Part IV - Redacted Proposal

Agreed-Upon Procedures related to the expenditures from the State Fiscal Stabilization Fund, which was effectively authorized by the American Recovery and Reinvestment Act Illinois

experience BKD
CPAs & Advisors

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A Recommendation for Illinois State Board of Education
January 26, 2010

Ms. Sherri Sullivan, State Purchasing Officer
Illinois State Board of Education - Fiscal and Procurement Division
100 North First Street
Springfield, Illinois 62777-0001

Re: A Request for Sealed Proposals; American Recovery and Reinvestment Act (ARRA),
    General State Aid – Audit and/or Attestation Services

Dear Ms. Sullivan:

In response to your Request for Sealed Proposal (RFSP) dated December 22, 2009, **BKD, LLP** proposes to assist the Illinois State Board of Education (ISBE) in providing agreed-upon procedures technical assistance services related to the American Recovery and Reinvestment Act (ARRA) funds distributed to and used by local educational authorities. We believe our proposal will demonstrate our capabilities, staffing and experience in the areas of compliance testing, financial revenue and expense testing and internal control testing related to federal grant award oversight. Further, the results of our firm’s work will provide the type of data collection and reporting that will ultimately provide the ISBE and public with useful information about ARRA projects in Illinois.

BKD is a top 10 national CPA and advisory firm that delivers its experience and service with passion and a deep understanding of our clients’ needs and what it takes to improve their performance. BKD’s approximately 2,000 personnel, including approximately 250 partners, are based in 32 offices (including Decatur, Illinois) serving clients in 50 states with headquarters in Springfield, Missouri. We believe our firm is uniquely qualified to assist the ISBE’s primary goal to determine the efficiencies and effectiveness of the funds flowing to the local education associations.

Our Decatur office has approximately 30 personnel, including four partners. BKD Illinois and its predecessor firms have 35 years of audit, accounting and advisory experience in the federal, state and local governmental areas. Additionally, **BKD, LLP** has extensive national governmental audit experience and other engagements, such as a subcontract project to monitor FEMA/MEMA transactions in the aftermath of Hurricane Katrina, along with a newly awarded contract with the state of Mississippi to assist in monitoring ARRA funding within the state.
Provided below is the company information requested by the RFSP:

Primary Contact:
Wallace P. Wetherill, CPA, Partner
225 N. Water Street, Suite 400
Decatur, IL 62525-1580

www.bkd.com

BKD, LLP
Neal Spencer, CEO

Years the entity has been in business: 86 years

Sincerely,

[Signature]

Wallace P. Wetherill, CPA
Partner
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2. Proposal Abstract

We understand the design of the work as an agreed-upon procedures (Procedures) engagement as identified in Exhibit II, Audit Program and Procedures for General State Aid. The objective is to verify and ensure that attendance data, revenue figures and expenditures reported can be substantiated and are accurately reported in accordance with the School Code and the applicable rules and regulations. This ensures that General State Aid payments funded by the State Fiscal Stabilization Fund, Education State Grants are calculated correctly.

Based on our knowledge of the funding and experience with other states’ ARRA compliance requirements, we are very cognizant that funds provided under the American Recovery Reinvestment Act are being distributed with the expectations of “unprecedented accountability and transparency.” This expectation demands that the project and scope be clearly understood. Furthermore, this demands that documentation and reports be produced to a high standard. With this in mind, in general, the purpose of our work with respect to the payments will include examinations of the:

- General State Aid Attendance Data
- General State Aid Five ARRA payments
- Expenditure Report Analysis
- Verify jobs retained or created using ARRA funds and other unallowable expenditures using ARRA funds

The scope of the work will also include providing audit reports at conclusion of the work performed for each region identified in Exhibit 1-A. We have reviewed the sample audit reports you provided as an addendum to the Request for Proposal. Based on our review of the sample audit reports, we understand that the report will include the following components:

- A cover letter summarizing the contents of the report
- Audit Adjustment Summary Report
- Audit report
  ✓ The findings resulted from the audit along with a recommended corrective action plan
  ✓ Documentation of discussion with management regarding the results of the audit

In addition, the scope and objectives of the work will also include meeting with ISBE officials on a biweekly basis for the purpose of providing progress of the audit work and monitoring of schedule. Meetings will also be scheduled on a quarterly basis with ISBE officials.

