

# **Education Trust of Alaska**

**Report to Management**

**June 30, 2008**

**PricewaterhouseCoopers LLP**  
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April 3, 2009

Ms. Mary K. Hughes  
Chairwoman of the Board of Regents  
University of Alaska  
P.O. Box 755300  
Fairbanks, AK 99775

Dear Ms. Hughes:

In planning and performing our audit of the consolidated financial statements of The Education Trust of Alaska, (the "Trust") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the Company's internal control over financial reporting.

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

AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

Deficiency - a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Significant deficiency - a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material weakness - a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We are providing you with a full detail report of all control deficiencies and operational or business observations, if relevant. See Attachment for detailed comments.

While we did not note any reportable conditions or material weaknesses, we are submitting for your consideration related internal control deficiencies and recommendations to help the Trust achieve operational efficiencies.

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

If you would like any further information or would like to discuss any of the issues raised, please contact Barry Benjamin at (410) 659-3400.

Very truly yours,

PricewaterhouseCoopers LLP

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**NOTE:** These comments relate to the June 30, 2008 Education Trust of Alaska audit with the exception of management letter comment #1, which was noted during the June 30, 2007 audit as well.

### **Operational:**

1. Tuition Valuation Guarantee Liability
2. Reconciliation between MCH and DST/ACT system
3. Accounting for expenses on an accrual basis
4. Sensitivity Analysis of Core Assumptions

## **Operational**

### **1. Tuition Valuation Guarantee**

Observation:

During our June 30, 2008 and June 30, 2007 audits, we noted that there was no physical or electronic sign-off to evidence the Associate Vice President of Finance's review of the Milliman USA tuition valuation.

Implication:

Without evidence of the review performed by the Associate Vice President of Finance, the control activity is not properly documented and tracked to ensure that the value of the tuition valuation guarantee is considered to be reasonable by the trustee.

Recommendation:

We recommend that the Associate Vice President of Finance evidence his review of the Milliman USA actuary report through documentation in an email or signing off on a copy of the report.

#### **Management's Response:**

The Trustee concurs with the recommendation and the Associate Vice President for Finance will formally acknowledge his review and acceptance of all future Milliman USA actuarial reports on the valuation of the UA Tuition-Value Guarantee.

### **2. Reconciliation between MCH and DST/ACT system**

Observation:

During our audit, we noted that there was a reconciliation of data from MCH to DST and ACT system, however, variances between the systems were not investigated and the reconciliation was not reviewed by someone other than the preparer.

Implication:

Without evidence of the reconciliation performed by T. Rowe Price and investigation of variances between the systems, the control activity is not properly documented and tracked to ensure that the data in each system is complete and accurate.

Recommendation:

We recommend that physical documentation be maintained to evidence the reconciliation performed between the three systems, identification and investigation of variances noted, and review by someone other than the preparer.

#### **Management's Response:**

The Trustee concurs with the recommendation and T. Rowe Price has indicated that it will maintain documentation of the reconciliation, the variances and related resolutions, and arrange for a second party to review the reconciliation.

### **3. Accounting for expenses on an accrual basis**

Observation:

During our audit, we noted that there were several expenses relating to the year under audit that were not accrued for properly during the year-end closing process.

Implication:

If proper accruals are not booked within the fiscal year, then the Trust is at risk of having expenses recorded in the improper period.

Recommendation:

We recommend that accruals are booked during the year-end closing process for all expenses relating to the fiscal year.

**Management's Response:**

The Trustee concurs with the recommendation and will book all significant accruals during the year-end closing process.

### **4. Sensitivity Analysis of Core Assumptions**

Observation:

During our specialists' review of the actuary's report including the calculation of the Tuition Value Guarantee, we noted that a sensitivity analysis was performed over long-term assumptions, such as the impact of the long-term spread between tuition inflation and investment return, but not over short-term assumptions such as current economic and market conditions.

Implication:

When short-term assumptions are not considered in the sensitivity analysis, there is the risk that a greater fluctuation in the possible guarantee to be paid out has not been considered.

Recommendation:

We recommend that a sensitivity analysis be performed for short-term assumptions, to take into consideration factors such as current economic and market conditions.

**Management's Response:**

The Trustee concurs with the recommendation and agrees to expand the actuarial analysis of the US Tuition-Value Guarantee to include shorter-term assumptions that may affect the valuation.