



May 20, 2011

Audit Committee  
Multnomah Education Service District  
Portland, Oregon

Attention: Audit Committee Chair

This letter is to explain our understanding of the arrangements for the services we are to perform for the Multnomah Education Service District (MESD) for the year ending June 30, 2011. We ask that you either confirm or amend this understanding.

#### Audit Services

We will perform an audit of the MESD's governmental activities and each major fund, as of and for the year ended June 30, 2011, which collectively comprise basic financial statements. We understand that the financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express opinions on those statements.

We are responsible for forming and expressing opinions about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We will also perform the audit of the MESD as of June 30, 2011, so as to satisfy the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Single Audit Act, OMB Circular A-133, and OMB's Compliance Supplement; and *Minimum Standards for Audits of Oregon Municipal Corporations*. Those standards, circular, and supplement require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement, may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

An audit of financial statements includes obtaining an understanding of the MESD and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management and the Audit Committee any significant deficiencies or material weaknesses that we become aware of during the course of the audit.

Talbot, Korvola & Warwick, LLP  
Certified Public Accountants & Consultants

4800 SW Macadam Ave, Suite 400  
Portland, Oregon 97239-3973

P 503.274.2849  
F 503.274.2853

[www.tkw.com](http://www.tkw.com)

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**Audit Services (Continued)**

We will also communicate to the Audit Committee (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any illegal acts, violations of provisions of contracts or grant agreements, and abuse that come to our attention (unless they are clearly inconsequential), (c) should any arise, any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the MESD's accounting policies and financial statements.

In addition to our report on the MESD's financial statements, we will also issue the following reports or types of reports:

- A report on the fairness of the presentation of the MESD's Schedule of Expenditures of Federal Awards for the year ending June 30, 2011.
- Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.
- Reports on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a direct and material effect on each major program.
- A Schedule of Findings and Questioned Costs.
- A Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations, U.S. Department of Commerce Form SF-SAC, for the year ending June 30, 2011.
- Audit Comments and Disclosures as required by the *Minimum Standards for Audits of Oregon Municipal Corporations*.
- A report on the Summary of Revenues and Expenditures as required by the *Minimum Standards for Audits of Oregon Municipal Corporations*. The responsibility we are to take for the material included in this report will be the same as that we assume for other supplementary information accompanying the financial statements.

The funds that you have told us are maintained by the MESD and that are to be included as part of our audit are listed here.

- Operating
- Resolution Services
- Contracted Services
- Debt Service
- Facilities Acquisition & Improvements
- Agency

The federal financial assistance programs that you have told us that the MESD participates in and that are to be included as part of the single audit are consistent with those reported in the prior year.

### **Audit Services (Continued)**

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circular identified above. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed by contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards and circular identified above.

### **MESD's Responsibilities**

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the MESD complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the MESD involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the MESD received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the Schedule of Expenditures of Federal Awards and is also responsible for:

- a) Making us aware of significant vendor relationships where the vendor is responsible for program compliance;
- b) Following up and taking corrective action on audit findings, including the preparation of a Summary Schedule of Prior Audit Findings, and a corrective action plan;
- c) Report distribution including submitting the reporting package;
- d) Identifying all federal awards received and expected and the federal programs under which they were received. Federal program and award identification includes, as applicable, the CFDA title and number, the award number and year, the name of the federal agency, and the name of the pass-through entity, as well as the identification of the program clusters;

**MESD's Responsibilities (Continued)**

- e) Complying and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that the MESD is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs;
- f) Complying with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs; and
- g) Ensuring that the audits required by Circular A-133 are properly performed and submitted when due.

Management is required to submit to the Federal Audit Clearing House a reporting package that comprises the Financial Statements and Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings, auditor's reports, and corrective action plan. This reporting package is to be submitted with the Data Collection Form.

The Audit Committee is responsible for informing us of its views about the risks of fraud within the MESD, and its knowledge of any fraud or suspected fraud affecting the MESD.

The MESD agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the MESD agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering. We may conclude that we are not otherwise associated with the proposed offering and that our association with the proposed offering is not necessary, providing the MESD agrees to clearly indicate that we are not associated with the contents of the official statement or memorandum. The MESD agrees that the following disclosure will be prominently displayed in the official statement or memorandum:

*Talbot, Korvola & Warwick, LLP, our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Talbot, Korvola & Warwick, LLP, also has not performed any procedures relating to this official statement or memorandum.*

Our association with an official statement or memorandum is a matter for which separate arrangements will be necessary. The MESD agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the MESD seeks such consent, we will be under no obligation to grant such consent or approval.