As part of our understanding of the scope of the project, we have reviewed the Illinois School Code 5/18-8.05 (basis for apportionment of general state financial aid and supplemental general state aid to the common schools) which can be found on Illinois General Assembly website. Furthermore, we have also reviewed the detailed compliance requirements as indicated by the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for the
compliance requirements related to the State Fiscal Stabilization Funds – Education State Grants. We have used the audit program and procedures for general state aid (Exhibit II) provided, as well as distributed sample audit reports, our knowledge of the Illinois School Code and federal compliance supplement, and our experience in performing similar audits to develop a work plan and estimate the time requirements for on-site fieldwork and report preparation. This work plan is reported in another section of this proposal. The time estimate appears in the separate cost proposal.
3. Work Plan

Planning

Proper planning and coordination with each District is a key element to obtaining efficiency in performing the agreed-upon procedures and producing a report that is meaningful to those who are responsible for compliance and to the Illinois State Board of Education. It will also be very important to coordinate with each of the six (or less depending on which area is engaged) area contact persons throughout the process. We propose to have a team consisting of dedicated staff that is appropriately supervised by a dedicated project manager and a dedicated partner to oversee the project. We are proposing experienced partners, manager and staff will assist with coordinating the project. *The manager would be the responsible primary party with respect to communication and coordination of the project with the Illinois State Board of Education.*

Our Approach to Each District

- Determine the amount of ARRA funds that have been received by the district based on reported information and plan fieldwork time accordingly.
- Contact the district sufficiently in advance to schedule the on-site visit. Explain the process and determine that appropriate personnel will be available at the time of the visit.
- Request the district to prepare and provide an information sheet, which will be designed to obtain all significant information needed to plan and conduct the on-site visit. The information sheet will request the data, information and workbooks as outlined in the audit program and procedures for general state aid. It will also contain some questions related to a basic understanding of the district to familiarize ourselves before the on-site visit.
- Review the informational sheet and determine what workbooks and items are applicable based on each unique district.
- Conduct the on-site visit to the district’s offices.
- Upon completion of the visit, review the results with the district representatives and obtain comments on findings. Obtain the recipient representatives signature as acknowledgement of receipt of the summary of findings.
- Obtain internal review of the working papers and report draft by the engagement partner and manager. Submit the file and reports to our quality control department.
- Provide a draft of the report to the Illinois State Board of Education within five working days following the on-site visit.
- Issue the final report within three working days following approval by the Illinois State Board of Education.

At all times, we are committed to upholding the state of Illinois’ and the ISBE’s reputation for transparency, integrity and efficiency.
ARRA GSA RFSP

With multiple parties involved, and several on-site visits running simultaneously, coordination of resources and project management will be critical. We believe one of the key activities to accomplish the objectives will be communication. To this end, we fully support the ISBE’s request for biweekly status meetings as well as the quarterly meetings.

Approach to Project Management

BKD, with input from the ISBE, will develop an overall schedule strategy for execution and completion of the agreed-upon procedures for each region and district. BKD’s “On Track” methodology will be a part of that strategy and is comprised of the following phases: kick-off initiation, training, planning and scheduling, testing, cut over and post implementation and closing.

Our project management Standard Operating Procedures (SOP) are based on principles from the Project Management Institute’s Guide to the Project Management Body of Knowledge and are widely accepted by organizations such as Organization for Standardization and American National Standards Institute (ANSI).

BKD believes that project management makes us more efficient and effective at delivering solutions to our clients. While these SOPs apply to projects of all sizes, the amount of project management required depends largely on project size. “On Track” processes include the following components:

- Risk management
- Scope management
- Project planning
- Execution and control
- Quality assurance
- Communications
- Documentation
- Roles and responsibilities
- Closing

This project will include communication and coordination with the local education authorities, as well as ISBE. Clear, regular communication is key to ensure success of this statewide venture. The biweekly project meetings and status reports manage activity and task completion and monitor the project.

