

AGENDA

Council on Postsecondary Education Executive Committee

November 17, 2003
2 p.m. (ET)
Churchill Downs Room
Hyatt Regency Louisville
320 West Jefferson, Louisville, KY

Roll Call

Approval of Minutes

1. Action: FY 2002-03 Agency Audit
2. Action: KCTCS Somerset Community and Technical College Vehicle and Pedestrian Connection
3. Action: KSU Federal Land Grant Program Mobile Satellite Uplink System
4. 2004-06 Total Budget Funding Distribution Policy

Adjournment

MINUTES
Council on Postsecondary Education
Executive Committee
September 21, 2003

The Council on Postsecondary Education Executive Committee met September 21, 2003, at 10:45 a.m. at the Cincinnati Marriott Inn in Hebron, Kentucky.

Chair Steve Barger welcomed everyone to the meeting.

ROLL CALL & GUESTS

The following members were present: Steve Barger, Bart Darrell, Richard Freed, Ron Greenberg, John Hall, Joan Taylor.

Tom Layzell, Allen Norvell of Potter & Co., LLP, Sue Moore, and Dennis Taulbee were present.

**APPROVAL OF
MINUTES**

The minutes of the May 18, 2003 meeting were approved as distributed on motion by Ron Greenberg, seconded by Bart Darrell.

ANNUAL AUDIT

Allen Norvell of Potter & Co., LLP, gave an update on the work done on the FY 2002-03 audit. Field work has started but the compliance testing on federal funds has not begun. The Finance and Administration Cabinet has asked that preliminary statements be completed by October 31.

The state has changed the presentation of the CPE statements—the Council is now a discrete activity in the state financial statements.

Mr. Norvell indicated that the auditors would respond to the findings from the FY 2001-02 audit. Dennis Taulbee indicated that he believed the Council had responded adequately to the findings 02-6 and 02-7 related to the operation of the trust funds. The Council staff will provide the Council with a listing of all grants in the arts and humanities so that the Council can make an independent determination of whether requests in the arts and humanities are limited. The language in the 2002-04 appropriations bill grants the Council broader authority to deal with programs at the regional universities beyond one single program of national distinction. Mr. Norvell indicated they would confirm that conclusion and report on it.

Tom Layzell stated that he thought the auditor should review his travel and select among the vice presidents. Steve Barger stated that it would be the auditor's choice as to who among that group should be reviewed.

The executive committee discussed retirement issues and asked that the auditor review the status of reemployed staff.

Mr. Greenberg stated that there had been some concern expressed by

employees of the adult education unit at the time of the transfer. The concerns were about retirement. Dennis Taulbee indicated that all issues were resolved satisfactorily. The executive committee asked that the auditors report on this issue.

Mr. Barger asked that the auditors develop a proposal to look at the business procedures and controls associated with adult education. Mr. Norvell indicated he would.

ADJOURNMENT

Mr. Barger adjourned the meeting at 11:45 a.m.

Council on Postsecondary Education
Executive Committee
November 17, 2003

FY 2002-03 Agency Audit

Potter & Co., LLP, has completed the FY 2002-03 audit of the agency with no significant findings. Several minor issues have been brought to the attention of management and will be addressed by staff and reported to the Executive Committee.

Action: The staff recommends that the Executive Committee on behalf of the Council accept the FY 2002-03 agency audit and report back to the Executive Committee on actions taken to resolve management comments contained in the audit report.

The FY 2002-03 agency audit resulted in no significant findings. Management comments related to the timeliness of reporting and filing of memoranda of agreements were noted and brought to the attention of management. The Council staff will address each of the comments separately and will report on the progress in correcting the problems noted.

A copy of the FY 2002-03 agency audit will be provided to the Council prior to the November 17 meeting.

