

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

2006-07
AUDIT CORRESPONDENCE

Office of the President
Dr. Michael B. McCall
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Board of Regents
Finance, Technology and Human Resources Committee
Kentucky Community and Technical College System
Versailles, Kentucky

Board and Committee Members:

The letters included in this audit correspondence document represent correspondence from Crowe Chizek and Company LLC as part of their audit of the Kentucky Community and Technical College System ("System") as of June 30, 2007 and for the year then ended. Each letter has a specific purpose and is issued separately to the appropriate party noted. They are included herein together as a matter of convenience to you. The following is a summary of the information related to each of the letters contained in this document.

- ◆ Management Letter: This letter includes comments and recommendations resulting from the audit. It also includes responses from management at the System to those comments and recommendations.
- ◆ Letter Required by Statement on Auditing Standards No. 61: Certain matters, as stipulated in Statement on Auditing Standards No. 61, are to be communicated to the principal audit oversight body, which at the System is the Finance, Technology and Human Resources Committee. This letter provides these required communications.
- ◆ Letter on Compliance with House Bill 622: The independent auditor is required to perform procedures included in the "Minimum Audit Scope Compliance House Bill 622", dated August 1983, issued by the Commonwealth of Kentucky Finance and Administration Cabinet. This letter reports on the System's compliance with House Bill 622.
- ◆ Closing Package Letter: The Commonwealth of Kentucky Finance and Administration Cabinet provides the System with standard forms ("Closing Package") that are to be completed and included in the Commonwealth's Annual Financial Report. The independent auditor is required to perform certain procedures related to the information included on the standard forms and include the Closing Package letter with those forms when they are submitted to the Finance and Administration Cabinet. This letter is a copy of the letter that was submitted with the Closing Package.
- ◆ Representation Letter: This letter represents to the Auditor of Public Accounts that the independent auditor is independent of the System and the Commonwealth in accordance with American Institute of Certified Public Accountants independence standards and is in compliance with *Government Auditing Standards* concerning continuing education requirements, independence, internal quality control system, and peer review requirements.



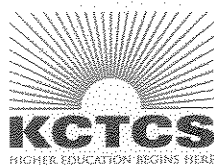
KCTCS is an equal opportunity employer and education institution.

- ◆ Lease Law Compliance Letter: The independent auditor is required to perform a compliance examination of the System's real property leasing procedures to determine compliance with the provisions set forth in KRS 48.111, 48.190 and 56.800 through 56.823. This letter reports that the System has no leases that fall under the provisions of these statutes.

Sincerely,



Michael B. McCall, Ed.D.
President



KCTCS is an equal opportunity employer and education institution.

MANAGEMENT LETTER



Crowe Chizek and Company LLC
Member Horwath International

Management and Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

In planning and performing our audit of the financial statements of Kentucky Community and Technical College System ("the System") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control. Our consideration of internal control encompassed the System's central office and the following institutions administered by the System: Ashland Community and Technical College, Big Sandy Community and Technical College, Bluegrass Community and Technical College, Bowling Green Technical College, Elizabethtown Community and Technical College, Gateway Community and Technical College, Hazard Community and Technical College, Henderson Community College, Hopkinsville Community College, Jefferson Community and Technical College, Madisonville Community College, Maysville Community and Technical College, Owensboro Community and Technical College, Somerset Community College, Southeast Kentucky Community and Technical College, and West Kentucky Community and Technical College. We noted certain matters involving internal control and its operation that might be of interest to you.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain matters that we wish to communicate to you. Matters communicated in this letter are classified as follows.

- Deficiency - A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- Best Practice - A matter which you may find of interest.

The System's written response to the deficiencies and best practices identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Deficiencies are noted as follows:

1) Exit Counseling

According to 34 CFR 685.304(b), students must receive exit counseling prior to leaving the College, if known, and/or the required materials mailed to the last known address within 30 days the College becomes aware that a student is no longer attending the institution. During our review of exit counseling, we noted that exit counseling for 4 of the 33 students selected, was not provided to the student in accordance with the federal regulations. This finding relates to the following Colleges: Bluegrass Community and Technical College, Gateway Community and Technical College and Jefferson Community and Technical College.

We recommend that the Colleges review their current procedures pertaining to exit counseling and make the necessary changes to ensure the appropriate materials are provided or sent to the borrowers in accordance with the federal regulations.

