

January 20, 2006

NOTICE TO RESIDENTS OF THE MILWAUKEE AREA
TECHNICAL COLLEGE DISTRICT, WISCONSIN

A regular open meeting of the **ADVISORY AUDIT COMMITTEE** of the Milwaukee Area Technical College District Board, Wisconsin, will be held in the **BOARD ROOM (ROOM M210)** of the **MILWAUKEE AREA TECHNICAL COLLEGE**, 700 West State Street, Milwaukee, Wisconsin on **THURSDAY, JANUARY 26, 2006**, beginning at **9:00am*** The agenda** for said meeting is presented as follows:

The agenda for said meeting is presented as follows:

A. Roll Call

B. Compliance with the Open Meetings Law

C. Approval of Minutes – November 3, 2005 - Attachment 1

D. Comments from the Public

E. Action Items

None

F. Discussion Items

1. Budgeting and Business Practices
 - Update on Anonymous Tipster Program
2. Internal Auditing
 - Update on RFP for Internal Audit Assistance
3. Financial Reporting
 - Final Management Letter / Recommendations with Responses – Attachment
4. Meeting Schedule

G. Information Items

None

H. Miscellaneous Items

1. Communications and Petitions
2. Information Items

I. Old Business/New Business

1. Date of Next Meeting: T B D

* **Other members of the MATC Board may be present, although they will not be participating as members of this committee. This meeting may be conducted in part by telephone. Telephone speakers will be available to allow the public to hear those parts of the proceedings that are open to the public.**

** **Action may be taken on any agenda item, whether designated as an action item or not. Agenda items may be moved into Closed Session for discussion when it becomes apparent that a Closed Session is appropriate under Section 19.85 of the Wisconsin Statutes. The Committee may return into Open Session to take action on any item discussed in Closed Session.**

*Reasonable accommodations are available through the ADA Office for individuals who need assistance.
Please call 414-297-6221 to schedule services at least 48 hours prior to the meeting.*

**MILWAUKEE AREA TECHNICAL COLLEGE
Advisory Audit Committee (AAC) Minutes**

MATC ADMINISTRATION PRESENT: Michael Sargent
Christy Brown

**SPECIAL ADVISOR
TO THE AAC:** Craig Piotrowski, ASL Consulting

GUESTS: Steven Pawlow
John Knepel, Steven Henke, Lisa Salo, Jacob Lenell – Virchow Krause

In the absence of, and upon the recommendation of Mr. Bobbie Webber, Mr. Bob Yahr agreed to chair today's meeting, and to serve with Ms. Charlotte Sain as vice-chairs of the Advisory Audit Committee.

CALL TO ORDER

The regular quarterly meeting of the Advisory Audit Committee (the "Committee") of the Milwaukee Area Technical College (MATC) was held in open session on Thursday, November 3, 2005, and called to order by Robert Yahr at 9:06 a.m. in the Board Room, Room M210, at the Milwaukee Campus of Milwaukee Area Technical College.

ROLL CALL

Present: Jeannette Bell, Bonnie Baerwald, Charlotte Sain, Anne Szczygiel, Bobbie Webber, Tom Wieland, Robert Yahr

COMPLIANCE WITH THE OPEN MEETINGS LAW

The Advisory Audit Committee meeting was noticed in compliance with the Wisconsin Open Meetings Law.

APPROVAL OF MINUTES – August 17, 2005

Motion It was moved by Ms. Bell, seconded by Ms. Baerwald, to approve the minutes of the August 17, 2005, Committee meeting as submitted.

Action Motion Approved

COMMENTS FROM THE PUBLIC / MISCELLANEOUS

None

ACTION ITEMS

E-1 Approval of Revised Committee Charter

Attorney Brown and Mr. Craig Piotrowski provided an overview of the proposed revisions to the Advisory Audit Committee Charter. Attorney Brown noted that the Charter will probably be issued as an appendix to Policy A0111-A.