Our team is cognizant of the desire for Illinois to be compliant with federal regulations. The BKD team has extensive experience, expertise and knowledge of federal and state programs, specifically with ARRA funding.
ARRA GSA RFSP

BKD’s project management standard operating procedures specific to this engagement is as follows:

- Kick-off initiation stage we set expectations.
- Training is provided by the ISBE, including the two-day orientation/training session at the ISBE Springfield office, as well as our internal team training and preparation.
- Planning and scheduling is essential to the implementation process to develop a roadmap for execution and timing to facilitate the smooth workflow of the procedures.
- Testing stage, we visit the on-site locations and test in the appropriate manner in culmination of the “On Track” methodology including analyzing the results; review results with local personnel and the ISBE and our team of partners to ensure accuracy in reporting.
- Preparing reports and deliverables as well as quality control review. Each report will go through our quality control system; which include an independent partner review.
- Finally, the post audit and closing stage is when communication is finalized and reports are delivered. Any follow-up or post project work would be determined

BKD has a proven track record and nationally serves a number of large projects.

Multiple Region Approach

Communication

BKD will provide regular reports on the program schedule and budget for which we are assigned. We will meet periodically with the ISBE and other involved parties to review compliance with program strategies. Our definition of a successful project is when a project begins and ends on time, on budget and meets management’s expectations.
5. Contractor Qualifications

A. BKD is one of the 10 largest CPA firms in the country, with approximately 2,000 personnel in 32 offices in 12 states. The firm is headquartered in Springfield, Missouri; and led by CEO Neal Spencer. BKD has approximately 180 professionals serving more than 1,500 government and not-for-profit clients. We believe that our firm is uniquely qualified to assist the Illinois State Board of Education (ISBE) in the proposed agreed-upon procedures project related to the American Recovery and Reinvestment Act of 2009 (ARRA) funds flowing into local education authorities.

B. BKD Illinois has more than 35 years experience in providing audit, accounting and consulting services to state and local governments and to entities receiving government funds. Additionally, the extensive experience of BKD on large projects nationwide is an additional resource. As a contractor on this proposed engagement, we will make ISBE’s ARRA project a top priority and will commit talented personnel to provide unmatched client service. BKD is legally qualified to practice public accounting as regulated by the Illinois Public Accounting Act.

BKD’s experience falls heavily in the audit and accounting areas, including evaluations and development of internal control systems. However, BKD did serve as a significant subcontractor on FEMA/MEMA work in the aftermath of Hurricane Katrina. That work included tracing of disbursements of government funds to assure that MEMA handled matters in accordance with agreements.

While this proposed project does not involve the audit of financial statements, audit services are the centerpiece of BKD’s assurance and compliance services. We work hard to maintain high standards of professional practice, including a strong system of quality control that emphasizes independence and objectivity and includes many control features that exceed our profession’s requirements.

Features of Our Quality Control System:

- BKD did not receive any letter of comments from our latest peer review, an accomplishment which speaks to our quality of practice.
- Annually, all professional personnel are required to confirm their independence with respect to the firm’s assurance clients.
- The director of accounting and auditing, a partner independent of any client duties, is responsible for overseeing this process and making any judgments on application of the independence rules.
- We have rigid standards for acceptance of new engagements. New engagements that are unusually large or complex require the approval of the managing partner.
- We require mandatory consultation with specialists on difficult accounting or auditing issues.
ARRA GSA RFSP

- An independent CPA firm regularly reviews our work, and we have always received a "clean" opinion in these reviews. BKD, in fact, was represented on the original AICPA quality review committee that developed the national peer review program in the mid-1970s, and our own quality control program dates from 1974.
- We conduct our own internal peer reviews on a regular basis.
- Our training programs provide 50% more training than required by professional standards.

BKD is a member of the American Institute of Certified Public Accountants (AICPA) Governmental Audit Quality Center. The Center’s member firms have demonstrated a commitment to governmental audit quality and to raising awareness about the importance of such audits. As a member, BKD has designated a partner responsible for overseeing its governmental audit practice, has established firmwide quality control programs, performs annual internal inspection procedures and makes the firm’s peer review report findings publicly available.

To reinforce our commitment to the not-for-profit and government industry, BKD advisors attend conferences annually focused on not-for-profit and government issues and trends. In addition, our advisors receive continuing professional education to stay abreast of regulatory updates and other general accounting issues.

BKD National Not-for-Profit & Government Group consultants participate actively as exhibitors, speakers and sponsors in state, regional and national trade associations serving not-for-profit and governmental organizations. Our participation in such organizations as the Government Finance Officers Association and Association of Government Accountants helps keep us abreast of issues and trends affecting governmental organizations like yours.

