



BUSINESS SERVICES DEPARTMENT

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Erik J. Kass, Assistant Superintendent for Business Services

Daniel A. Nerad, Superintendent of Schools

To: Board of Education
From: Daniel Nerad, Superintendent
Date: November 5, 2009
Subject: 2008-09 External Financial Audit Presentation

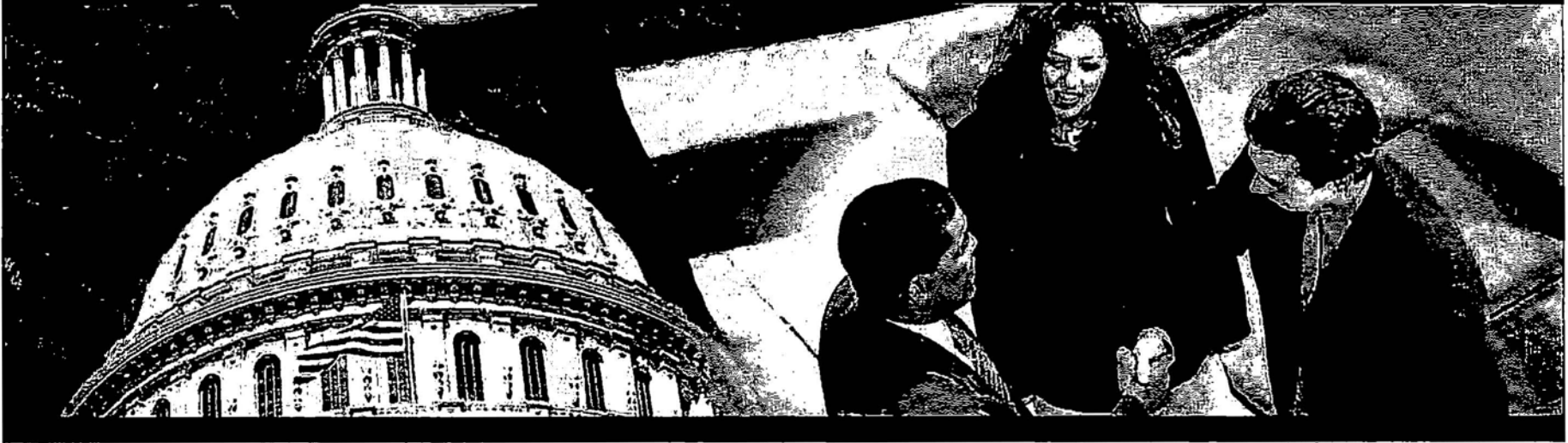
**APPENDIX LLL-5-1
November 9, 2009**

As required by state statute, the Madison Metropolitan School District hires an independent audit firm to perform an audit of our annual financial statements and review our compliance with federal program requirements. Renee Messing, partner in charge of the audit, will speak to the Board of Education on November 9, 2009 and answer any questions at that time.

Enclosed are the documents prepared by Clifton Gunderson LLP for your information:

1. Copy of the presentation to be given by Renee Messing, partner in charge at Clifton Gunderson LLP
2. Audit Opinion
3. Management Letter
4. Financial Statements for June 30, 2009

COUNT ON INSIGHTSM



Madison Metropolitan School District

2009 AUDIT RESULTS



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants



Financial Report

- Audit opinion letter
- Management discussion and analysis
- Financial statements
- Budgetary and OPEB information
- Other fund information



Fund Statements

	<u>General</u>	<u>Special Education</u>	<u>Nonmajor Funds</u>	<u>Governmental Total</u>
Revenues and transfers in	\$ 294,790,487	\$ 67,535,481	\$ 45,707,831	\$ 408,033,799
Expenditures and transfers out	<u>284,374,475</u>	<u>67,535,481</u>	<u>49,145,827</u>	<u>401,055,783</u>
Revenues over (under) expenditures	10,416,012	-	(3,437,996)	6,978,016
Fund balance, beginning of year	<u>24,922,799</u>	<u>-</u>	<u>10,411,939</u>	<u>35,334,738</u>
Fund balance, end of year	<u>\$ 35,338,811</u>	<u>\$ -</u>	<u>\$ 6,973,943</u>	<u>\$ 42,312,754</u>
Reserved	\$ 626,279	\$ -	\$ 2,597,296	\$ 3,223,575
Designated	<u>34,712,532</u>	<u>-</u>	<u>4,376,647</u>	<u>39,089,179</u>
Total	<u>\$ 35,338,811</u>	<u>\$ -</u>	<u>\$ 6,973,943</u>	<u>\$ 42,312,754</u>