It was suggested that language be added to the charter that addresses length of term (three-years) for committee members, to include a provision that members may serve for consecutive and/or multiple terms, which terms may be staggered after the initial term.

Language will be added to the charter stating that The MATC FPO Committee Chair may select member(s), at least one of whom has financial expertise, to serve as additional officers for the Committee, including but not limited to the position of Vice-Chair, to be numbered sequentially if more than one is selected.

Motion: It was moved by Ms. Bell, seconded by Mr. Wieland, to recommend to the FPO Committee approval of the Revised Advisory Audit Committee Charter.

Action: Motion Approved.

E-2 Vice Chair Recommendation

Mr. Bobbie Webber provided a written recommendation to select both Mr. Bob Yahr and Ms. Charlotte Sain to work with me as vice chairs of our Committee. As stated in item E-1 above, language will be added to the charter stating that The MATC FPO Committee Chair may select member(s), at least one of whom has financial expertise, to serve as additional officers for the Committee, including but not limited to the position of Vice-Chair, to be numbered sequentially if more than one is selected. Duties of the Vice-Chairs will be disseminated on a case-by-case basis.

Motion: It was moved by Ms. Bell, seconded by Mr. Wieland, to approve the selection of Mr. Bob Yahr and Ms. Charlotte Sain to serve the Advisory Audit Committee as Vice Chairs, with duties to be disseminated on a case-by-case basis.

Action: Motion Approved.

E-3 Policy B0107, Advisory Audit Committee

Attorney Brown noted that MATC's current Internal Audit Policy #B0107 is no longer applicable, as MATC no longer has an internal auditor, the Advisory Audit Committee now directing internal audit activity. Therefore, a request to rescind Policy B0107 will be forwarded to the Board for approval.

Motion: It was moved by Ms. Baerwald, seconded by Ms. Szczygiel, to recommend to the FPO Committee approval to Rescind Policy B0107.

Action: Motion Approved.

DISCUSSION ITEMS

F-1 Internal Auditing

Update on RFP for Internal Audit Assistance - Mr. Sargent provided an update on the status of the RFP for internal audit services, noting that the language allows for a non-exclusive agreement. Ms. Charlotte Sain expressed a desire to serve on the evaluation committee for this RFP.

Student Activity Fund Review – Mr. Steven Pawlow of Gladys R. Wilson & Associates and Ms. Theresa Barry, Vice President of Student Services, shared information related to the student activity fund review, events that led to the request of the review, and updated the committee on activity since the reviews conclusion.

F-2 Budgeting & Business Practices

Strategic Planning & Research – Ms. Sain noted that she has met with both Vicki Martin, Vice President, MATC Oak Creek, and Dave Turner, acting Director of Strategic Planning & Research. She reported as receiving valuable information on the Strategic Planning process at MATC.

Anonymous Tipster Program – Mr. Tim Howard of Ethics Point gave a presentation on the types of anonymous reporting services that can be provided,

He addressed committee member questions on FTE-based cost, coverage, language translation issues, etc.

F-3 Other Post Employment Benefits

Mr. Sargent provided an OPEB overview, sharing information recently received from MATC's actuarial firm.

F-4 Administrative Systems

Ms. Bonnie Baerwald provided an update on administrative systems utilized through the Wisconsin Technical College system. She spoke of possible joint procurement opportunities for digital imaging, data warehousing, etc.

F-5 Financial Reporting / External Auditing

Mr. John Knepel and Mr. Steve Henke, both of Virchow Krause shared information with the committee on the audit process, timeline, etc. A copy of the Comprehensive Annual Financial Report (CAFR) was provided, in draft form. The CAFR will go before the MATC Board for approval at its November 22nd meeting.

F-6 Dialogue with External & Internal Auditors Regarding Internal Control Matters

The committee discussed openly with representatives of Virchow Krause, as well as Mr. Pawlow, as to what areas the committee may wish to focus on for review. Both receivables and inventory were noted as two areas of possible issue.

