy is modeled on the auditor independence requirements, as relevant and applicable, established by the United States General Accounting Office.

No policy on this topic presently exists.

Section 1. The decision to hire any External Auditor requires the consent of the Board prior to the award of a contract to an External Auditor. Any contract between the Board and an External Auditor must clearly set forth the following items:

1. The full scope of services to be rendered by the External Auditor;
2. The exact amount of compensation to be paid to the External Auditors and how that compensation is to be paid;
3. An end date by which services are to be rendered in full; and
4. An acknowledgement by the External Auditor that it has received and reviewed this Policy and an attestation that it is unaware of any fact that would render the award of the contract to be in violation of this Policy.

Section 2. No contract for any audit services shall be awarded to an External Auditor who also has a contract to conduct or to assist the Board in conducting any work related to internal audit services.

Section 3. No contract shall be awarded for the auditing of any of the Board's financial statements, programs and operations to any firm, entity, company, partnership or the like if such contract would be in violation of or inconsistent with the Corrupt Practices Act of the State of Illinois, the Ethics Act of the State of Illinois or the Ethics Policy of the Board.

Section 4. (a) No contract for consulting services shall be awarded to an External Auditor. Conversely, no entity performing consulting services for the Board shall be award a contract to perform services of an External Auditor. For purpose of this Policy, "consulting services" shall include any task or project that directly supports the Board's operations or management functions or requires the making of management decisions, including, but not limited to:

1. Developing or implementing financial systems;
2. Developing or implementing financial processes;
3. Determining account balances;
4. Processing transactions;
5. Providing appraisal or valuation services; and
6. Performing actuarial studies.

(b) Notwithstanding the foregoing subsection (a), a contract may be awarded to an External Auditor for services that will not impair its independence, such services shall include:

1. Providing basic accounting assistance limited to services such as drafting financial statements that are based on the Board's (or its management's) chart of accounts and trial balance and any adjusting, correcting and closing entries that have been approved by the Board (or its management); preparing draft notes to the financial statements based on information determined and approved by the Board (or its management); maintaining depreciation schedules for which the Board (or its management) has determined the method and rate of depreciation and salvage value of the asset;
2. Providing payroll services limited to services such as computing pay amounts for the Board's employees based on Board maintained and approved time records, salaries or pay rates and deductions from pay; generating unsigned payroll checks; transmitting Board approved payroll to a financial institution, provided that the Board (or its management) has approved the transmission and limited the financial institution to make payments only to previously approved individuals;
3. Providing advisory services on information technology limited to services such as advising on system design, system installation and system security if the Board (or its management) acknowledges responsibility for the design, installation and internal control over the Board's system and does not rely on the auditor's work as the primary basis for determining (a) whether to implement a new system, (b) the adequacy of the new design, (c) the adequacy of major design changes to an existing system, and (d) the adequacy of the system to comply with regulatory or other requirements;
4. Providing human resource services to assist management in its evaluation of potential candidates that are limited to activities such as serving on an evaluation panel to review applicants to provide input to the Board (or its management) in arriving at a listing of best qualified applicants to be provided to the Board or its management);
5. Preparing routine tax filings in accordance with federal tax law and rules and regulations of the Internal Revenue Service, State and local tax authorities and any applicable laws;
6. Gathering and reporting unverified external or third-party data to aid the Board (or its management) in decision-making;

7. Advising an entity regarding its performance of internal control self-assessment or implementing audit recommendations;
8. Providing training;
9. To the extent that it has performed work or rendered services directly related thereto, assisting the Board (or its management) with financial statement related presentations and reviewing and performing post-audit review procedures related to debt offering documents; and
10. Providing the printing and mailing of the Board's Comprehensive Annual Financial Report and other financial reports.

Notwithstanding the foregoing exceptions, no contract, or series of contracts, for consulting services shall be awarded to an External Auditor if the aggregate compensation to be paid pursuant the contract or contracts exceeds the value of the compensation to be paid pursuant to its audit related services contract(s) by a factor of three.

Section 5. The Board may, by resolution, waive any of the restrictions contained in this Policy upon an affirmative vote of two-thirds of its members when the Board finds that, at least, two of the following conditions have been meet:

1. The entity to be awarded the contract is uniquely possessed on knowledge related to the subject matter of the contract;
2. The award of the contract to the entity is significantly in the best economic interest of the Board;
3. The entity is the sole source of the desired service; and
4. The impediment to the award of the contract is of a limited duration and would not be present 90 days hence.

Section 6. In the event that a contract is awarded to an External Auditor pursuant to Section 4(b) or Section 5, the External Auditor must submit to the Board, prior to execution of the contract, a written assurance that personnel who are performing audit services will be precluded from performing any related non-audit work and that personnel performing any related non-audit work will be precluded from performing any related audit work as well as an explanation of how its quality control system will ensure compliance with independence requirements. Any service rendered by an External Auditor pursuant to Section 4(b) or Section 5 must be audited by a party that is wholly independent of the External Auditor.

Amends/Rescinds:

Cross References:

Legal References: