



BUSINESS SERVICES DEPARTMENT

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Erik J. Kass, *Assistant Superintendent for Business Services*

Daniel A. Nerad, *Superintendent of Schools*

To: Board of Education

From: Daniel Nerad, Superintendent

Date: November 25, 2008

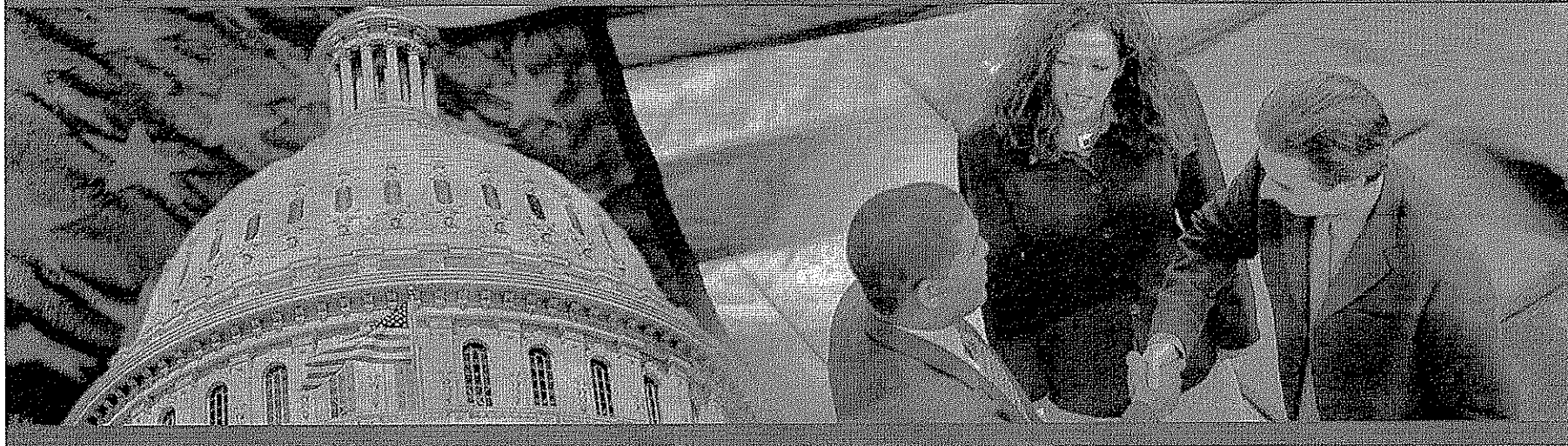
Subject: 2007-08 External Financial Audit Presentation

As required by state statute, the Madison Metropolitan School District hires an independent audit firm to perform an audit of our annual financial statements and review our compliance with federal program requirements. Renee Messing, partner in charge of the audit, will speak to the Board of Education on December 1, 2008 and answer any questions at that time.

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

1. Copy of the presentation to be given by Renee Messing, partner in charge at Clifton Gunderson LLP
2. Audit Opinion
3. Management Letter
4. Financial Statements for June 30, 2008

COUNT ON INSIGHTSM



Madison Metropolitan School District

2008 AUDIT RESULTS



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



Financial Report

- Audit opinion letter
- Management discussion and analysis
- Financial statements
- Budgetary information
- Fund information

Fund Statements

	General	Special Education	Nonmajor Funds	Governmental Total
Revenues and transfers in	\$ 291,940,569	\$ 67,286,912	\$ 36,223,866	\$ 395,451,347
Expenditures and transfers out	287,681,237	67,286,912	45,221,643	400,189,792
Revenues over (under) expenditures	4,259,332	-	(8,997,777)	(4,738,445)
Fund balance, beginning of year	20,663,467	-	19,409,716	40,073,183
Fund balance, end of year	\$ 24,922,799	\$ -	\$ 10,411,939	\$ 35,334,738
Reserved	\$ 884,855	\$ -	\$ 1,455,281	\$ 2,340,136
Designated	24,037,944	-	8,956,658	32,994,602
Total	\$ 24,922,799	\$ -	\$ 10,411,939	\$ 35,334,738