Staff preparation by Dennis Taulbee

DRAFT

**A PROPOSAL TO PROVIDE
PROFESSIONAL ACCOUNTING
SERVICES TO THE**

***KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION –
DEPARTMENT OF ADULT
EDUCATION AND LITERACY***

**Submitted by: R. Allen Norvell, Partner
Potter & Company, LLP
300 East Main Street
Lexington, Kentucky 40507
(859) 253-1100
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November 17, 2003**

DRAFT

**PROPOSAL TO PROVIDE PROFESSIONAL ACCOUNTING SERVICES
TO
THE KENTUCKY COUNCIL ON POSTSECONDARY EDUCATION
DEPARTMENT OF ADULT EDUCATION AND LITERACY**

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STAFF TO BE ASSIGNED

R. Allen Norvell, CPA
Audit Partner

As partner-in-charge of the Kentucky Council on Postsecondary Education audit and the agreed upon procedures performed for the Department of Adult Education and Literacy in the year ended June 30, 2003, Mr. Norvell will be responsible for the examination of internal controls at the Department of Adult Education and the firm's relationship with the client. He will be responsible for monitoring the quality of the examination, ensuring that the examination is performed on schedule, and keeping management informed on a timely basis of any problems that might come to our attention during the course of our examination. In addition, he will be pleased to meet with management to discuss any issues of concern to you.

Mr. Norvell currently serves as the Firm's functional coordinator for accounting and audit services and as the partner-in-charge of the Lexington audit practice. He also serves as chairman of the firm's Governmental and Not-for-Profit Services Group, which annually provides over 12,000 hours of service to more than fifty not-for-profit and governmental clients. These services include audits performed in accordance with *Government Auditing Standards* and Single Audits performed in accordance with OMB Circular A-133 including compliance procedures on grants issued by the U.S. Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, Transportation, and the Environmental Protection Agency. Consulting services performed by the Governmental and Not-for-Profit Services Group include accounting software selection, installation and training; arbitrage rebate calculations; litigation support; internal control studies; technology consulting; and tax return preparation and tax planning for tax-exempt organizations.

Dodie Caulk, CPA
Engagement Manager

As the audit manager on the Kentucky Council on Postsecondary Education audit Ms. Caulk will be responsible for the day-to-day conduct and supervision of the examination. She will be responsible for planning the examination, implementing the examination procedures and preparing the reports. She will also be responsible for reviewing the work performed under her supervision.

Regina M. Manns, CPA
Senior Associate

As the senior associate-in-charge of the agreed upon procedures engagement performed at selected grantees for the Department of Adult Education and Literacy in 2003, Ms. Mann will serve as the senior associate on the examination and work under the direction of the audit manager. She will interview personnel and document the design of internal control over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis. She will assist the audit manager in the evaluation of the suitability of the design of the internal controls and the drafting of our report.

POTTER & COMPANY'S ENGAGEMENT APPROACH

We understand the objective of this engagement is to evaluate and report on the design of internal control at the Department of Adult Education and Literacy over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis. We propose this engagement be performed as an attestation examination under section 501 of the American Institute of Certified Public Accountants Standards on Attestation Engagements (AT), *Reporting on an Entity's Internal Control Over Financial Reporting*. We will examine the *suitability of the design* of the Department's internal control over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis. We will **not** test the *operating effectiveness* of the internal controls and will **not** report on their *operating effectiveness* – we will report only on the *design* of the internal controls.

AT 501 Examination

The following is an outline of the approach for an AT 501 examination:

1. Plan the engagement.
2. Obtain an understanding of internal control.
3. Evaluate the design of the internal controls.
4. Evaluate the results (i.e., form an opinion on the effectiveness of internal control based on the control criteria used).

In an AT 501 examination the evaluation of internal control must be based on suitable criteria. A footnote to AT 501 provides the following guidance about determining suitable criteria:

Criteria issued by the AICPA, regulatory agencies, and other groups composed of experts that follow due process procedures, including exposure of the proposed criteria for public comment, usually should be considered suitable criteria for this purpose.

To accomplish the above objectives related to evaluate and report on the design of internal control at the Department of Adult Education and Literacy over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis we propose the criteria contained in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is commonly referred to as the COSO Report, be used to evaluate the internal controls in operation at the Department of Adult Education and Literacy.