OLD BUSINESS / NEW BUSINESS

Next Meeting: Thursday, January 26, 2006 at 9:00am

ADJOURNMENT

The Committee adjourned at 12:42 p.m.

Respectfully submitted,
Caryn Dohring
Administrative Specialist



**Virchow Krause
& company**

Mr. Michael Sargent, Vice President of Finance
Milwaukee Area Technical College District
700 W. State Street
Milwaukee, WI 53233

We have audited the financial statements of the Milwaukee Area Technical College District for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005.

In planning and performing our audit, we identified several accounting and internal control matters which we believe should be addressed by your management during the 2006 fiscal year. We have also addressed the status of comments and recommendations from our letter related to the 2004 fiscal year. The issues discussed in this report are presented for your consideration and are intending to improve your accounting and reporting systems.

We will be happy to further discuss this report with you and provide any necessary assistance in implementing any changes. If you have any questions or comments, please contact us.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by your personnel during our audit.

This report is intended solely for the use of management and should not be used for any other purpose.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
September 20, 2005

GASB NO. 45: ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare*, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. Governmental Accounting Standards Board (GASB) Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service (i.e. still working); whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the service occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer.
- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded.
- Provide information useful in assessing potential demands on the employer's future cash flows.

GASB No. 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

What does this all mean to your government? It means that you will need to begin measuring the true annual cost and year end liability for OPEB. GASB No. 45 requires that you use an outside actuary to make these measurements if you have 100 or more current or former employees eligible to receive benefits. Once all of the information is available from the actuary, you will begin reporting as an expense the true annual cost of such benefits, for both current and retired employees.

The effective date for you to record this information in your financial statements is for your year beginning July 1, 2007

Since the actuary will be developing an accurate picture of your costs for OPEB, you will most likely find that such information is useful when determining employee wage and benefit packages.

GASB NO. 44: ECONOMIC CONDITION REPORTING: THE STATISTICAL SECTION

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 44 which establishes guidance for the reporting of the statistical section of a government's comprehensive annual financial report (CAFR). Standards that previously addressed the contents of a government's statistical section were in place since 1980 without significant change or modification. The new standards are intended to improve consistency and comparability in reporting, reflect the significant changes that have taken place in government finance, including GASB Statement No. 34 and to provide clear guidance regarding the applicability of the standards for the statistical section among all types of governmental entities.

Statistical section information should now be presented in five categories. Those categories are as follows:

1. Financial trends information
2. Revenue capacity information
3. Debt capacity information
4. Demographic and economic information
5. Operating information

Each category has certain information that is required to be presented. Data for the most recent ten years, unless otherwise specified, should be presented. Governments are encouraged, but not required, to implement the government-wide information required by the statement retroactively to the year they implemented Statement 34.

The requirements of this statement would be effective for the statistical section prepared by the District for its 2006 CAFR.

As you plan for your 2006 CAFR, please be aware that this new reporting standard will require additional time and resources from your staff in preparing the CAFR. We recommend that the District evaluate these new reporting requirements and develop a plan for implementation.

CONTRA-ACCOUNTS RECIEVABLES FOR STUDENT RECEIVABLES

The District maintains a contra accounts receivable account for student receivables determined to be uncollectible. Each year, the District records a write off to the contra accounts receivable account for all accounts older than 4 years old. Then the District also adds back each year 10% of the balances of these accounts because they anticipate being able to collect these. The portion that represents the write off of 90% of the balance is cleared out each year and adjusted to the current year amount, but the 10% continues to be added back each year. The result is the contra account becomes less of a credit balance as each year progresses. We recommend that the District adjusts the balance in the account each year to represent 90% of the uncollectible balances.

CALCULATION FOR UNCOLLECTIBLE SPONSOR RECEIVABLES

The District uses a weighted average method methodology for calculating the allowance for uncollectible sponsor receivables. This methodology yields a less conservative allowance than would be estimated if the student receivables methodology described in the comment above. Since both of these accounts receivables are related to tuition, we recommend that the District implement the same methodology used for student receivables.