Government-wide Statements

	Governmental Activities
Fund balance - governmental funds	\$ 35,334,738
Capital assets	146,703,480
Long-term obligations	
General obligation debt, capital leases and interest	(58,000,292)
Employee benefits	(106,117,407)
Net assets - governmental activities	\$ 17,920,519
Revenues over expenditures - governmental funds	\$ (4,738,445)
Capital outlay compared to depreciation expense	8,994,477
Changes in employee benefits and unfunded retirement liability	(7,734,655)
Long-term debt issued compared to long-term debt paid and related accrued interest	5,340,508
Change in net assets - governmental activities	\$ 1,861,885

Audit Communication Letter

- Auditor's responsibility under generally accepted audit standards
- Qualitative aspects of accounting policies and estimates
- Audit adjustments
- Other matters





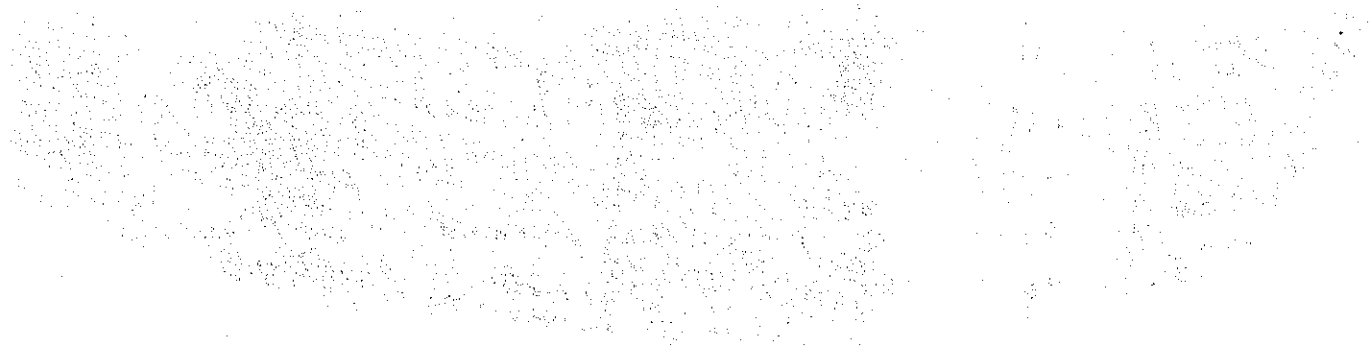
Internal Control Letter

- Comments and recommendations related to:
 - Documentation of reviews and approvals
 - Investment collateral
 - School secretary
 - Information technology

Single Audit

- Compliance and Internal Control related to Federal and State Programs
 - Review and approval of journal entries
 - Documentation of comparability report data for Title I
 - Special education licensing







November 25, 2008

Board of Education
Madison Metropolitan School District
Madison, Wisconsin

This letter is to provide you with information about significant matters related to our audit of the financial statements of Madison Metropolitan School District for the year ended June 30, 2008. It is intended solely for the Board of Education and should not be used by anyone other than this specified party.

We have provided a separate letter, dated November 25, 2008, concerning the internal control conditions that we noted during our audit.

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

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

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

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

Qualitative Aspects of Accounting Practices.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Madison Metropolitan School District are described in Note 1 to the financial statements. The following is a description of significant accounting policies or their application which were either initially selected or changed during the year. As discussed in Note 1 to the Financial Statements, the District implemented the Governmental Accounting Standards Board (GASB) Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* effective July 1, 2007.

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

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

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The District hired an actuary to determine the net other post employment benefit obligation in accordance with Government Accounting Standards Board Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Our conclusion regarding the reasonableness of the net other post employment benefit obligation was based primarily on the review of the actuarial report and the data submitted to the actuary.