Planning the Engagement

AT 501 indicates that planning the engagement involves developing a strategy for the scope and performance of the engagement. Factors to consider in developing this strategy include the following:

- Matters affecting the industry in which the entity operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes.
- Knowledge of the entity's internal control obtained during other professional engagements.
- Matters relating to the entity's business, including its organization, operating characteristics, and capital structure.
- The extent of any recent changes in the entity, its operations, or its internal control.
- Preliminary judgments about the effectiveness of internal control.

ENGAGEMENT APPROACH (Continued)

Planning the Engagement (Continued)

- Preliminary judgments about materiality levels, inherent risk, and other factors relating to the determination of material weaknesses.
- Management's method of evaluating the effectiveness of the controls over financial reporting based on the control criteria.
- The nature of specific controls designed to achieve the objectives of the control criteria, and their significance to internal control taken as a whole.
- The type and extent of evidence pertaining to the effectiveness of the entity's controls, including the extent to which management or internal auditors have tested the effectiveness of the controls.

At the beginning of the engagement we will obtain an engagement letter to establish and document an understanding regarding the objectives, scope of work, and product or deliverables of the engagement. The engagement letter will also establish and document an understanding with management that:

1. management is responsible for the system of internal control;
2. designates a management-level individual to be responsible and accountable for overseeing the examination including;
3. management monitors the performance of the examination to ensure that it meets entity's objectives;
4. management makes any decisions that involve management functions related to the examination and accepts full responsibility for such decisions.

Obtaining an Understanding of Internal Control

The understanding should include the following components of the control structure:

- Control environment.
- Information and communication.
- Risk assessment.
- Monitoring.
- Control activities.

Evaluating the Design of Internal Controls

Internal control is effectively designed if the controls, if complied with, would be expected to prevent or detect material misstatements in the financial statements. The auditor should consider whether the entity has controls to meet the objectives of the control criteria. This can generally be accomplished by:

- Identifying the entity's control objectives in each area.
- Identifying the controls that satisfy each objective.
- Considering whether the controls can, if operating properly, effectively prevent or detect material misstatements in the financial statements.

ENGAGEMENT APPROACH (Continued)***Reporting the Examination Results***

At the conclusion of the examination we will issue a report on the *design* of internal control based on the criteria contained in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is commonly referred to as the COSO Report.

We will consider all evidence obtained to evaluate the effectiveness of internal control. An ineffective control is considered to be a deficiency in internal control. We will also determine whether such a deficiency is a material weakness. SAS No. 60 defines a material weakness as a—

. . . condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Determining whether a deficiency (or a combination of deficiencies) in internal control constitutes a material weakness is a matter of professional judgment. Factors to consider in evaluating those deficiencies include the following:

Compensating Controls. If the practitioner determines that a control is not operating effectively, he or she should consider whether there are other controls that accomplish the same objective(s). If those other controls are identified and determined to be effective, the ineffective control generally would not be considered to be a material weakness.

Effect of Other Components of Internal Control. Certain other components of internal control, such as the control environment, may help compensate for a particular deficiency in internal control. For example, high-level reviews might compensate for a lack of detail checking or segregation of duties. This is often the case in owner-managed entities. However, a strong control environment may not compensate entirely for ineffective internal control.

Effect of the Deficiency. A material weakness exists if there is more than a remote chance that the financial statements would be materially misstated because of the deficiency in internal control. When evaluating whether a deficiency is a material weakness, the practitioner should consider that the amount of misstatements that might occur and remain undetected range from zero to more than the gross financial statement amounts or transactions that are exposed to the condition. The risk of misstatements is likely to be different for possible amounts within that range, so risk might be higher for smaller misstatements, and vice versa.

ENGAGEMENT APPROACH (Continued)

Reporting the Examination Results (Continued)

Effect of Other Deficiencies. Although an individual deficiency might not be a material weakness, the combined risk of material misstatement resulting from several deficiencies might be significant. In evaluating whether the combined effect of significant deficiencies results in a material weakness, the practitioner should consider (a) the range of amounts of misstatement that might result during the same accounting period from the individual deficiencies, (b) which combination(s) of misstatements would result in a material misstatement, and (c) the joint risk or probability that such combinations would occur.