CONTRA-ACCOUNTS RECIEVABLES FOR SPONSOR RECEIVABLES

The District maintains a contra accounts receivable account for sponsor receivables determined to be uncollectible. Each year, the district adjusts the contra receivable write off account by increasing the account by the balance of receivables outstanding greater than 4 years at the end of the year. This methodology ignored the prior year write off balances already existing in the account, and thus resulted in a more conservative estimate of net receivables outstanding. We recommend that the District adjust the write-off account ending balance to agree with the total outstanding receivables older than 4 years.

STATUS OF PRIOR YEAR POINTS

INTERNAL AUDIT (per 6/30/04 letter)

The District has not had an internal audit function for several years. However, recently the District has utilized a contracted service to perform selected procedures. We recommend that the District review its policies related to internal audit and consider creating an audit committee of the Board of Directors. An audit committee will enhance the independence of the internal audit function. The audit committee should provide oversight to the internal audit function, have access to internal audit work plans and should receive the reports of the internal auditor. In addition, the audit committee should oversee the independent audit. The audit committee should annually report to the Board of Directors how it discharged its duties and met its responsibilities.

Status (6/30/05)

This point has been addressed.

REVIEW AND APPROVAL OF ADJUSTING JOURNAL ENTRIES (per 6/30/04 letter)

During the audit process, we review many adjusting journal entries. We noted that the District does not have a formal process for documenting the review and approval of adjusting journal entries by an individual other than the employee that proposes or prepares and posts the journal entry. We recommend that the District establish a review process for adjusting journal entries which would include documentation on the Internal Transfer Form before the entry is posted to the general ledger.

Status (6/30/05)

This point has been addressed.

RECEIVABLES (per 6/30/04 letter)

During our testing of sponsorship receivables, we discovered that the sponsorship receivables subsidiary ledger was not being reconciled to the general ledger on a regular basis. We recommend that the sponsorship receivables subsidiary ledger be reconciled to the general ledger on a monthly basis and that any variances identified between the subsidiary ledger and the general ledger be resolved on a timely basis.

The District periodically reconciles revenue from the federal government, however; the receivable account related to federal funds and the related due to students accounts are not reconciled during the year. We recommend that the District implement reconciliation procedures related to these accounts and that these reconciliations be reviewed and approved by the supervisor of the person performing the reconciliation.

Status (6/30/05)

This point has been addressed.

STATUS OF PRIOR YEAR POINTS (continued)

CAPITAL ASSETS (per 6/30/04 letter)

The District's policy related to the threshold for capitalization of assets was changed with the adoption of Governmental Accounting Standards Board Statement No. 35 for the 2001 fiscal year. As a result certain items which were previously considered capital assets are reported as expenses in the financial statements. The District maintains a software system to manage and control its capital assets. Certain assets with a cost less than the capitalization threshold are included within the capital asset software.

This system produces reports which are then used to prepare the journal entries in support of preparation of the annual financial statements. Adjustments to the system reports are necessary to eliminate the assets below the capitalization threshold, and as a result, information in the software does not directly correlate with amounts reported in the financial statements.

We recommend that the District consider removing the items less than the capitalization threshold from the software. This would provide the District an opportunity to streamline the financial reporting process related to capital assets and eliminate duplication of effort related to accounting for these assets. In addition, amounts from the asset management software would directly correlate to the District financial statements.

Should the District decide to account for assets less than the threshold for internal management of capital assets, these assets should be maintained in a separate file.

Status (6/30/05)

This point is still valid.

CASH RECEIPTS (per 6/30/03 letter)

In performing cash receipt cut-off procedures, we noted two cash receipt matters to be discussed.