Management's (System and College) Response:

System Response: The KCTCS System Office of Student Financial Aid will work with Bluegrass Community and Technical College, Gateway Community and Technical College and Jefferson Community and Technical College, individually and collectively, to refine the colleges' current processes to ensure exit information for the Federal Family Education Loan Program (FFELP) is sent and electronically retained (for future retrieval and audit purposes). Attention with these specific colleges will be the "best practice" measures used successfully by other KCTCS colleges to remedy deficiencies and ensure compliance. Included within these best practices are a series of phone conferences, regularly scheduled meetings, reminders, monitoring, and general communication.

Bluegrass Community and Technical College Response: The College acknowledges this as a repeat finding. While the College modified its office procedures in fiscal year 2007 to better ensure compliance with the requirements of 34 CFR 685.304(b), additional scrutiny of review has been implemented for fiscal year 2008 to address this deficiency. Using available administrative queries and exit reports and processes identified as "best practice" by other KCTCS colleges', affected FFELP students will be identified and notified electronically. Notification via U. S. Postal Services mail will also be used as deemed necessary. Affected FFELP students, once notified, will also be directed to the Kentucky Higher Education Assistance Authority (KHEAA) website for additional information. An electronic copy of the reports via a database, as well as a printed copy, is being used to verify completion of this requirement and retained for audit purposes.

Gateway Community and Technical College Response: The College acknowledges this is a repeat finding. While the College modified its office procedures in fiscal year 2007 to ensure compliance, additional scrutiny has been implemented for fiscal year 2008. The College, specifically the Office of Student Financial Aid, will identify students needing exit counseling by using reports run on or about the 13th of each month. Notification via regular mail will be sent immediately to the student. This process will be regularly monitored (bi-weekly) with copies of student notifications retained for audit purposes. The deficiency will be monitored regularly to ensure compliance at the leadership level. "Best practices" as identified by other KCTCS colleges will be employed.

Jefferson Community and Technical College Response: The College acknowledges that this is a repeat finding. Given this is a repeat finding the College's current practices have been scrutinized at the highest levels for ways to ensure compliance. The College has gone to great strides beyond the internal procedures previously employed to ensure compliance in fiscal year 2008 and beyond. In review, using available administrative queries and exit reports and processes, affected FFELP students will be identified and notified electronically. Notification via U. S. Postal Services mail will also be used as deemed necessary. Affected FFELP students once notified will also be directed to the KHEAA website for additional information. The College's Office to Student Financial Aid will ensure supporting documentation is maintained for record keeping and audit purposes. Periodic review of documentation by management will be conducted to help ensure compliance is being rigorously followed. Any deficiency will be monitored by management regularly to ensure compliance. "Best practices" as identified by other KCTCS colleges will also be employed.

2) Capital Assets

During our audit, we noted that staff in the Facilities Management and Technology Solutions areas purchased assets without notifying Business Services of the purchases. It was also noted that software costs related to a capital lease were improperly capitalized. These items were brought to our attention during the audit and the appropriate adjustments were made at that time by the System.

We recommend that Business Services develop procedures to ensure that all supporting documentation of purchases be submitted to the appropriate personnel in accounting. We also recommend that capitalization policies be reviewed with appropriate personnel. The implementation of these recommendations will help ensure the proper recording of capital assets in the general ledger.

Management's Response:

KCTCS has revised its practices and procedures related to this finding. In review, management has revised the business procedures related to capital assets, specifically business procedure 3.13 Capital Assets and 4.7 Leases of Equipment. The revisions to the business procedures now provide clearer definitions, the conditions for classifying capital assets, and examples with the proper account (asset and expense) code(s). Staff meetings have been held with the affected parties to communicate the revisions to the procedures and to ensure compliance hereafter.

We also identified certain other matters of "Best Practice" which you may find of interest.

Best Practices Recommendations are noted as follows:

1) Implementation of a Whistleblower Policy and Formal Code of Conduct

The System has not implemented a formal whistleblower policy and does not have a formal code of conduct.

Although the Kentucky Revised Statutes includes a whistleblower policy, we recommend that the System consider implementing its own whistleblower policy to allow anonymous individuals to report potential violations of policies and procedures and improprieties. Current practice in addressing ways to ensure appropriate ethical behavior often includes having a formal code of conduct. Therefore, we recommend that the System implement a formal code of conduct for all employees. A code of conduct will give employees information which reflects the core values of the System and will provide guidance in making appropriate decisions.

Management's Response:

Based on this recommended "best practice" KCTCS will gather information for the possible development of a formal code of conduct and whistleblower policy.