We will also issue a management letter to provide you with other comments and suggestions we may have to help you improve or strengthen your internal control structure. This letter will be based on findings noted while obtaining our understanding of internal control and evaluating the design of the internal controls.

STEPS TO DESIGNING EFFECTIVE PROGRAMS AND CONTROLS

When designing an internal control system, or strengthening an existing control system, a series of steps can be followed. The basic steps generally include:

- Step 1** Review the organizational level components of internal control and identify weak or nonexistent controls.
- Step 2** Identify assets susceptible to misappropriation and risks that may result in fraudulent financial reporting.
- Step 3** Review the company's systems and procedures relating to the vulnerable areas and identify weak or missing systems and procedures.
- Step 4** Develop controls to reduce the risk of misappropriation and fraudulent financial reporting in the vulnerable areas.
- Step 5** Consider the cost/benefit relationship of the controls developed.

STEP 1 Review the Organizational Level Components of Internal Control

The organizational level components of internal control include the control environment, risk assessment, communication, and monitoring. These components can be summarized as follows:

- The company's control environment, including how the company sets a tone that emphasizes integrity and ethical behavior, hires capable and qualified employees, and appropriately assigns authority and responsibility.
- The company's process of identifying risks relating to misappropriation of assets and fraudulent financial statement reporting and developing appropriate responses to those risks.
- The company's communication to employees of how internal control should work, and the responsibilities of employees and management regarding internal control for preventing and detecting fraud.
- The company's monitoring of controls to ensure they continue to be relevant and able to address new fraud risks.

STEP 2 Identify Assets Susceptible to Misappropriation and Risks that May Result in Fraudulent Financial Reporting

Misappropriation Assets

The opportunity to commit and conceal fraud exists where there are (a) assets susceptible to misappropriation and (b) inadequate controls to prevent or timely detect fraud. Combined, these two elements constitute a fraud exposure (that is, an area where the company is vulnerable to fraud). Identifying fraud exposures requires an understanding of the nature of the business (for example, the types of revenue received) and the systems and procedures used to record transactions. The first step in identifying fraud exposures is to identify which assets held by the organization are susceptible to misappropriation.

STEPS TO DESIGNING EFFECTIVE PROGRAMS AND CONTROLS (Continued)

STEP 2 Identify Assets Susceptible to Misappropriation and Risks that May Result in Fraudulent Financial Reporting (Continued)

The following assets are generally more susceptible to misappropriation:

- Cash, including currency and instruments readily converted to cash (i.e., checks or money orders).
- Inventory that has a small size, high value, or high demand.
- Assets easily convertible into cash.
- Equipment or other fixed assets that have small size, ready marketability, or lack of ownership identification.

It should be noted that assets could be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Thus, when considering fraud exposures, it is important to consider which assets are vulnerable, and the ways they could be misappropriated, given the organization's activities.

Fraudulent Financial Reporting

The risk of material fraudulent financial statement reporting occurring is often related to management's incentives and pressure. However, this fraud risk is also influenced by characteristics such as the size, complexity, and ownership attributes of an organization. Additionally, certain accounts, classes of transactions, or assertions that are particularly susceptible to manipulation, such as those involving significant estimates or the application of complex accounting principles, may present fraud risks.

Fraudulent financial reporting typically involves management override of controls. In evaluating the risks of fraudulent financial reporting, the following should be considered:

- Does management have a conservative attitude toward financial reporting?
- Has management ever overridden the established control policies and procedures?
- Is there an effective management oversight process in place (for example, by the audit committee, board of directors, or internal auditors)?
- Has management had disputes with external or internal auditors about accounting, auditing, or reporting matters?
- Is there an employee hotline or other communication mechanism for employees to anonymously report allegations of fraud?

Because management has the ability to override controls, the need for a strong organization value system and culture of ethical financial reporting is essential. To avoid management override of controls, it is important to create an environment in which other employees will decline to participate in committing a fraud.

