

DEAN || DORTON || ALLEN || FORD P.L.L.C.

**KENTUCKY COMMUNITY AND
TECHNICAL COLLEGE SYSTEM**

2010-11 AUDIT CORRESPONDENCE

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 Dean Dorton Allen Ford, PLLC as part of their audit of the Kentucky Community and Technical College System (the System) as of June 30, 2011 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.

- **Internal Control Communications:** This letter includes comments and recommendations resulting from the audit. It also includes responses from management to these comments and recommendations.
- **Required Communications:** Certain matters, as stipulated in Statement on Auditing Standards No. 114, are to be communicated to "Those Charged with Governance" in relation to the audit of financial statements, which at the System is the Finance, Technology and Human Resources Committee of the Board of Regents. This letter provides this communication.
- **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. In prior years, the independent auditor was 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 were submitted to the Finance and Administration Cabinet. There was no such requirement for the current year. However, System management requested that these procedures be performed by the independent auditor and a letter provided. 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.
- 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 on the System's compliance with these statutes.

Sincerely,



Michael B. McCall, Ed.D.
President



INTERNAL CONTROL COMMUNICATIONS

DEAN || DORTON || ALLEN || FORD_{PLC}

September 30, 2011

To Board of Regents
Kentucky Community and Technical College System

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kentucky Community and Technical College System (KCTCS) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered KCTCS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 KCTCS's internal control. Our consideration of internal control encompassed KCTCS's central office and the following institutions administered by KCTCS: 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

The System's written responses to the deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

During our audit we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. Our comments and recommendations regarding these matters follow. This letter does not affect our auditors' report dated September 30, 2011, on the financial statements of the System.

106 West Vine Street
Suite 600
Lexington, KY 40507
859.255.2341 *phone*
859.255.0125 *fax*

www.ddafcpa.com

First Trust Centre
200 South Fifth Street
Suite 201 South
Louisville, KY 40202
502.589.6050 *phone*
502.581.9016 *fax*

Organizational Development Human Resources - Compensation

During our analysis of controls over employee payments, we noted several controls that were designed effectively to reduce certain risks over unauthorized payroll related payments. Specifically, the controls over the human resources activation and authorization records (PAAR) appear to be properly designed. However, upon further discussion with management, we noted that there have been several instances where this control has failed to restrict payments until the PAAR was properly executed and approved. We further noted that certain human resource policies are not consistently followed. Specifically, controls over removing terminated employees and contractors from the human resources system and controls over supplemental payments (overloads and additional payments) are not consistently followed at each of the individual colleges. We recommend that management perform a comprehensive review of the KCTCS policies and procedures over human resources to ensure that appropriate KCTCS policies and procedures are in place and being consistently and properly followed at the colleges.

Management Response

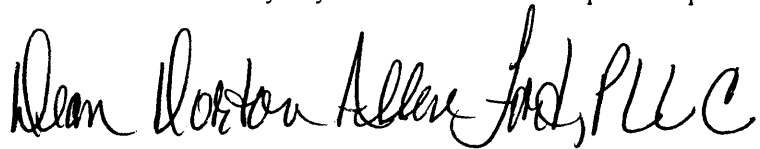
The KCTCS Office of Organizational Development and Human Resources (ODHR) will perform a comprehensive review to ensure control, consistency, and proper application of human resource policies and procedures system-wide. Additionally, ODHR is in the process of (1) revising the existing human resource policies, procedures, and forms and (2) providing necessary professional development to the human resource staff.

In addition to the deficiency noted above, please see the four significant deficiencies related to the audit of student financial aid reported in the Schedule of Findings and Questioned Costs listed within the Report on Audit of Institution of Higher Education in Accordance with OMB Circular No. A-133. These items are considered to be significant deficiencies due to the compliance issues surrounding the return of Title IV funds.

We also noted other matters involving internal control and its operation that we have communicated to management of the System.

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

Dean Dorton Allen Ford, PLLC



REQUIRED COMMUNICATIONS

DEAN || DORTON || ALLEN || FORD_{INC.}

September 30, 2011

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

We have audited the financial statements of Kentucky Community and Technical College System (the System) for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 31, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The most sensitive estimates affecting the System's financial statements were:

Management's estimate of the allowance for doubtful accounts and bad debt expense is determined by a process involving consideration of past experiences, current aging information, contacts with the students and other available data including geographical and economic factors. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts and bad debt expense in determining that it is reasonable in relation to the financial statements taken as a whole.