It should be noted KCTCS has established a history of being dedicated to creating and maintaining an atmosphere of open communication in which employees are encouraged to approach their immediate supervisor to discuss any problem or question. Further, KCTCS believes in and has maintained an atmosphere of providing access to leadership. KCTCS administrative policies and procedures outline KCTCS' belief in creating a professional, respectful, and harmonious working relationship among all its employees. Specifically, KCTCS currently operates under the KCTCS Administrative Policies and Procedures which encompass employment and promote ethical behavior. Until a formal code of conduct and whistleblower policies are implemented, KCTCS will continue to operate under the KCTCS Administrative Policies and Procedures, specifically, 2.0.2.1, Kentucky Community and Technical College System Employment. Within administrative policy 2.0.2.1 are specific employee rights and responsibilities that are very encompassing, including what is expected from an employee to make each working day productive, enjoyable, and rewarding.

2) Fraud Risk Assessment Program

System management has not yet undertaken the full development of a fraud risk assessment program. SAS 99 has increased not-for-profit and governmental organizations' awareness of the prevalence of fraud. Many organizations count on their auditors to uncover any internal fraud, but audits, even those of the highest quality, provide limited protection against fraud. The audit process may be one part of the organization's fight against fraud, but it should not be the only part. The focus should be on management's responsibility for establishing a continuous fraud prevention, deterrence, and detection plan. Management must take responsibility for protecting their organizations from fraud, particularly those leaders with a fiduciary duty to act as a steward of the organization's resources. They should be actively involved in designing controls and tests to be used in the prevention and detection of fraud.

General risk factors for fraud include motive, opportunity, and rationalization. Unique risk factors in not-for-profit and governmental organizations include dependence on volunteers and board members and focus on their mission and programs can divert their attention from fraud detection.

The Association of Certified Fraud Examiners has developed a "Fraud Prevention Checkup" to help not-for-profits assess an organizations' vulnerability to fraud. The checkup focuses on:

- Fraud risk oversight—the organization's process for oversight of fraud risks by the board of directors or others in governance (e.g., the Executive Committee)

- Fraud risk assessment—the ongoing process for regular identification of the organization’s significant fraud risks
- Fraud risk tolerance and risk management policy—identification and board approval of levels of tolerance for different types of fraud risks
- Process-level fraud controls/re-engineering—implementation of measures (e.g., segregation of duties) to eliminate or reduce through process re-engineering each of the organization’s significant fraud risks, as well as process-level measures designed to prevent, deter, and detect each of the significant risks identified in the risk assessment
- Proactive fraud detection—development of a process to detect, investigate, and resolve potentially significant fraud

The American Institute of Certified Public Accountants notes that fraud detection can be difficult and costly. It advises organizations to instead focus on fraud prevention. A formal fraud prevention and deterrence program can go a long way in minimizing the costs of fraud.

In order to meet the increasing demands in the audit environment; management and the Finance, Human Resources, and Technology Committee should consider developing a fraud risk assessment for the System. This risk assessment would identify areas and/or transactions within the System that are susceptible to fraud or theft, the related controls in place to mitigate the identified risks, and suggestions for improvement.

Management’s Response:

KCTCS recognizes the growing need for a program of fraud prevention and detection in today’s world of high tech and business. As evidence to KCTCS’ commitment to fraud prevention and detection, it should be noted that KCTCS engaged Crowe Chizek and Company, LLC as an independent reviewer of the KCTCS Procurement Card Program during fiscal year 2007. KCTCS, in response to Crowe’s recommendations, revised the Program with a number of internal control improvements. Similarly, KCTCS has and continues to actively review its various business procedures on an on-going basis with input from colleges. And, on occasion, KCTCS has also requested counsel from Crowe Chizek for some of its business processes to better ensure sound internal controls and compliance. Further, KCTCS has, through its various offices (including but not limited to the offices of Audit Services, Treasury Management, and Business Services), actively stressed fraud prevention and detection.

Fraud prevention and detection is being accomplished within KCTCS through heightened employee awareness of best internal control practices, such as the recently developed KCTCS Internal Control Guide and “Risk Dictionary.” Both of these instruments are aimed at educating employees to be aware of unusual or non-typical situations as a major fraud deterrent. Similarly, an annual fraud risk assessment is planned for KCTCS on a System-wide basis in the future. Until that time, KCTCS will continue to incorporate fraud prevention and detection principles within its internal controls, on-site reviews, and through the testing of each College and System-level department for fraud using generally accepted fraud prevention and detection practices.

3) Documenting Approval of Drawdown Requests

Strong internal controls over the cash management of federal funds ensure that funds are being disbursed and handled in accordance with federal regulations. We noted that drawdowns are processed in the System Office, but are not independently reviewed before being processed.

We recommend that the System implement the control of formal documentation of approvals of drawdown requests and any applicable reconciliations prepared.