First, we noted that receipts were not posted in sequential order. The last receipt of fiscal year 2003 was numerically higher than the first receipt issued during fiscal year 2004. We recommend that receipts are recorded and used in sequential order.

Second, after obtaining a listing of receipts provided by the IT department, noted that receipt batches were not being posted in a timely manner. Receipts should be posted nightly, at the end of the teller's shift. However, there is a time lag between receipt of payment and the date the batch is posted. For example, receipt number 588995 was issued on June 23, 2003 but the batch did not post until July 2, 2003. We recommend that MATC puts a policy in place to ensure tellers post and reconcile their batches daily.

STATUS (6/30/05)

This point has been addressed.

STATUS OF PRIOR YEAR POINTS (continued)

CONTRACT RECEIVABLES (per 6/30/03 letter)

During our testing of contract receivables, we noted that forty-five percent of the balance was passed ninety days old. We found through inquiry that no timely follow up has been completed on these balances. We recommend that the contract receivables are followed up on a timely basis and an allowance be set up for old, uncollectible accounts.

STATUS (6/30/05)

This point is still valid.

STUDENT RECEIVABLES (per 6/30/03 letter)

During our testing of student receivables, we discovered that the student receivables were not being reconciled on a regular basis. We recommend that the student receivables are reconciled on a monthly basis and any variances between the subsidiary ledger and the general ledger are resolved on a timely basis.

STATUS (6/30/05)

This point has been addressed.

OUTSTANDING CHECKS (Per 6/30/01 Letter)

The District has approximately \$150,000 of outstanding checks that are more than a year old. We recommend that the District investigate these checks and establish a policy and related procedures for periodically reviewing and resolving these outstanding checks.

MANAGEMENT'S RESPONSE

The management was aware of these outstanding checks and has been working with its enterprise resource planning (ERP) system provider, Datatel, to provide a mechanism for write-off of "stale" outstanding checks. Formal procedures will be implemented following receipt of the write-off mechanism.

STATUS (6/30/05)

This point is still valid.



M E M O R A N D U M

TO: Bobbie Webber, Chairperson, MATC Board FPO Committee
and MATC Board Advisory Audit Committee

FROM: Michael Sargent, VP of Finance

DATE: December 28, 2005

SUBJECT: Virchow Krause & Company Management Letter dated 9/20/05

The Milwaukee Area Technical College Finance Staff has reviewed the subject management letter and has prepared the following comments to update the status of the finding.

1. GASB No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions

In addition to pensions, many state and local governmental employers provide other post employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post employment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan. Governmental Accounting Standards Board (GASB) Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service (i.e. still working); whereas other benefits, including post employment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the service occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid.

As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer.
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether, and to what extent those benefits have been funded.
- Provide information useful in assessing potential demands on the employer's future cash flows.

GASB No. 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB costs (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

What does this all mean to your government? It means that you will need to begin measuring the true annual cost and year-end liability for OPEB. GASB No. 45 requires that you use an outside actuary to make these measurements if you have 100 or more current or former employees eligible to receive benefits. Once all of the information is available from the actuary, you will begin reporting as an expense the true annual cost of such benefits, for both current and retired employees.

The effective date for you to record this information on your financial statements is for your year beginning July 1, 2007.

Since the actuary will be developing an accurate picture of your costs for OPEB, you will most likely find that such information is useful when determining employee wage and benefit packages.

MATC response 12/1/05

The actuary report has been received and discussions are being conducted among the members of the MATC Board, Administration, Staff and Faculty regarding the impact of this accounting change and the impact adoption will have on MATC. MATC is preparing for an orderly adoption for the Fiscal Year beginning July 1, 2007.

2. GASB No 44 Economic Condition Reporting: The Statistical Section

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 44 which establishes guidance for the reporting of the statistical section of a government's comprehensive annual financial report (CAFR). Standards that previously addressed the contents of a government's statistical section were in place since 1980 without significant change or modification. The new standards are intended to improve consistency and comparability in reporting, reflect the significant changes that have taken place in government finance, including GASB Statement No. 34 and to provide clear guidance regarding the applicability of the standards for the statistical section among all types of governmental entities.