106 West Vine Street
Suite 600
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859.255.0125 *fax*

www.ddafcpa.com

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200 South Fifth Street
Suite 201 South
Louisville, KY 40202
502.589.6050 *phone*
502.581.9016 *fax*

Management's estimate of the useful lives of capital assets is 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 evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the disability income reserve is based on an actuarially determined long-term portion and current portion based on approved and pending claims. We evaluated the key factors and assumptions used to develop the disability income reserve in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of compensated absences is based on vacation and sick hours accumulated by each employee and the respective pay rate of each employee. We evaluated the key factors and assumptions used to develop compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Management's disclosure of the fair value of investments in Note 3 requires management to use certain assumptions and estimates pertaining to the fair market values of its assets and liabilities.

Postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets. We evaluated the key factors and assumptions used to develop the postretirement obligations in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit

procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

Those charged with governance often consider information prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution to the matter. We read

Management's Discussion and Analysis and noted no material inconsistencies or misstatement of facts in the information based on our reading thereof.

This information is intended solely for the use of the Finance, Technology and Human Resources Committee and management of Kentucky Community and Technical College System and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Dean Dorton Allen Ford, PLLC". The signature is written in a cursive, flowing style.

Dean Dorton Allen Ford, PLLC

September 30, 2011

Dean Dorton Allen Ford, PLLC
106 W Vine Street STE 600
Lexington, KY 40507

We are providing this letter in connection with your audit of the financial statements of Kentucky Community and Technical College System (the System) as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the System and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 30, 2011, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
 - a) Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Minutes of the meetings of the Board of Regents or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.



- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) 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, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 7) 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.
- 8) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, if any, that you have reported to us.
- 9) We have a process to track the status of audit findings and recommendations.
- 10) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 11) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 12) The System has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 13) Adequate consideration and provision has been made, when necessary, for any material losses likely to be sustained from:
 - a) Impairment of long-lived assets when the carrying amount may not be recoverable.
 - b) Collection of receivables.
- 14) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the System is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
 - d) Concentrations that make the System vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, the individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets).
 - e) Restrictions under borrowing agreements.

- 15) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 16) There are no—
- a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (*FASB Accounting Standards Codification section 450 related to contingencies*).
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (*FASB Accounting Standards Codification section 450 related to contingencies*).
 - d) Reservations or designation of fund equity that were not properly authorized and approved.
 - e) Other financial instruments with significant "off-balance-sheet" risk of accounting loss to which the System is a party.
 - f) Liens, encumbrances or other title impairments, such as pledges of collateral, on System assets at the balance sheet date.
- 17) We understand that during the course of your audit, you have relied on work performed by specialists. We confirm that we have no relationships with those specialists that may bear on their independence and objectivity, such as the ability through employment, ownership, contractual right, family relationship or otherwise to directly or indirectly control or significantly influence the specialist.
- Osborn, Carreiro & Associates, Inc.
- 18) The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 19) The System has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 20) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 21) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 22) The financial statements properly classify all funds and activities.
- 23) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 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.

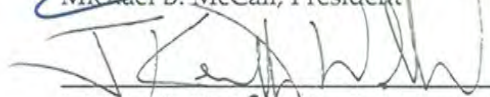
- 24) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 25) Provisions for uncollectible receivables have been properly identified and recorded.
- 26) Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.
- 27) Revenues are appropriately classified in the statements of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 28) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 29) Special and extraordinary items, if any, are appropriately classified and reported.
- 30) Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 31) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- 32) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 33) With respect to federal award programs:
 - a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period 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 acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
 - d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
 - e) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of

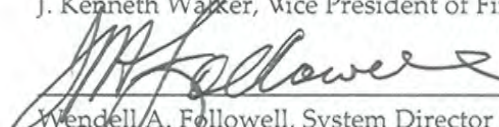
laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

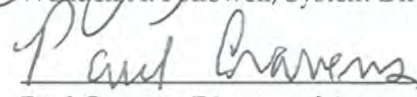
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken up to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- p) We have charged costs to federal awards in accordance with applicable cost principles.
- q) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- r) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- s) We have taken appropriate action, including issuing management decisions, on a timely basis after 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.