Management's Response:

KCTCS upon receipt of the "best practice" recommendation has implemented through its Office of Sponsored Projects Accounting (SPA) a process to formally document the approvals of drawdown requests. The specific drawdown amount will be calculated by SPA staff and submitted, along with all documentation, to either the Director of SPA or the System Director of Treasury Management for review. The Director of SPA or the System Director of Treasury Management will signify their approval by signing and dating the drawdown request.

This communication is intended solely for the information and use of the Finance, Technology and Human Resources Committee, Board of Regents, management, and others within the System, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Chizek and Company LLC

Louisville, Kentucky
October 1, 2007

STATEMENT ON AUDITING STANDARDS NO. 61



Crowe Chizek and Company LLC
Member Horwath International

Finance, Technology and Human Resources Committee
Kentucky Community and Technical College System
Versailles, Kentucky

To assist the Finance, Technology and Human Resources Committee in overseeing the financial reporting and disclosure process for the Kentucky Community and Technical College System ("the System") which management is responsible, we are submitting this letter to the Committee. The matters communicated include selected responsibilities of each of the parties and the audit process.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The Committee should understand that an audit conducted in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free from material misstatement. Similarly, under these same standards, the auditor obtains a sufficient understanding of internal control to plan the audit, but this understanding and the tests of selected internal controls that are performed are not sufficient for the auditor to express an opinion on the effective operation of internal control.

MANAGEMENT'S JUDGMENTS AND ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The process used by management in formulating particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates primarily involved the following areas for this year:

Allowance for doubtful accounts and bad debt expense: The allowance for doubtful accounts is established based on historical collection experience and a review of the current status of existing receivables. We tested this accounting estimate by reviewing historical write-offs and the status of existing receivables and determined the allowance to be reasonable.

Fair Values of Investment Securities: Investments are stated at fair value based on quoted market prices or dealer quotes. We tested these values by comparing them to external sources and determined the amounts were reasonable.

Useful Lives of Fixed Assets: Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the entity. We have tested management's estimate of the economic useful lives based on past asset acquisitions and other factors that impact their economic value to the entity.

Workmen's Compensation Reserve: This reserve is an accrual for amounts payable on known claims. We tested this accrual by reviewing a third party report for such claims.

Disability Income Reserve: This reserve includes an actuarially determined long-term portion and a current portion based on approved and pending claims. We tested this accrual by reviewing a report provided by the actuary.

Compensated Absences: Compensated absences are estimated based on vacation and sick hours accumulated by each employee and the respective pay rate of each employee. We tested this accrual by testing compensated absences for a sample of employees.

INITIAL SELECTION OF AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Committee should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Committee should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Committee about such matters. To assist the Committee in its oversight role, we direct your attention to Note 1 of the financial statements where significant accounting policies are disclosed. There were no new accounting policies selected or changes in significant accounting policies or their application for the year ended June 30, 2007.

CORRECTED AND UNCORRECTED AUDIT ADJUSTMENTS

Corrected Audit Adjustments: We are responsible for informing the Committee about adjustments to the financial statements arising from our audit that could, in our judgment, have a significant effect on your financial reporting process, including the potential that future financial statements could be materially misstated. There were no such adjustments.

Uncorrected Audit Adjustments: We are also responsible for informing the Committee about uncorrected financial statement misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no such adjustments.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

The Committee often considers information prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by the auditing standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the consolidated financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter. Management's Discussion and Analysis ("MD&A") was prepared by management to accompany the financial statements. We read the MD&A, and there were no inconsistencies noted.

DISAGREEMENTS WITH MANAGEMENT

We are required to discuss with the Committee any disagreements with management over the application of accounting principles or the basis for management's judgment about accounting estimates. During our audit, there were no such disagreements with management.

CONSULTATIONS WITH OTHER ACCOUNTANTS

If management consulted with other accountants about auditing and accounting matters, we are to inform the Committee of such consultation, if we are aware of it, and provide our views on the matters discussed.

We are not aware of any instances where management consulted with other accountants about matters which might affect your financial statements since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

We are to discuss with the Committee any major issues discussed with management in connection with our retention as auditors, including the application of accounting principles or auditing standards. There were no such issues discussed with management in connection with our retention as auditors.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We are to inform the Committee of any serious difficulties encountered in dealing with management related to the performance of the audit. There were no difficulties encountered in dealing with management related to the performance of the audit.

