

Merrett R. Stierheim, Superintendent of Schools

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH ERNST & YOUNG LLP FOR EXTERNAL INDEPENDENT AUDITING SERVICES FOR THE FINANCIAL AND COMPLIANCE AUDIT OF THE SCHOOL BOARD'S FINANCIAL RECORDS

The School Board Audit Committee recommends that the School Board engage the firm of Ernst & Young LLP for the yearly financial and compliance audit of the School Board's financial records. This recommendation is made pursuant to the selection procedures established by Section 218.391 of the Florida Statutes and the Request for Proposals approved by the School Board at the December 11, 2002 meeting. After receiving six responses to the Request for Proposals by the January 30, 2003 deadline, the Audit Committee met on February 11, 2003, to evaluate the proposals and short-list three accounting firms for the next round, which was to hear oral presentations, rank the firms and conduct negotiations with the top-ranked firm. The Audit Committee met on February 18, 2003 to hear the oral presentations, as follows:

1. Ernst & Young LLP with S. Davis & Associates, P.A., and Sanson, Kline, Jacomino & Company, CPAs
2. Grant Thornton LLP with Verdeja & Gravier CPAs, and Watson & Company, P.A.
3. Sharpton, Brunson & Company, P.A. in association with Morrison, Brown, Argiz & Company, P.A.

The Audit Committee voted unanimously for Ernst & Young LLP as the first-ranked firm and proceeded to negotiate the fees.

Compensation and Length of Contract

Ernst & Young LLP agreed to perform the regular financial and compliance audit of the school system's records at a cost not to exceed \$830,535 for the three-year contract, as follows:

<u>Audit for the Fiscal Year Ending</u>	<u>Cost</u>
June 30, 2003	\$270,425
June 30, 2004	\$273,510
June 30, 2005	\$286,600

If the Office of the Auditor General of the State of Florida is not to perform the annual Single Audit required by the Federal government, then, Ernst & Young LLP will perform such an audit, as follows:

<u>Audit for the Fiscal Year Ending</u>	<u>Cost</u>
June 30, 2003	\$60,000
June 30, 2004	\$62,000
June 30, 2005	\$65,000

It is expected that Ernst & Young LLP will be performing the Single Audit for the fiscal year ending June 30, 2003 and June 30, 2005. The Auditor General is planning to perform the Single Audit for the fiscal year ending June 30, 2004.

At the option of the School Board, this contract may be renewed for an additional two years, at terms to be negotiated after completion and submission of the audit reports for the fiscal year ending June 30, 2005. This contract may be terminated by the School Board, with or without cause, upon sixty (60) days written notice given to Ernst & Young LLP. The reason(s) for termination will be brought to the attention of the School Board Audit Committee at a scheduled meeting.

Over the past five years, the School Board paid to KPMG LLP for these services, as follows:

<u>Audit Period</u>	<u>Fees For Audit</u>		
	<u>Financial/Compliance</u>	<u>Single</u>	<u>Total</u>
June 30, 2002	\$263,000	\$57,000	\$320,000
June 30, 2001	\$259,000	*	\$259,000
June 30, 2000	\$255,000	\$55,000	\$310,000
June 30, 1999	\$255,000	\$52,000	\$307,000
June 30, 1998	\$250,000	\$50,000	\$300,000

* Single Audit done by Auditor General of the State of Florida at no charge to the school system.

Scope of Services

- a. Perform a financial and compliance audit in accordance with generally accepted auditing standards in order to express an opinion on an annual basis on the financial statements of the School Board beginning with the fiscal year ending June 30, 2003. An independent auditor's report (opinion) is to be issued on the audited financial statements within 90 days of the close of the fiscal year.

- b. Issue an annual Management Letter and required compliance letters that shall contain the audit findings, which, among other matters, shall include:
1. A statement as to whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected.
 2. A statement as to whether or not recommendations made in the preceding annual financial audit report have been followed.
 3. A statement as to whether or not the School Board is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes. When there has been a determination that the entity is technically in a state of financial emergency but is not in financial difficulty or experiencing a financial crisis, the Management Letter should explain the basis for that conclusion. For example, the explanation should describe accounting practices that place the deficits in the proper perspective. When there has been a fund balance or retained earnings deficit for two consecutive years, and a determination has been made that there is no financial emergency, the Management Letter should explain the circumstances that led to that conclusion. For example, the explanation should identify specific resources of the School Board that are available to cover the deficits.
 4. Recommendations to improve the District's present financial management, accounting procedures, and internal controls. This shall include recommendations addressing deteriorating financial conditions disclosed pursuant to Section 218.39(5), Florida Statutes.
 5. A statement as to whether or not the District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
 6. Violations of laws, rules, regulations, and contractual provisions that: (1) have occurred, or are likely to have occurred; (2) were discovered within the scope of the financial audit; and (3) may or may not have materially affected the financial statements.
 7. Illegal or improper expenditures discovered within the scope of the financial audit, which may or may not materially affect the financial statements.
 8. Other matters requiring correction which may or may not materially affect the financial statements reported on, including, but not limited to:
 - (a) Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - (b) Failures to properly record financial transactions.