Government-wide Statements

		Change in Fund balance - governmental funds	\$ 6,978,016
		Capital assets transactions	3,379,081
		Long-term debt and capital leases	8,244,076
		Retirement, OPEB and vested employee benefits	(3,271,034)
		Change in net assets	\$ 15,330,139
	<u>Fund Totals</u>		
Revenues and transfers in	\$ 408,033,799		
Expenditures and transfers out	<u>401,055,783</u>		
Change in fund balances	6,978,016		
Fund balance, beginning of year	<u>35,334,738</u>	Fund balance - governmental funds	42,312,754
Fund balance, end of year	\$ 42,312,754	Capital assets	150,082,561
		Long-term debt and capital leases	(49,756,215)
		Retirement, OPEB and vested employee benefits	<u>(109,388,442)</u>
		Net assets - governmental activities	\$ 33,250,658



Audit Communication Letter

- Auditor's responsibility under generally accepted audit standards
- Qualitative aspects of accounting policies and estimates
- No Audit adjustments or passed adjustments
- Management representations
- Other matters



Management Letter

- Comments and recommendations related to:
 - Banking resolution
 - Documentation of reviews and approvals, including grant budgets and reimbursement requests
 - School secretaries – segregation of duties
 - Information technology



Members of the Board of Education and Management
Madison Metropolitan School District
Madison, Wisconsin

We have completed our audit of the Madison Metropolitan School District financial statements as of and for the year ended June 30, 2009, and have issued our reported dated November 3, 2009. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

Banking Resolution

During the audit we noted a former employee was listed on the Banking Resolution as an authorized individual to deposit, withdraw and be a signor of bank accounts. We recommend a new resolution be prepared including only current authorized employees.

Documentation of Reviews and Approvals

During the audit we noted that the review and approval of reconciliation of subsidiary ledgers to the general ledger, accounts receivable invoices, capital asset records, investment reconciliations, accrued payroll, and the financial statements and footnotes is not always documented.

Discussions with management indicated reviews are being completed but occasionally the review and approval is not documented. We recommend procedures be implemented to document the review and approval by initialing and dating the various reconciliations, supporting schedules and financial statements when the review is completed.

Review and Approval of Grant Budgets and Reimbursement Requests

During the audit we noted the Grants Accountant e-mails the program budget and reimbursement request to the Select Government Programs Coordinator for review and approval, but the Grants Accountant does not receive notification from the Select Government Programs Coordinator that the forms have been reviewed and approved.

We recommend the Select Government Programs Coordinator send a reply e-mail to the Grants Accountant indicating review and approval of the forms and the Grants Accountant maintain documentation of the review and approval.

Duties of School Secretaries

During the audit we noted there is lack of segregation of duties involving the school secretaries and the handling and recording of school activity fund receipts. Discussions with management indicated because of the lack of personnel at each school, it is not possible to segregate these duties. Reports are provided to activity fund advisors monthly to provide oversight of the school activity cash receipts. We recommend the District remind the activity fund advisors about the importance of oversight of the activity funds and to document the review and approval of activity fund reports.

Information Technology

The following comments and recommendations were noted during our review of the information technology system:

User Account Review

Currently, there is not a review process over user rights on the network itself. A more formal process (documented and with input of key department heads) of reviewing user access should be performed to prevent rights from being unintentionally given to users.

Also the access list to sensitive directories on the network should be provided to department heads and key individuals for review of who has access to what on the network. These lists can be generated with free programs like Dumpsec from Somarsoft.

These procedures should be performed at least annually, with documentation available of the process.