Statistical section information should now be presented in five categories. Those categories are as follows:

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Each category has certain information that is required to be presented. Data for the most recent ten years, unless otherwise specified, should be presented. Governments are encouraged, but not required, to implement the government-wide information required by the statement retroactively to the year they implemented Statement 34.

The requirements of this statement would be effective for the statistical section prepared by the District for its 2006 CAFR.

As you plan for your 2006 CAFR, please be aware that this new reporting standard will require additional time and resources from your staff in preparing the CAFR. We recommend that the District evaluate these new reporting requirements and develop a plan for implementation.

MATC response 12/1/05

MATC Finance staff have begun developing the historical data that will need to be presented in the FY 2006 CAFR as required by GASB NO. 44.

3. Contra-Accounts Receivable for Student Receivables

The District maintains a contra accounts receivable account for student receivables determined to be uncollectible. Each year, the District records a write off to the contra accounts receivable account for all accounts older than 4 years old. Then the District also adds back each year 10% of the balances of these accounts because they anticipate being able to collect these. The portion that represents the write off of 90% of the balance is cleared out each year and adjusted to the current year amount, but the 10% continues to be added back each year. The result is the contra account becomes less of a credit balance as each year progresses. We recommend that the District adjust the balance in the account each year to represent 90% of the uncollectible balances.

MATC response 12/1/05

MATC has implemented a change to the procedure used to establish the Student Account Receivable Contra Account. The new procedure requires a direct calculation of the required contra account balance.

4. Calculation for Uncollectible Sponsor Receivables

The District uses a weighted average method methodology for calculating the allowance for uncollectible sponsor receivables. This methodology yields a less conservative allowance than would be estimated if the student receivables methodology described in the comment above. Since both of these accounts receivables are related to tuition, we recommend that the District implement the same methodology used for student receivables.

MATC response 12/1/05

MATC has implemented the same procedure for both Students Accounts Receivable and Sponsor Receivables.

5. Contra-accounts Receivables for Sponsor Receivables

The District maintains a contra accounts receivable account for sponsor receivables determined to be uncollectible. Each year, the district adjusts the contra receivable write off account by increasing the account by the balance of receivables outstanding greater than 4 years at the end of the year. This methodology ignored the prior year write off balances already existing in the account, and thus resulted in a more conservative estimate of net receivables outstanding. We recommend that the District adjust the write-off account ending balance to agree with the total outstanding receivables older than 4 years.

MATC responses 12/1/05

MATC has adjusted its procedure so that a specific contra account balance will be maintained for each account over 4 years old.

6. Internal Audit (per 6/30/04 letter)

The District has not had an internal audit function for several years. However, recently the District has utilized a contracted service to perform selected procedures. We recommend that the District review its policies related to internal audit and consider creating an audit committee of the Board of Directors. An audit committee will enhance the independence of the internal audit function. The audit committee should provide oversight to the internal audit function, have access to internal audit work plans and should receive the reports of the internal auditor. In addition, the audit committee should oversee the independent audit. The audit committee should annually report to the Board of Directors how it discharged its duties and met its responsibilities.

Status (6/30/05)

This point has been addressed.

7. Review and Approval of Adjusting Journal Entries (per 6/30/04 letter)

During the audit process, we review many adjusting journal entries. We noted that the District does not have a formal process for documenting the review and approval of adjusting journal entries by an individual other than the employee that proposes or prepares and posts the journal entry. We recommend that the District establish a review process for adjusting journal entries which would include documentation on the Internal Transfer Form before the entry is posted to the general ledger.

Status (6/30/05)

This point has been addressed.

