

November 28, 2005

To the Finance Committee
Southwest Wisconsin Workforce Development Board, Inc.
Dodgeville, Wisconsin

In planning and performing our audit of the financial statements of Southwest Wisconsin Workforce Development Board, Inc. for the year ended June 30, 2005, we considered the organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 27, 2005, on the financial statements of Southwest Wisconsin Workforce Development Board, Inc.

We have already discussed many of these comments and suggestions with various organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Negative Expenses

The organization's accounting software package uses a system of funds where an individual fund is used to report the revenues and expenses for each funding source agreement. For example, each of the organization's Workforce Investment Act (WIA) grants received from the Wisconsin Department of Workforce Development (DWD) is assigned its own fund. When a new grant is received, a new fund is created and remains active for the duration of the grant. The revenues and expenses in the individual funds are then consolidated into the amounts reported in the organization's financial statements. The revenues and expenses for the individual funds and the organization as a whole can be seen in the schedule of revenues and expenses by funding source and by contract accompanying the financial statements.

Certain funds in the schedule of revenues and expenses by funding source and by contract contain negative expense amounts. Discussions with organization personnel indicated that the organization occasionally moves expenses between funds due to modifications to funding source agreements. For example, the DWD may modify its grant agreements to reflect a move of certain participants from WIA dislocated workers programs to a targeted population being served by a state rapid response grant. The negative expense amounts generally result from moving expenses in amounts that exceed previously reported amounts or from moving expenses from incorrect accounts.

We recommend that the organization periodically review its funds to ensure that expenses are reported properly. According to generally accepted accounting principles, negative expenses are rare occurrences and are generally the result of errors. Furthermore, negative expenses may cause funding sources to question reported amounts or cost allocation methods. Reviewing negative expenses for potential errors will help the organization ensure that its expenses are reported in accordance with generally accepted accounting principles and that programs are allocated their fair share of costs.

Cash Management

The organization's unadjusted financial statements at year-end included a negative cash balance, commonly referred to as an overdraft. An adjustment was made to the financial statements to reclassify certain checks processed prior to the year-end but held until after the year-end when sufficient funds became available to satisfy them. Discussions with organization personnel indicated that the organization does not have a formal policy that addresses negative cash situations. Likewise, discussions with organization personnel indicated that they were not aware of all the measures they could take to prevent reporting an overdraft in their financial statements and still comply with generally accepted accounting principles.

Overdrafts are a result of either (a) the bank statement at month end reporting an overdraft (a bank or real overdraft), or (b) the bank statement at month end reporting a positive balance with the overdraft arising from "playing the float" (a book overdraft). The "float" is the time between when a check is written and when the check clears the bank account on which it is drawn. The organization's overdraft at year-end is a book overdraft. Thus, no service fees were assessed or checks returned by the bank as a result.

Overdrafts are not uncommon for nonprofit organizations primarily supported by awards from government agencies because such awards are typically paid on a cost-reimbursement basis. Furthermore, these agencies may impose compliance requirements that limit the amount of cash that can be maintained by the recipient organization. However, organizations that want to avoid reporting overdrafts in their financial statements can take certain measures, each with various costs and benefits. The following paragraphs describe some of these measures.

Generally accepted accounting principles allow an organization to offset an overdraft in one bank account with available cash in certain other accounts at the same bank. For example, an overdraft in an organization's checking account may be offset by a sufficient balance in a savings account at the same bank, provided the available balance of the savings account is not subject to minimum or compensating balance requirements. Using this principle, some organizations initially deposit all cash receipts to a savings account and then transfer funds to a checking account only to cover checks written. While this measure is relatively simple and inexpensive, it may not be possible for organizations primarily supported by cost-reimbursement agreements to stay current with paying its vendors.

Likewise, an organization may retain possession of checks and only mail them to vendors after the end of the month when sufficient funds are available to satisfy them. At month end the total dollar amount of held checks should be added back to cash and accounts payable. Again, this measure is relatively simple and inexpensive. However, this measure tends to weaken the organization's system of internal control by allowing processed checks to remain with the organization rather than being mailed to vendors. Also, this measure may create other opportunities for errors, such as simply forgetting to mail the checks.

An organization may also establish a line of credit or other arrangement with its bank to prevent overdrafts, typically for an annual fee or other costs such as interest. Such arrangements provide for an automatic transfer of funds from a preauthorized borrowing or from another account if there are not sufficient funds to cover checks presented to the bank for payment. If such an arrangement exists, an organization may record a transfer between accounts to offset an overdraft. The organization currently has a line of credit that does not automatically transfer funds to its checking account in the event of an overdraft. Thus, in order to use this line of credit to offset book overdrafts, the organization would need to make an actual draw on the line of credit since such a transfer is not previously authorized.

If the organization prefers to avoid reporting overdrafts in its financial statements, we recommend that it perform a brief study of its bank reconciliations to determine the most appropriate measure. Management should then develop a formal policy regarding cash management practices for the organization.

Financial Reporting System

Over the past year the organization has implemented several changes to its financial reporting system,

including a reorganized chart of accounts and the development of a budgeting process that involves input from department heads. Furthermore, the organization has experienced turnover in both employees and members of the board of directors. We are encouraged by the measures taken by the organization and recommend that the organization evaluate its financial reporting system to ensure it is conducting adequate monitoring activities considering these changes. We believe the organization would also benefit from expanding the number of persons, particularly members of the board of directors, with knowledge of the organization's financial matters.

Management's responsibilities include establishing and maintaining effective internal control over financial reporting, ensuring the accuracy and completeness of financial records and related information, and preventing and detecting fraud. Members of management with oversight responsibilities should be kept current with changes to the financial reporting system as well as information relevant to the organization's financial position and operations. Such information may include new or modified funding source agreements, losses of funding sources, or communications from funding sources regarding possible violations of funding source requirements or disallowed costs.

Thorough review and understanding of financial matters is one of the most effective internal accounting controls. To increase the meaningfulness of periodic financial information and provide an improved basis for monitoring the organization's activities, we recommend distributing periodic financial statements to management that include information about the organization's cash position, expenses by account, and comparisons to budgeted amounts and previous results.

The preceding comments and recommendations are intended solely for the information and use of the finance committee, board of directors, management, and others within the organization and are not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Wegner LLP
CPAs & Consultants

DRAFT

Scott R. Haumersen, CPA
Partner