Commitment to client service — All of the technical expertise in the world is worth very little if there is not a team of dedicated and committed professionals to provide a conduit for you to access this expertise. BKD is committed to developing an engagement team that provides you access to decision-makers in our organization who will have a vested interest in assuring your satisfaction with the level of service we strive to provide. We refer to this as The BKD Experience — Unmatched Client Service. While all firms strive for excellence in client service, BKD has taken this one-step further. We have made a conscious effort to engrain this into the very core of every professional. It starts with "tone at the top" and filters throughout our organization. This commitment includes a book The BKD Experience — Unmatched Client Service authored by BKD partners. It has become the basis for firmwide training programs designed to maintain the highest possible standards for all of our professionals in the area of client service. This commitment is real, it has life within the firm, and we believe you will notice a difference, The BKD Experience, in the service you receive from our engagement team.

Time requirements — Engagement planning and coordination are two important keys to meeting a project timetable. We are committed to a process that addresses issues quickly, but thoroughly, evaluates the impact of new standards, and establishes a plan to avoid surprises. Planning with a team approach that includes all ISBE leaders should allow for a successful and timely project
ARRA GSA RFSP

completion. To ensure audit fieldwork progresses as planned, we support weekly meetings with key members of the engagement team. The purpose of these meetings is to assess progress, identify any emerging problems and develop a plan of corrective action, and ultimately ensure the timely completion of the project activities.

C. Engagement Team

The BKD leadership team for the ARRA project would include the following executive level personnel, detailed biographies are included in the Appendices.

All of our professional staff obtain and report annually the required CPE requirements to assure professional competence with their state license. (Please see Appendices for biographies.)

- Heather Powell, CPA, Manager (Contact Manager)
- Troy Swinford, CPA, Partner
- Wallace Wetherill, CPA, Partner
- James Brown, CPA, CGFM, Partner
- Beth Pagett, CPA, Manager

D. List of all Contracts Previously Held with the State Board of Education (past 5 years)
E. References

Representative List of BKD State Government Clients:

[Image]
F. Peer Review (See Appendices)

G. Interaction with Identified LEA’s in Exhibit I-A during FY 2009 or FY 2010
ARRA GSA RFSP

experience BKD
CPAs & Advisors

BKD, LLP is the top-tier U.S. CPA and advisory firm that delivers its experience and service with a deep understanding of your business, your needs and what it takes to improve your business performance.

One of the 10 largest CPA and advisory firms in the U.S., with more than $406 million in revenues, BKD's unmatched client service is provided by 200+ CPAs, advisors and dedicated staff in 52 offices located in 12 states. Beyond our knowledgeable solutions, BKD clients experience expertise, insight and attinton to help them achieve their financial goals.

BKD's expertise has benefited thousands of individuals and privately held and publicly traded businesses in the healthcare, manufacturing, distribution, financial services, construction and real estate, not for profit organizations and governmental entities. The firm also invites clients to experience results in:

- Risk Management
- Succession Planning
- Employee Benefit Plans
- State, Local & International Tax

BKD, LLP is the largest U.S. member of BDO, one of the world's largest alliances of independent firms. We offer multinational clients a gateway to the global marketplace with services delivered by alliance firms committed to the highest standards required in international business.

BKD is registered with the Public Company Accounting Oversight Board (PCAOB), which is required to serve as an independent auditor of public companies. BKD audits approximately 900 public and Exchange Commission registrants, including 30 benefit plan auditors. BKD is a member of the American Institute of Certified Public Accountants (AICPA) and its three quality centers: Center for Audit Quality, Employee Benefit Plan Audit Quality Center and Governmental Audit Quality Center.
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BKD, LLP
BKD Corporate Finance, LLC
BKD Foundation
BKD Wealth Advisors, LLC

About BKD
BKD, LLP, one of the 10 largest CPA firms in the U.S., provides expertise in consulting, tax, assurance and accounting outsourcing solutions to businesses, governmental entities, not-for-profit organizations and individuals. Our clients expect us to provide practical advice and results with integrity.

BKD Corporate Finance, LLC provides merger and acquisition, sales management buyout, ESOP re-quantification, financing and IPO advisory services. Member FINRA and SIPC.

