LEGISLATIVE COMMISSIONS AND JOINT AGENCIES LEGISLATIVE COORDINATING COMMISSION STATE OF MINNESOTA

YEAR ENDED JUNE 30, 2004

MANAGEMENT LETTER

(Including Communication to Audit Committee)

Virchow Krause & company

Legislative Coordinating Commission
State of Minnesota
St. Paul, Minnesota

We recently planned and performed our audit of the financial statements of Legislative Commissions and Joint Agencies under the authority of the Legislative Coordinating Commission, State of Minnesota. Our audit did not include the Legislative Audit Commission. The audit was for the year ended June 30, 2004. In performing our audit we considered the Legislative Commission and Joint Agencies' internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

We reported on the Legislative Commission and Joint Agencies' internal control in our report dated January 13, 2005. This letter does not affect the report on the financial statements of the Legislative Commissions and Joint Agencies dated January 13, 2005.

Generally accepted auditing standards require us to communicate with our clients other matters that may assist you in strengthening internal controls or improving operating efficiency. Our audit did not identify any specific findings with regard to these matters, but we believe these are important issues for you to consider.

We have already discussed these matters with various members of your staff, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of management and the commission and is not intended to be, and should not be, used by anyone other than the specified parties.

Virchow Krause & Company LLP

Minneapolis, Minnesota
January 13, 2005

NEW AUDITING STANDARD

As part of our audit of your financial statements for the year ended June 30, 2004 we were required to follow a significant new auditing standard, or rule.

The new standard has been designed to increase the likelihood of finding unidentified material fraud. SAS 99 (Statement on Auditing Standards) requires the auditor to identify and assess risks due to fraud which could result in materially misstated financial statements.

The purpose of an audit is for the auditor to express an opinion as to whether the financial statements of the organization are materially correct. In other words, do the financial statements present the organization's financial position and results of operations fairly and consistently? The term material is used to describe the concept that the audit is focused on dollar amounts in the financial statements that are significant, rather than auditing small and, perhaps, less meaningful amounts. This is done to make the audit process more efficient and less costly.

The auditing standards state that the auditor is to obtain reasonable assurance that the financial statements are free of material misstatement. SAS 99 requires the auditor to specifically identify and assess risks due to fraud that may result in materially misstated financial statements. (The auditor does not have the same responsibility for errors or fraud which are not material to the financial statements.) Management is still responsible for establishing the appropriate controls to prevent, deter, and detect fraud.

How does this impact your organization? As auditors, we still have the same responsibility for detection of material financial misstatement due to fraud as we did in the past. Now we are more focused on how to do that, and we are required to document our efforts in new ways. For example, we now ask more questions about internal controls, segregation of duties and management's internal assessment of fraud risk. The audit team brings a heightened level of professional skepticism to the audit.

The new standard will benefit you and the public with financial statements that are more useful and accurate, with less risk of unidentified fraud occurring. But even a properly planned and completed audit may not detect a material fraud because deception and concealment are a natural part of any fraud. Auditing standards continue to clearly state that it is management's responsibility to design and implement procedures and controls to prevent, deter, and detect fraud.

How can management of your entity contribute to the success of the organization in the area of fraud prevention?

- You should implement job applicant screening procedures when hiring employees with access to assets that are susceptible to misappropriations.
- You should complete an evaluation of fraud risks within your entity.
- You should communicate the importance of ethical behavior and appropriate business practices to all employees.
- Whenever possible, you should implement controls to address fraud risks. Such controls should help prevent, deter and detect fraud.
- Controls that you implement should be monitored for proper use, and continuity.
- The governing body should be aware of the organization's fraud risks and controls related to those risks.
- Management should assess and be aware of any issues of non-compliance with laws and regulations within the organization.

NEW AUDITING STANDARD (cont.)

- Management should assess and be aware of employees with significant financial difficulties.

In a nutshell, you should consider where fraud may occur in your organization, and do what you can to minimize that risk, within reasonable cost parameters. Finally, this increased emphasis on fraud is a direct result of frauds that have occurred throughout the United States in the past couple of years. As a result of those frauds, the new auditing standard SAS 99 was passed. This is not the end of the changes. Seven more new auditing standards are expected to be passed in the future which will further impact what we are required to do as auditors and how we communicate with you, the governing body.

COMMUNICATION TO THE COMMISSION

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 11, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Legislative Commissions and Joint Agencies under the authority of the Legislative Coordinating Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Legislative Commissions and Joint Agencies' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

COMMUNICATION TO THE COMMISSION (cont.)

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2003 - 2004. We noted no transactions entered into by the legislative commission and joint agencies during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We did not have any audit adjustments for the year.

Other Information in Documents Containing Audited Financial Statements

All the information included in the financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

Consultations with Other 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 auditors' 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.

COMMUNICATION TO THE COMMISSION (cont.)

Issues Discussed Prior to This Year's Audit

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 legislative commission and joint agencies' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

CONCLUSION

We thank you for allowing us to be of service to the Legislative Commissions and Joint Agencies. Please contact us if you have any questions or comments regarding this report or the financial statements. If you have any special accounting or consulting needs including training, computer implementation, consulting and record keeping assistance, we are available to provide those services.