The login list for network access was found to still contain some users who were on the termination list. Five former employees of the first 45 checked were still found to have access credentials for the Lawson software, and three of those still had active credentials on the Active Directory network.

Password Security Parameters

Current requirements on network access passwords are insufficient, as users are never required to change passwords, and password requirements do not require sufficiently long or complex passwords.

We recommend password change intervals of 90 days or less, password length requirements of at least 8 characters, and the required inclusion of complex elements in the password. We also recommend that at least 4 generations of passwords in a 90-day forced interval setup are remembered to prevent a user from repeating a password within a calendar year.

Performance of Security Audits

The scheduled IT assessment for spring, 2009 had not been performed as of August, 2009. It was also noted during our examination in 2008 that the same company that acts as a consultant in setting up the organization's IT infrastructure and information security controls is also engaged at times to perform security auditing of the information systems. This can be seen as an independence concern if the audit reports were ever needed to provide evidence of compliance with set guidelines. A company not involved with the infrastructure setup should be considered when performing these types of audits.

Data Center Fire Protection

It was noted during physical observations that no fire suppression system or fire detection system exists in the data center. Building management noted that these items were planned for phase 2 of the datacenter construction. A handheld extinguisher was present with current inspection records.

Computer Usage Policy Coverage and Distribution

The current Computer Use Agreement covers only Internet use and use of the email system, and does not cover general topics like password sharing restrictions and the proper use of general network resources. An annual redistribution of the policy, with required signature by all employee-users, would be a good reminder tool and education tool, while giving management recourse for users that use the IT systems improperly. This would help keep staff educated on company policies, and help protect the District by having proof of employee acceptance of policy and a trail of attempting to keep employees educated. This recommendation is not meant for the student-users of the system, who can be sufficiently covered by an online agreement due to the volatility of this population and their general use of its resources.

Electronic Data Retention Policies

In December of 2006, amendments to the Federal Rules of Civil Procedure (FRCP) changed how electronic information should be handled by organizations involved in Federal lawsuits. A number of individual states are considering adopting similar rule changes. In essence, those rules now treat electronic information the same as printed documents. That means that in a litigation discovery, business documents include electronically created and stored information are discoverable. Every item created on your systems, including e-mail and instant messages, is a business document in the eyes of the federal court system. Other items that comprise Electronically Stored Information (ESI) includes: e-mail messages & attachments, e-documents, spreadsheets, presentations, databases, digital photos, and other computer files.

A provision in these amendments limits discovery of ESI that is not reasonably accessible, and prevents sanctions for failing to provide ESI that was lost as a result of routine-good faith operations. These provisions apply based on a formal documented Electronic Data Retention Policy.

Data retention policies should focus on the amount of time that data is kept, and should encompass all ESI. Data should be categorized into different levels of sensitivity, with respective levels of protection defined. The policies should lay out automated and manual methods that information is culled, and time intervals that these processes should take place. They also need to consider both online storage areas (network drives, local hard disks, etc.), and offline storage media (backup tapes, optical discs, etc.) to ensure one method does not conflict with the company policy.

A common example is an e-mail retention policy that claims all e-mail is deleted after two years. If the tape backup system backs up the e-mail messages, and those tapes are kept longer than two years, the tape backup policies conflict with the data retention policies. Such a situation could have legal implications in any kind of discovery order or similar situation.

A separate component of the Electronic Data Retention Policy should be a Litigation Hold Policy. Once an organization can anticipate that litigation against it is reasonably expected, the normal destruction of affected data integrated in the retention policy must stop. Different steps to protect and collect ESI that could be involved in an E-Discovery order should be laid out in the Litigation Hold Policy.

In creating a data retention policy, four key areas need to be considered:

- The affects on business operations

- Compliance requirements that affect the company
- Legal protection and litigation concerns
- IT performance issues

Consensus between these areas is necessary before enacting a retention policy, and training the user group on implementation of the policy is critical. From a legal perspective, it would be worse to have a policy that is not followed than to not have a policy at all.