STEPS TO DESIGNING EFFECTIVE PROGRAMS AND CONTROLS (Continued)

STEP 3 Review Systems and Procedures Relating to Vulnerable Areas and Identify Weaknesses

Once vulnerable areas have been identified, the next step is to review the organization's systems and procedures relating to these areas, including such matters as:

- How transactions are approved, initiated, recorded, processed, and reported.
- The policies and procedures relating to the preceding steps, including the controls in place that are intended to safeguard the company's assets.
- The documentation relating to the preceding processes.
- The IT systems involved in the preceding steps. (Depending on the importance of IT to the processes or internal control, it may be necessary to consider the related IT controls.)
- The personnel involved with the preceding steps.
- The selection and application of accounting principles, especially in subjective areas.
- Management's or the owner/manager's practice of setting incentive targets. (Are they challenging, yet attainable; or are they unduly aggressive?)
- Whether accounting estimates affect significant assets, liabilities, revenues, or expenses and whether the estimation process is subjective or uncertain.
- How the company processes journal entries and what documentation is kept.

When reviewing an organization's systems and controls, information such as the following should be obtained:

- How is the type of transaction initiated and authorized? What processing steps are involved? Who performs those procedures? When that person is not available, who is the backup? Who else has access to perform those procedures in addition to those assigned the tasks?
- What records and documents are involved? How are documents filed and stored? What do the employees call them? How are they completed? If they are completed electronically, who are all the individuals with access to that terminal, system, or password?
- How is the authorization indicated (initial, signatures, or stamps)? Are the approvals verified? How? Are stamps and other approval tools available to others? Are they kept under lock and key and only made available to the individuals responsible for the authorizations?
- Have there been incidents where accounting and approval control procedures were not followed? How, when, and by whom?

STEPS TO DESIGNING EFFECTIVE PROGRAMS AND CONTROLS (Continued)***STEP 4 Develop Controls to Reduce Risk in Vulnerable Areas***

After learning about existing systems and controls in a vulnerable area, the next step is to consider what controls need to be in place to reduce the risk of fraud.

Controls can be either preventive or detective. Preventive controls are designed to keep fraud from occurring. Some examples of preventive controls include locking up the blank check stock, having someone independent of accounts receivable open the mail and prepare the deposit slip, using prenumbered sales receipts, and using a capital budget for fixed asset purchases. Detective controls are designed to detect fraud soon after it has occurred. Some examples include having an independent employee reconcile the checking accounts within a reasonable number of days of receipt, having an independent employee review the accounts payable master list periodically to ensure only valid vendors have been added, and conducting periodic surprise inventory counts.

The following are examples of the types of policies and procedures that may be used to prevent or detect fraudulent activity:

- Financial and operating performance reviews.
- Independent checks.
- Separation of duties.
- Access and authorization controls.

STEP 5 Consider the Cost/Benefit Relationship of the Controls Developed

There are limits to what internal control can do to prevent fraud. It is impossible to implement internal control that eliminates the possibility of fraud. Collusion among management or employees can significantly undermine the effectiveness of the best-designed internal control. Also, even if it were possible to implement fraud-proof internal control, it would be prohibitively expensive and likely would impair the effectiveness of the organization in conducting its principal activities. Therefore, when assessing an organization's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered.

For example, instead of trying to prevent fraud, an organization may choose to use more detective controls. Detective controls ensure the company identifies and corrects errors and fraud in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective. Yet, because fraudulent activity can cost the company more than monetary losses, the full cost of fraud occurrence should be considered in making the cost/benefit assessment.

SAMPLE ATTESTATION EXAMINATION REPORT

INDEPENDENT ACCOUNTANT'S REPORT

We have examined the suitability of design of the Kentucky Department of Adult Education and Literacy's (the Department) internal control over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis and over safeguarding of assets as of December 31, 2003, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Department's management is responsible for the suitable design of internal control over financial reporting and over safeguarding of assets. Our responsibility is to express an opinion on the design of internal control based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting and over safeguarding of assets, evaluating the design of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. We were not engaged to examine and report on the operating effectiveness of the Department's internal control over financial reporting and over safeguarding of assets as of December 31, 2003, and, accordingly, we express no opinion on operating effectiveness.