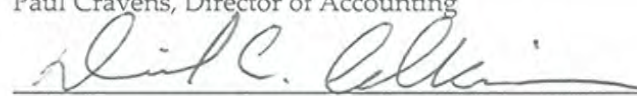
- t) We have considered the results of subrecipient audits, if any, and have made any necessary adjustments to our books and records.
 - u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and 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.
 - v) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
 - w) We are responsible for preparing and implementing a corrective action plan for each audit finding.
 - x) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- 4) No events, including instances of noncompliance, have occurred subsequent to the statement of net assets date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.


 Michael B. McCall, President

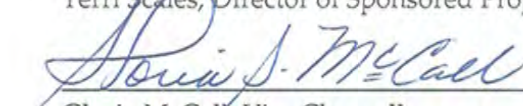

 J. Kenneth Walker, Vice President of Finance

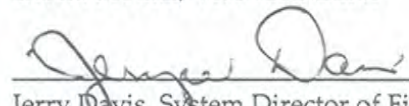

 Wendell A. Followell, System Director of Business Services


 Paul Cravens, Director of Accounting


 David C. Adkins, System Director of Treasury Management


 Terri Scales, Director of Sponsored Projects Accounting


 Gloria McCall, Vice Chancellor


 Jerry Davis, System Director of Financial Aid


 Dedre VanHoose, Senior Financial Analyst

COMPLIANCE WITH HOUSE BILL 622

DEAN || DORTON || ALLEN || FORD^{PLLC}

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

September 30, 2011

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, 2011 and for the year then ended, and have issued our report thereon date September 30, 2011.

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)".

This 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.

Dean Dorton Allen Ford, PLLC
 Lexington, Kentucky



106 West Vine Street
 Suite 600
 Lexington, KY 40507
 859.255.2341 phone
 859.255.0125 fax

First Trust Centre
 200 South Fifth Street
 Suite 201 South
 Louisville, KY 40202
 502.589.6050 phone
 502.581.9016 fax

www.ddafcpa.com

CLOSING PACKAGE LETTER

DEAN || DORTON || ALLEN || FORD^{PLC}**Independent Auditors' Report**

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, 2011, 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 Kentucky Community and Technical College System (the System), as of and for the year ended June 30, 2011, 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 audit. The financial statements of the System as of June 30, 2010, were audited by Dean Dorton Ford, PSC whose report dated October 1, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 System as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

106 West Vine Street
 Suite 600
 Lexington, KY 40507
 859.255.2341 *phone*
 859.255.0125 *fax*

www.ddafcpa.com

First Trust Centre
 200 South Fifth Street
 Suite 201 South
 Louisville, KY 40202
 502.589.6050 *phone*
 502.581.9016 *fax*

The Management's Discussion and Analysis on pages 5 through 17 and the Schedule of Funding Progress for the Retiree Medical Plan on page 44 are not a required part of the basic financial statements but are 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 September 30, 2011, 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, 2011 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.

Lexington, Kentucky
September 30, 2011



REPRESENTATION LETTER

DEAN || DORTON || ALLEN || FORD_{PLLC}

September 30, 2011

The Honorable Crit Luallen
Auditor of Public Accounts
Commonwealth of Kentucky
209 St. Clair Street
Frankfort, Kentucky 40601

In all matters relating to the audit of the Kentucky Community and Technical College System as of and for the year ended June 30, 2011, our audit organization and our individual auditors, whether government or public, are free both in fact and appearance from personal, external, and organizational impairments to independence. 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, and internal quality control system and peer review requirements.

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Louisville, KY 40202
502.589.6050 *phone*
502.581.9016 *fax*

LEASE LAW COMPLIANCE LETTER

DEAN || DORTON || ALLEN || FORDTM

Independent Accountants' Report

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

We have examined real property leases of Kentucky Community and Technical College System (the System) for compliance with KRS 48.111, 48.190, and 56.800 through 56.823 (Kentucky's Lease Law) during fiscal year ended June 30, 2011. The System's management is responsible for compliance with the requirements of Kentucky's Lease Law. Our responsibility is to express an opinion on the System's compliance based on our examination.