We were pleased to serve the System as its independent auditors for the year ended June 30, 2007 and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This report is intended solely for the information and use of the Finance, Technology and Human Resources Committee, Board of Regents, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. If further assistance or consultation is desired, we will be pleased to help.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Louisville, Kentucky
October 1, 2007

COMPLIANCE WITH HOUSE BILL 622



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON
COMPLIANCE WITH HOUSE BILL 622
(KRS 164A.555 TO 164A.630) BASED ON
THE AUDIT OF FINANCIAL STATEMENTS

Board of Regents
Kentucky Community and Technical College System
and
Secretary of Finance and
Administration Cabinet of
the Commonwealth of Kentucky

We have audited the financial statements of Kentucky Community and Technical College System (the "System") as of June 30, 2007 and for the year then ended, and have issued our report thereon dated October 1, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States, and the "Minimum Audit Scope Compliance House Bill 622 (KRS 164A.555 to 164A.630)," dated August 1983, issued by the Commonwealth of Kentucky Finance and Administration Cabinet. Those standards and the "Minimum Audit Scope Compliance House Bill 622 (KRS 164A.555 to 164A.630)" require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with the provisions of House Bill 622 applicable to the System is the responsibility of the management of the System. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with applicable provisions of House Bill 622. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported therein under the "Minimum Audit Scope Compliance with House Bill 622 (KRS 164A.555 to 164A.630)".

The report is intended solely for the information and use of the Board of Regents, management of the System, and officials of the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Crowe Chizek and Company LLC".

Crowe Chizek and Company LLC

Louisville, Kentucky
October 1, 2007

CLOSING PACKAGE LETTER



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Regents
Kentucky Community and
Technical College System
and
Honorable Crit Luallen
Auditor of Public Accounts
Commonwealth of Kentucky
and
Secretary of Finance and
Administration Cabinet of
the Commonwealth of Kentucky

We have audited the financial statements of the business-type activities of Kentucky Community and Technical College System (the System), a component unit of the Commonwealth of Kentucky, as of June 30, 2007, which comprise the System's basic financial statements. The basic financial statements have been audited, however, they are not presented as part of this "Closing Package". The basic financial statements should be read in conjunction with the following auditors' opinion. Our opinion read as follows:

We have audited the accompanying financial statements of the business-type activities of Kentucky Community and Technical College System (the System), as of and for the year ended June 30, 2007 and 2006, which comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

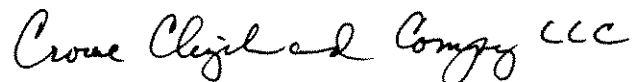
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Kentucky Community and Technical College System as of June 30, 2007 and 2006, and the changes in net assets and cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying "Closing Package" information for Kentucky Community and Technical College System, prepared on the accompanying standard forms from the Commonwealth of Kentucky relative to the Commonwealth of Kentucky Basic Financial Statements as of June 30, 2007 and for the year then ended, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kentucky Community and Technical College System. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the System, the Auditor of Public Accounts of the Commonwealth of Kentucky, and the officials of the Finance and Administration Cabinet of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Chizek and Company LLC

Louisville, Kentucky
October 1, 2007

REPRESENTATION LETTER



Crowe Chizek and Company LLC
Member Horwath International

Ms. Crit Luallen
Auditor of Public Accounts
Commonwealth of Kentucky
105 Sea Hero Road, Suite 2
Frankfort, KY 40601

As auditors of Kentucky Community and Technical College System for the year ended June 30, 2007, we are independent of the System and the Commonwealth oversight entity in accordance with the objectivity and independence standards of ET Sections 55, 101, and 102 of the Code of Professional Conduct of the American Institute of Certified Public Accountants. Furthermore, we are in compliance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* concerning continuing education requirements, independence, internal quality control system, and peer review requirements.

A handwritten signature in cursive script that reads "Crowe Chizek and Company LLC".

Crowe Chizek and Company LLC

Louisville, Kentucky
October 1, 2007

LEASE LAW COMPLIANCE LETTER



Crowe Chizek and Company LLC
Member Horwath International

October 1, 2007

Mr. Sherron Jackson, Assistant Vice President
EEO and Finance
Commonwealth of Kentucky
Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort KY 40601-8204

Dear Mr. Jackson:

We have reviewed the provisions of KRS 56.800 through 56.823, KRS 48.111 and KRS 48.190 as well as the Model Audit Program Checklist for Lease Law Compliance for Postsecondary Education Institutions. Based on our review of these documents and the leasing arrangements of the Kentucky Community and Technical College System, there are no leases which require an audit of lease law compliance for the year ended June 30, 2007.

Sincerely,

Crowe Chizek and Company LLC

A handwritten signature in cursive script that reads "Laurie A. Haun".

Laurie A. Haun