Because of inherent limitations in any internal control misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting and over safeguarding of assets to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Department's internal control over financial reporting and over safeguarding of assets is suitably designed, in all material respects, to prevent or detect material misstatements in the financial statements and to prevent detect and deter unauthorized acquisition, use, or disposition of assets on a timely basis as of December 31, 2003, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

POTTER & COMPANY, LLP

SAMPLE MANAGEMENT LETTER—AT 501 EXAMINATION

To the Council Members of the
Kentucky Council on Postsecondary Education
Frankfort, Kentucky

In performing our examination of the suitability of design of the Kentucky Department of Adult Education and Literacy's (the Department) internal control over financial reporting to prevent or detect material misstatements in the financial statements on a timely basis and over the safeguarding of assets as of December 31, 2003, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate report dated February 15, 2004 contains our report on reportable conditions in the Department's internal control.

Controls over Cash Disbursements

We believe that controls over cash disbursements could be improved by performing the following procedures when paying bills:

- Cancel invoices by indicating the date paid, warrant number, etc. on the invoice.
- Have the person signing the warrant initial the invoice to indicate review of the invoice.
- File paid invoices in a manner that makes them easily accessible.

These procedures will help prevent unauthorized payment of invoices or invoices from being paid twice.

* * * * *

We have already discussed many of these comments and suggestions with various Council and Department personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

POTTER & COMPANY, LLP
February 15, 2004

PROPOSED FEE SCHEDULE

The following preliminary cost proposal is for the AT 501 examination services requested in the RFP:

<u>Staff Level</u>	<u>Total Estimated Hours</u>	<u>Hourly Rate</u>	<u>Standard Charge</u>
Partner	4	155	\$ 620
Manager	10	125	1,250
Senior Associate	<u>60</u>	100	<u>6,000</u>
Total personnel	<u>54</u>		7,870
Expenses			<u>130</u>
The total cost not to exceed price required to perform the examination of the suitability of internal control at the Department of Adult Education and Literacy			<u>\$ 8,000</u>

Hourly rates for additional services requested beyond the scope of this proposal will be as follows:

Partner	\$ 155
Manager	125
Senior Associate	100

This fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the examination. If additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

DRAFT

November 17, 2003

Mr. Dennis Taulbee
Associate Vice President/General Counsel
Kentucky Council on Postsecondary Education
1024 Capital Center Drive
Suite 320
Frankfort, Kentucky 40601

Dear Dennis:

Thank you for the opportunity to submit this proposal to provide professional accounting services to the Kentucky Council on Postsecondary Education (the Council) and the Department of Adult Education and Literacy (the Department). We are proud of our three-year association with the Council. You are a valued and important client to our Firm.

At the request of the Council's Executive Committee we have prepared the enclosed proposal to examine the suitability of the design of the Department's internal control over financial reporting and the safeguarding of assets.

The approach for this engagement is described in the enclosed proposal.

Recognizing that conducting an examination interrupts the daily routine of your operation; we will make every effort to perform the fieldwork as efficiently as possible. Our intent is to get in and get out as quickly as possible without sacrificing client service. We would be available to begin fieldwork on or around January 2, 2004. We will review a draft of our reports with management and the Executive Committee prior to their issuance.

Again, thank you for this opportunity to be of service. We would be happy to discuss our proposal at your convenience. If you have any questions, please give me a call.

Sincerely,

POTTER & COMPANY, LLP

R. Allen Norvell
Partner

Kentucky Community and Technical College System Somerset Community and Technical College Vehicle and Pedestrian Connection

The following interim project recommendation will authorize the Kentucky Community and Technical College System to use funds available from federal sources to construct a vehicle and pedestrian connection between the community college campus and the technical college campus.

Action: The staff recommends that the Executive Committee on behalf of the Council approve the request of the Kentucky Community and Technical College System to construct a vehicle and pedestrian connection between the Somerset Community College campus and the Technical College campus with \$1,200,000 in federal funds (Federal Highway Administration Transportation and Community System Preservation Grant).