8. Receivables (per 6/30/04 letter)

During our testing of sponsorship receivables, we discovered that the sponsorship receivables subsidiary ledger was not being reconciled to the general ledger on a regular basis. We recommend that the sponsorship receivables subsidiary ledger be reconciled to the general ledger on a monthly basis and that any variances identified between the subsidiary ledger and the general ledger be resolved on a timely basis.

The District periodically reconciles revenue from the federal government, however; the receivable account related to federal funds and the related due to students accounts are not reconciled during the year. We recommend that the District implement reconciliation procedures related to these accounts and that these reconciliations be reviewed and approved by the supervisor of the person performing the reconciliation.

Status (6/30/05)

This point has been addressed.

9. Capital Assets (per 6/30/04 letter)

The District's policy related to the threshold for capitalization of assets was changed with the adoption of Governmental Accounting Standards Board Statement No. 35 for the 2001 fiscal year. As a result, certain items which were previously considered capital assets are reported as expenses in the financial statements. The District maintains a software system to manage and control its capital assets. Certain assets with a cost less than the capitalization threshold are included within the capital asset software.

This system produces reports which are then used to prepare the journal entries in support of preparation of the annual financial statements. Adjustments to the system reports are necessary to eliminate the assets below the capitalization threshold, and as a result, information in the software does not directly correlate with amounts reported in the financial statements.

We recommend that the District consider removing the items less than the capitalization threshold from the software. This would provide the District an opportunity to streamline the financial reporting process related to capital assets and eliminate duplication of effort related to accounting for these assets. In addition, amounts from the asset management software would directly correlate to the District financial statements.

Should the District decide to account for assets less than the threshold for internal management of capital assets, these assets should be maintained in a separate file.

Status (6/30/05)

This point is still valid.

MATC response dated 12/1/05

MATC is removing the items of value less than the capitalization value from the fixed asset software.

10. Cash Receipts (per 6/30/03 letter)

In performing cash receipt cut-off procedures, we noted two cash receipt matters to be discussed.

First, we noted that receipts were not posted in sequential order. The last receipt of fiscal year 2003 was numerically higher than the first receipt issued during fiscal year 2004. We recommend that receipts are recorded and used in sequential order.

Second, after obtaining a listing of receipts provided by the IT department, noted that receipt batches were not being posted in a timely manner. Receipts should be posted nightly, at the end of the teller's shift. However, there is a time lag between receipt of payment and the date the batch is posted. For example, receipt number 588995 was issued on June 23, 2003 but the batch did not post until July 2, 2003. We recommend that MATC puts a policy in place to ensure tellers post and reconcile their batches daily.

Status (6/30/05)

This point has been addressed.

11. Contract Receivables (per 6/30/03 letter)

During our testing of contract receivables, we noted that forty-five percent of the balance was passed ninety days old. We found through inquiry that no timely follow up has been completed on these balances. We recommend that the contract receivables are followed up on a timely basis and an allowance be set up for old, uncollectible accounts.

Status (6/30/05)

This point is still valid.

MATC response dated 12/1/05

MATC is implementing change to address timely follow-up to all accounts receivable.

12. Student Receivables (per 6/30/03 letter)

During our testing of student receivables, we discovered that the student receivables were not being reconciled on a regular basis. We recommend that the student receivables are reconciled on a monthly basis and any variances between the subsidiary ledger and the general ledger are resolved on a timely basis.

Status (6/30/05)

This point has been addressed.

13. Outstanding Checks (per 6/30/01 letter)

The District has approximately \$150,000 of outstanding checks that are more than a year old. We recommend that the District investigate these checks and establish a policy and related procedures for periodically reviewing and resolving these outstanding checks.

MANAGEMENT'S RESPONSE (per 2004 response)

The management was aware of these outstanding checks and has been working with its enterprise resource planning (ERP) system provider, Datatel, to provide a mechanism for write off of "stale" outstanding checks. Formal procedures will be implemented following receipt of the write off mechanism.

Status (6/30/05)

This point is still valid.

MATC response dated 12/1/05

MATC has begun the write off of the dated checks.