Our examination was conducted in accordance with U.S. attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining, on a test basis, evidence about management's compliance with Kentucky's Lease Law and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of management's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of Kentucky Community and Technical College System, the Kentucky Council on Postsecondary Education 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.

September 30, 2011
Lexington, Kentucky



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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Lease Law Compliance Comments & Recommendations

1. Procedures

In planning and performing our compliance audit of Kentucky's Lease Law for the year ended June 30, 2011, we considered the System's internal control in order to determine our auditing procedures for purpose of expressing an opinion on the System's compliance and not to provide assurance on internal controls.

During the year ended June 30, 2011, the System entered into seven new lease agreements and sixteen renewals. In performing our compliance procedures we reviewed and tested the following items relating to the new lease agreement and lease renewals:

- Five leases from the private sector and two leases of space in buildings owned by governmental units were tested for fiscal year 2011 for compliance with KRS 56.803 and KRS 56.805(2). KRS 56.803 provides procedures to be followed when an agency requests office or other space. KRS 56.805(2) stipulates that if it is in the best interest of the Commonwealth for an agency to lease property from any level of government, and such space is available, the Commissioner of the Department of Facilities Management shall do so.
- Seven new leases were tested for internal control attributes. Controls were established in the Office of Facilities Management in the form of policies and procedures to insure that the agency followed Kentucky laws governing the leasing of real property.
- Seven new leases were tested for compliance (KRS 56.800-KRS 56.823). The seven new leases were also tested for the terms of the lease KRS 56.806(1) and 56.806(3). KRS 56.800 to 56.823 holds the Finance and Administration Cabinet (FAC) responsible for the lease of all real property rentals required for use by the departments and agencies of state government. KRS 56.806 establishes the initial term of the lease and allows for automatic renewals under the same terms and conditions, and allows for a lease-purchase option and a right to cancel the lease.
- Five renewals were tested for compliance (KRS 56.806(1)). Section 1 allows the state an option to renew an expired lease for the same terms and conditions as the original lease.
- One lease between \$100,000 and \$200,000 was selected to test for compliance with KRS 56.823. This statute requires any lease awarded with an annual rental cost exceeding \$100,000 to be reported to the Capital Projects and Bond Oversight Committee before a proposed lease is executed.

2. Finding - KRS 56.803

This statute requires that when the System determines that it will need office or other space, the agency shall submit a request for the acquisition of additional space to the Department for Facilities Management in the Finance and Administration Cabinet, except in the case of an emergency as described at KRS 56.805(3). The results of our tests indicated one instance where a request was sent to the Department for Facilities Management and did not contain accurate and complete information.

See independent accountants' report.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Lease Law Compliance Comments & Recommendations

2. Finding - KRS 56.803, continued

Recommendation

We recommend that the System establish procedures to ensure that a complete and accurate written request for the acquisition of additional space is submitted to the Department for Facilities Management prior to beginning the lease process.

Management Response

The Department of Facilities Management will perform a thorough review of the written request for the acquisition of additional space prior to the beginning of the lease process and insure that all information provided is complete and accurate. Support will be requested for information provided in the request for the acquisition of additional space.

3. Finding - KRS 56.806(1)

This statute requires the System to enter into lease agreements with renewal options not exceeding additional renewal periods of 24 months each and not exceeding three automatic renewal periods, for a total of 96 months. The statute also requires all leases to have expiration dates of June 30. The results of our tests indicated that one new lease had an initial period of 96 months and contained renewal provisions for two periods of 12 months each, for a total of 120 months. The lease expires on October 28, 2018.

Recommendation

We recommend that the System establish procedures for reviewing the initial terms, renewal options and expiration dates in each lease prior to entering into the lease agreements to ensure they are in compliance with the respective statutes.

Management's Response and Corrective Action Plan

Procedures have been implemented to ensure that the System's legal counsel reviews all real property leases prior to their implementation for compliance with Kentucky Lease Law statutes.

See independent accountants' report.

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