The Kentucky Community and Technical College System proposes to construct a vehicle and pedestrian connection (road) between the Somerset Community and Technical Colleges using \$1,200,000 of federal funds. The project will be completed in collaboration with the Finance and Administration Cabinet and the Transportation Cabinet.

The Council has the statutory responsibility to review and approve postsecondary education capital projects costing \$400,000 or more regardless of fund source. Since the estimated cost of this project exceeds the \$400,000 threshold, the Council and the Capital Projects and Bond Oversight Committee must approve the project before it is initiated.

The project involves constructing a roadway over a large ravine and creek that separates the two campuses. Presently, community college students, faculty, staff, and other pedestrians are forced to travel onto Kentucky Highway 2292, a very busy state route, to get from one campus to the other. Building the connecting roadway will improve the operation of the campuses, while also reducing traffic on Kentucky Highway 2292. The KCTCS has certified that funding for the project (\$1,200,000) is available from federal sources. The KCTCS states that the new roadway will be maintained as other paved areas on campus, using the college's operating budget maintenance funds. When repaving is necessary, capital renewal funds will be used.

Following Council approval, the staff will forward the Council's recommendation to the secretary of the Finance and Administration Cabinet and to the Capital Projects and Bond Oversight Committee.

Staff preparation by Sherron Jackson

Revised: November 17, 2003

Council on Postsecondary Education
Executive Committee
November 17, 2003

Kentucky State University Federal Land Grant Program Mobile Satellite Uplink System

The following interim project recommendation will authorize Kentucky State University to use federal funds to purchase a mobile Satellite Uplink System to support the program delivery requirements of the federal land grant programs and to support distance education.

Action: The staff recommends that the Executive Committee on behalf of the Council approve the request of Kentucky State University to purchase a Satellite Uplink Mobile Unit with \$900,000 of federal funds (USDA Facility Grant Program).

The Kentucky State University Land Grant Program proposes to purchase a mobile satellite uplink system using \$900,000 of federal funds. The University of Kentucky's Cooperative Extension Service and the American Distance Education Consortium support the purchase of the equipment by KSU.

The Council has the statutory responsibility to review and approve postsecondary education capital projects costing \$400,000 or more regardless of fund source. Since the estimated cost of this project exceeds the \$400,000 threshold, the Council and the Capital Projects and Bond Oversight Committee must approve the project before it is initiated.

The satellite uplink system will be configured and equipped to offer state-of-the-art technology for various extension program sites including interactive conferencing technology, workshops, field research, and live video feeds. Providing the new system will improve the operation and efficiency of the extension programs. Kentucky State University has certified that federal funds for the project (\$900,000) are available from USDA facility funds and the project will not be implemented until approved by the USDA. The KSU Land Grant Program will maintain the uplink system equipment using the Cooperative Extension Program's operating budget maintenance funds.

Following Council approval, the staff will forward the Council's recommendation to the secretary of the Finance and Administration Cabinet and to the Capital Projects and Bond Oversight Committee.

Staff preparation by Sherron Jackson

2004-06 Total Budget Funding Distribution Policy

The Council adopted the Funding Distribution Policy for institutional base funding at the November 3, 2003, Council meeting. The staff is consulting with the institutions to consider several options regarding possible principles that may be used to guide the Governor and legislature in the allocation of less than full funding of the total budget recommendation.

A set of draft principles was presented to the Chief Budget Officers on Thursday, November 13, 2003, for discussion. The Chief Budget Officers approved the general approach that was presented, suggested several revisions and refinements, and recommended that President Layzell work with the institutional presidents over the next several weeks to finalize a possible companion to the *Points of Consensus* that could serve as a guide for making budget recommendations to the Governor and legislature at prescribed levels of funding as decided by the Governor and the legislature during the budget development process. The Council staff will continue to refine the guidelines through discussions with institutional representatives, and President Layzell will continue to consult with the presidents regarding this issue in an effort to reach a consensus prior to the completion of the Governor's budget.