BKD Foundation is our 501(c)(3) not-for-profit organization that enhances BKD’s communities with financial support and our commitment to the communities.

BKD Wealth Advisors, LLC is an investment advisory firm registered with the Securities and Exchange Commission and provides tax, wealth planning, investment management and estate planning solutions.

Clients - Closely held businesses, publicly traded companies, governmental entities, not-for-profit organizations and individuals.

Total Personnel - Approximately 2,000
Partners & Principals - Approximately 250
Net Revenues - $405 million
Fiscal Year End - May 31
Founded - 1923
Headquarters - Springfield, Missouri
Locations - 32 offices serving clients in all 50 states and internationally

Client Service - The BKD Experience is a promise of unmatched client service brought to you by 2,000+ CPAs, advisors and dedicated staff who take your business personally.

International Solutions - The firm is the largest U.S. member of PwC’s elite, a global alliance of independent firms. We offer multinational clients a gateway to the global marketplace with services delivered by alliance firms committed to the highest standards required in international business.

Professional Affiliations - BKD is a member of the American Institute of Certified Public Accountants (AICPA) and its three quality centers: Center for Audit Quality, Employee Benefit Plan Audit Quality Center and Governmental Audit Quality Center.

BKD is registered with the Public Company Accounting Oversight Board (PCAOB), which is required to serve as an independent auditor of public companies. BKD audits approximately 90 Securities and Exchange Commission registrants, including 30 benefit plan audits.

Mission Statement - The mission of BKD is to always strive for excellence in providing services to clients, create rewarding career opportunities and maintain sound professional, business and financial standards.

2000+

The BKD Experience is a promise of unmatched client service brought to you by 2,000+ CPAs, advisors and dedicated staff who take your business personally.
ARRA GSA RFSP

BKD has an unparalleled depth of government and not-for-profit industry experience. The engagement team serving ISBE will be a complement of BKD service professionals that not only has strong technical and industry experience, it will have that intangible chemistry that makes the group function and communicate effectively both internally and with your team. We anticipate your engagement team to include the individuals shown below. Each team member is committed to delivering the BKD Experience of unmatched client service.

Heather M. Powell, CPA
Manager
Engagement Contact Manager

Troy D. Swinford, CPA
Partner
ARRA GSA RFSP

Elizabeth A. Pagett, CPA
Manager
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<th>Rank</th>
<th>Firm Name</th>
<th>Location</th>
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**ARRA GSA RFSP**

**PUBLIC ACCOUNTING REPORT**

The Independent Newsletter of the Accounting Profession since 1978

Public Accounting Report's 2008 Top 100
What do you value most in your CPA or advisor?
Experience what our unmatched client service can mean for you.

**INTEGRITY FIRST**
- Be honest and truthful
- Protect privacy and respect rights

*Experience how our integrity, our commitment to protect your privacy and confidentiality, and our unwavering ethical standards can benefit your business. For more than 80 years BKD has been doing what's right and advising our clients accordingly.*

**TRUE EXPERTISE**
- Commit to lifelong learning
- Learn to listen so you can listen to learn

*Experience how our business savvy, credentials and experience can help you meet your goals. You can count on BKD to provide a broad base of skills and knowledge to evaluate, advise and deliver solutions for you.*

**PROFESSIONAL Demeanor**
- Practice exemplary work habits
- Choose your attitude

*Experience how our attitude, character, communication skills, appearance and behaviors can inspire confidence and respect.*

**RESPONSIVE RELIABILITY**
- Under promise, over deliver
- There's no penalty for early delivery

*Experience how our consistent delivery of results, ability to handle difficult tasks and our knowledge of your business affairs can help your business management.*

**PRINCIPLED INNOVATION**
- Connect client needs with resources
- Initiate solutions

*Experience how our creativity, valuable advice and sound practices can bring ideas and alternative approaches to your business. You can count on BKD to be proactive and resourceful, even when it appears there are no immediate solutions.*
System Review Report

To the Partners of BKD, LLP
and the Center for Public Company
Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of BKD, LLP (the firm) applicable to non-SEC issuers in effect for the year ended May 31, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the Government Auditing Standards; audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of BKD, LLP in effect for the year May 31, 2008 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. BKD, LLP has received a peer review rating of pass.

Clifton Gunderson LLP

July 31, 2008