(c) Other inaccuracies, shortages, and instances of fraud representing reportable conditions discovered by, or that come to the attention of, the auditor.

9. Whether the Annual Financial Report filed with the State Commissioner of Education pursuant to Section 6A-1.0071, State Board of Education Rules, is in agreement with the audited financial statements for the same period and, if not, specify any significant differences.

The draft of the Management Letter and compliance letters are to be discussed with the various administrative departments, the Office of Management and Compliance Audits, and the Superintendent of Schools before issuance in final form. Responses provided by the administration to the audit findings shall be included in the Management Letter and compliance letters, and along with the findings and recommendations presented to the School Board Audit Committee and the School Board.

- c. An oral presentation shall be made to the School Board Audit Committee and the School Board summarizing the audit report results.
- d. In those years where the Auditor General of the State of Florida will not be conducting its audit, also conduct a financial and compliance audit of all federal financial assistance, commonly referred to as the Single Audit, in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Controller General of the United States, the Single Audit Act and OMB's Circular A-133.
- e. Support the administration's efforts in the submission of the Comprehensive Annual Financial Report (CAFR) to the Association of School Business Officials (ASBO) International for the Certificate of Excellence in Financial Reporting, and to the Government Finance Officers Association (GFOA) of the United States and Canada for the Certificate of Achievement for Excellence in Financial Reporting.
- f. Sufficient understanding of the District's internal controls is to be obtained by the accounting firm to assess the risks and plan the audit and to determine the nature, timing, and extent of tests to be performed. The internal control structure includes the control environment related to accounting systems, and specific control procedures. In order to assess the control risk, the accounting firm is to perform a test of controls and properly document this assessment. Reportable conditions related to the internal control structure shall be communicated in writing in accordance with generally accepted auditing standards. Such review shall be conducted in accordance with applicable Statements of Auditing Standards issued by the American Institute of Certified Public Accountants in relation to the financial statements audit.
- g. Provide continuing education seminars for at least three days a year to maintain the expertise of those employees of the District that either account for or audit the records of the school system.

- h. A review is to be made to compare the calculating operations of the computer with the desired results by tests of transactions. A review of controls used in the computer center to assure protection of files and prevention of processing errors and a review of the data processing operation shall be made part of the review of the internal control structure. Such review shall be conducted in accordance with applicable Statements of Auditing Standards issued by the American Institute of Certified Public Accountants in relation to the financial statements audit.
- i. Provide the number of report copies and meet the report distribution deadlines as outlined in the Request for Proposals. All printing and reproduction costs are included in the fees proposed.

Minority Firm Utilization

Ernst & Young LLP will be performing these services with the assistance of the minority firms of S. Davis & Associates, P.A. (African-American) and Sanson, Kline, Jacomino & Co. (Hispanic), which have prior experience in the governmental auditing sector. The level of participation by the firms is expected to be 40-50% of total hours.

Annual Evaluation

An annual evaluation of the services will be performed and presented to the firm after all the work has been completed at a regularly scheduled School Board Audit Committee meeting.

Funding and Distribution of Cost

Since the auditing firm is required to begin the engagement before the fiscal year being audited has ended, they will incur costs that should be reimbursed on a timely basis; therefore, the funding for this contract will be forward funded, as follows:

Fiscal Year Being Audited	Budget Year			Total Audit Cost
	2002-03	2003-04	2004-05	
2002-03	\$ 330,425			\$ 330,425
2003-04*		\$ 335,510		335,510
2004-05			\$ 351,600	351,600
Amount to be Budgeted	\$ <u>330,425</u>	\$ <u>335,510</u>	\$ <u>351,600</u>	\$ <u>1,017,535</u>

*This fiscal year the Single Audit may be conducted by the Auditor General of the State of Florida, reducing the total cost by \$62,000.

RECOMMENDED: That The School Board of Miami-Dade County, Florida:

1. authorize the Superintendent of Schools to enter into a three-year contract with Ernst & Young LLP for yearly financial and compliance audits at a cost not to exceed \$1,017,535 for the three-year contract, with the right for the School Board to cancel this arrangement upon sixty (60) days written notice;
2. authorize the Superintendent of Schools to enter into a contract with Ernst & Young LLP to perform a financial and compliance audit for the fiscal year ending June 30, 2003, at a cost not to exceed \$270,425;
3. express its intent to have financial and compliance audits performed by Ernst & Young LLP for the fiscal year ending June 30, 2004, at a cost not to exceed \$273,510; and for the fiscal year ending June 30, 2005, at a cost not to exceed \$286,600;
4. express its intent to have the Single Audit performed by Ernst & Young LLP for any of the three fiscal years ending June 30, 2003, June 30, 2004 and June 30, 2005 at a cost not to exceed \$60,000, \$62,000 and \$65,000, respectively; and
5. forward fund the budget for each of the three fiscal years being audited, which are fiscal years ending June 30, 2003, June 30, 2004 and June 30, 2005.