Financial Statement Disclosures

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

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

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

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

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

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

Sincerely,

CLIFTON GUNERSON LLP

Clifton Gunderson LLP

November 25, 2008

Clifton Gunderson LLP
8215 Greenway Boulevard, Suite 600
Middleton, WI 53562

We are providing this letter in connection with your audit of the basic financial statements of Madison Metropolitan School District as of June 30, 2008, and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly the financial position and results of operations of Madison Metropolitan School District in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations of Madison Metropolitan School District and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Although Clifton Gunderson may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representations of our management.

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

We confirm, to the best of our knowledge and belief, as of November 25, 2008, the following representations made to you during your audit.

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

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

9. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balances.
13. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions and related amounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees.
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.
 - c. Guarantees, whether written or oral, under which the entity is contingently liable.
 - d. Agreements to repurchase assets previously sold.
 - e. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
14. There are no:
 - a. Violations or possible violations of budget ordinances, or laws or regulations (including those pertaining to adopting or amending budgets, tax or debt limits, and federal, state or local environmental laws and regulations) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - c. Transfers, reservations or designations of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund

loans that have not been properly reflected in the financial statements or disclosed to you.

15. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
16. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged.
17. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
18. We are responsible for determining if we have received, expended or otherwise been the beneficiary of any federal awards during the period of this audit. For this representation, "award" means financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, user grants, or contracts used to buy goods or services from vendors.
19. With respect to federal award programs:
 - a. We are responsible for complying, and have complied, with the requirements of Circular A-133.
 - b. We have prepared the schedule of expenditures of federal and state awards in accordance with Circular A-133 and the state single audit guidelines and have included all expenditures made during the period being audited for all awards provided by federal and state agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property including donated surplus property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs.
 - d. We are responsible for establishing and maintaining effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal and state programs.
 - e. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal and state program.
 - f. We have made available all contracts and grant agreements related to federal and state programs (including amendments, if any) and any related correspondence that has taken place with federal and state agencies or pass-through entities.

- g. We have complied, in all material respects, with the compliance requirements in connection with federal and state awards except as we have disclosed to you.
 - h. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
 - i. Our interpretations of any compliance requirements that have varying interpretations have been provided to you.
 - j. We have made available all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
 - k. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal and state awards.
 - l. The copies of federal and state program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal and state agency or pass-through entity, as applicable.
 - m. 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 Circular A-133 and the State Single Audit Guidelines.
 - n. We have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
 - o. We have accurately completed the appropriate sections of the data collection form.
 - p. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
 - q. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.
20. We are responsible for establishing and maintaining effective internal control over financial reporting.
21. We are responsible for Madison Metropolitan School District compliance with grant provisions, laws and regulations applicable to it; and we have identified, and disclosed to you, all grant provisions, laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal

Electronic Data Retention Policies

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

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

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

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

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

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

- The affects on business operations
- Compliance requirements that affect the company
- Legal protection and litigation concerns
- IT performance issues

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

User Account Review

Currently, there is not a review process over user rights on either the network itself or within financial applications. A more formal process (documented and with input of key department

heads) of reviewing user access to financial applications and specific areas within those applications should be performed to prevent rights from being unintentionally given to users.

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

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

Computer Usage Policy Coverage and Distribution

The current Computer Use Agreement covers only Internet use and use of the email system, and does not cover general topics like password sharing restrictions, proper use of general network resources, etc. An annual redistribution of the policy, with required signature by all users, would be a good reminder tool and education tool, while giving company management recourse for users that use the IT systems improperly. This would help keep staff educated on company policies, and help protect organization by having proof of employee acceptance of policy and a trail of attempting to keep employees educated. A one-time signing of a policy that can change often will be difficult to defend if faced with a court case that relies on an acceptance of the proper use rules.

Performance of Security Audits

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

Data Center Fire Protection

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

This letter is intended solely for the information and use of management and members of the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Middleton, Wisconsin
November 25, 2008