Clifton Henderson LLP

Middleton, Wisconsin
November 3, 2009

November 3, 2009

Board of Education
Madison Metropolitan School District
Madison, Wisconsin

This letter is to provide you with information about significant matters related to our audit of the financial statements of Madison Metropolitan School District for the year ended June 30, 2009. It is intended solely for the Board of Education and should not be used by anyone other than this specified party.

We have provided a separate letter, dated November 3, 2009, concerning the internal control conditions that we noted during our audit.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management each year prior to retention as the District's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Qualitative Aspects of Accounting Practices.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Madison Metropolitan School District are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. As a result of implementing GASB Statement No. 45, the District records an expense and related liability for the difference between the other post employment expense and the amount paid on behalf of retirees for health benefits. This additional liability, termed net OPEB obligation, is an estimate that is determined through the use of an actuarial study performed by an outside organization. The District records an expense and related liability for employee accrued sick leave that upon retirement may be used to continue coverage in the District's group health insurance program. This liability is an estimate based on each employee's accrued sick days, current pay rate and likelihood the employee will retire from the District.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the District's financial statements or our report on those financial statements.

Please contact us if you have any questions regarding the matters included in this letter.

Sincerely,

CLIFTON GUNDERSON LLP

Clifton Gunderson LLP

November 3, 2009

Clifton Gunderson LLP
8215 Greenway Blvd., Suite 600
Middleton, WI 53562

We are providing this letter in connection with your audit of the basic financial statements of Madison Metropolitan School District as of June 30, 2009, and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly the financial position of the governmental activities, each major fund, and the aggregate remaining fund information and the respective changes in financial position of Madison Metropolitan School District in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations of Madison Metropolitan School District in conformity with accounting principles generally accepted in the United States of America. Although Clifton Gunderson may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representations of our management.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of November 3, 2009 the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. We have followed applicable laws and regulations in adopting, approving and amending budgets.
5. With respect to the financial statements we acknowledge the following:
 - a. The financial statements properly classify all funds and activities.
 - b. The funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 - c. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - e. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - f. Interfund, internal, and intra-activity and balances have been appropriately classified and reported.
 - g. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - h. The management's discussion and analysis, budgetary schedules, and pension information, which is required supplementary information (RSI), is measured and presented within prescribed guidelines.
6. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
7. We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.
8. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
9. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.

- c. Others where the fraud could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balances.
12. The following have been properly recorded or disclosed in the financial statements:
 - a. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
13. There are no:
 - a. Violations or possible violations of budget ordinances, or laws or regulations (including those pertaining to adopting or amending budgets, tax or debt limits, and federal, state or local environmental laws and regulations) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - c. Transfers, reservations or designations of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
15. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged.
16. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
17. With respect to federal award programs:
 - a. We are responsible for complying, and have complied, with the requirements of Circular A-133.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included all expenditures made during the period being audited for all awards provided by federal agencies in

the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property including donated surplus property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

- c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.
- d. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
- e. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
- f. We have made available all contracts and grant agreements related to federal programs (including amendments, if any) and any related correspondence that has taken place with federal agencies or pass-through entities.
- g. We have complied, in all material respects, with the compliance requirements in connection with federal awards except as we have disclosed to you.
- h. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- i. Our interpretations of any compliance requirements that have varying interpretations have been provided to you.
- j. We have made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal awards.
- l. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- m. We have issued management decisions on a timely basis after the receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

- n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
 - o. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - p. We have accurately completed the appropriate sections of the data collection form.
 - q. We have disclosed all contracts or other agreements with the service organizations.
 - r. We have disclosed all communications from the service organization relating to noncompliance at the service organization.
 - s. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
 - t. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.
18. We are responsible for establishing and maintaining effective internal control over financial reporting.
19. We are responsible for Madison Metropolitan School District compliance with grant provisions, laws and regulations applicable to it; and we have identified, and disclosed to you, all grant provisions, laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have complied with all aspects of grant provisions, laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Erik Kass, Assistant Superintendent - Business Services

Donna M. Williams, Director of Budget, Planning and Accounting

Candie Steffen, General Ledger Accountant