Because Talbot, Korvola & Warwick, LLP (the Firm) will rely on the MESD and its management and Audit Committee to discharge the forgoing responsibilities, the MESD holds harmless and releases the Firm, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the MESD's management that has caused, in any respect, the Firm's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

### **MESD's Records and Assistance**

If circumstances arise relating to the condition of your records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the MESD's books and records. The MESD will determine that all such data, if necessary, will be so reflected. Accordingly, the MESD will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by MESD personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with your staff. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

### **Fees, Costs, and Access to Audit Documentation**

Our fees for the audit and accounting services described above are based upon the time required by the individuals assigned to the engagement, plus direct expenses. Our fee for the services described in this letter are not expected to exceed \$51,480. This fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or the incomplete or untimely receipt by us of the information on the client participation list. All other provisions of this letter will survive any fee adjustment. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the Firm and is subsequently employed by or associated with a client. Accordingly, the MESD agrees it will compensate the Firm for any additional costs incurred as a result of the MESD's employment of a partner or professional employee of the Firm.

In the event we are requested or authorized by the MESD or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the MESD, the MESD will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

**Fees, Costs, and Access to Audit Documentation (Continued)**

You may choose to publish your financial statements electronically on the MESD's Internet website. You agree we are not required under professional standards or this Agreement to read or monitor the information contained on your website or to consider the consistency of other information in the electronic site with the original document. However, we reserve the right to review the information as presented on your Internet website, and to withdraw our report should we disagree with the form, context or manner of presentation of the financial statements upon which we reported. You agree upon written notification of our objections, to immediately remove our report and any reference thereto or to Talbot, Korvola & Warwick, LLP from your Internet website.

In the interest of facilitating our services to you, we may communicate by electronic mail over the Internet. Such communications may include information that is confidential to the MESD. Our Firm employs measures in the use of computer technology designed to provide reasonable assurance that data security is maintained. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent. Unless you issue specific instructions to do otherwise, we will assume that you consent to our use of electronic communication during this engagement as we deem appropriate.

The documentation for this engagement is the property of the Firm. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request; and that we shall maintain the audit documentation for a period of at least five years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of the Firm's audit personnel and at a location designated by our Firm.

You have informed us that you intend to prepare a comprehensive annual financial report (CAFR) and submit it for evaluation by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. Our participation in that process is to consist of reviewing the financial statements for conformance with Program standards, and providing technical assistance relating to reporting issues.

You may request that we assist you with the preparation of the financial statements and provide certain other related services. An additional fee of \$4,300 will be assessed if we are requested to assist in drafting the financial statements.

The two overarching principles of the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the works, and therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, if we are requested to draft the financial statements, the MESD agrees to the following:

- The MESD will identify an individual within the organization that will be accountable and responsible for overseeing the drafting of the financial statements.

**Fees, Costs, and Access to Audit Documentation (Continued)**

- The MESD will establish and monitor the performance of the drafting of the financial statements to ensure that they meet management's objectives.
- The MESD will make any decisions that involve management functions related to the drafting of the financial statements and accepts full responsibility for such decisions.
- The MESD will evaluate the adequacy of services performed and any findings that result.

**Claim Resolution**

The MESD and the Firm agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by the Firm or the date of this arrangement letter if no report has been issued. The MESD waives any claim for punitive damages. The Firm's liability for all claims, damages, and costs of the MESD arising from this engagement is limited to the amount of fees paid by the MESD to the Firm for the services rendered under this arrangement letter.

This letter constitutes the complete and exclusive statement of agreement between Talbot, Korvola & Warwick, LLP and the Multnomah Education Service District, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed for your information.

If this letter defines the arrangements as the MESD understands them, please sign and date the enclosed copy and return it to us.

**TALBOT, KORVOLA & WARWICK, LLP**  
Certified Public Accountants

By   
Timothy R. Gillette, Partner

Confirmed on behalf of the addressee:  
**Multnomah Education Service District**

By \_\_\_\_\_

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date



**READ & BOSE, PC**

CERTIFIED PUBLIC  
ACCOUNTANTS

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## System Review Report

To Partners of  
Talbot, Korvola & Warwick, LLP  
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Talbot, Korvola & Warwick, LLP (the firm) in effect for the year ended March 31, 2009. 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](http://www.aicpa.org/prsummary).

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

In our opinion, the system of quality control for the accounting and auditing practice of Talbot, Korvola & Warwick, LLP in effect for the year ended March 31, 2009, 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*. Talbot, Korvola & Warwick, LLP has received a peer review rating of *pass*.

*Read & Bose, PC*

July 10, 2009