June 19, 2013

Mr. Ray Hayes  
Vice Chancellor  
The University of Alabama System

Dear Mr. Hayes:

In planning and performing our audit of the consolidated financial statements of entities of The University of Alabama System (the “System”) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered each entity’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the entities’ financial statements, but not for the purpose of expressing an opinion on each entity's internal control over financial reporting. Accordingly, we do not express an opinion on each entity'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 have separately provided to the audit committee of the Board of Trustees a full detail report of all significant deficiencies and material weaknesses that came to our attention in performing our audits. As agreed in our engagement letter, we also are providing you with a report of the following deficiencies that are of a lesser magnitude than a significant deficiency.
Other deficiency

- Create & Post Journal Entry Access (University of Alabama, University of Alabama at Birmingham, and University of Alabama in Huntsville) – Control Deficiency

At each of the three campuses we noted one or more individuals that have access rights that allow those individuals to both create and post a journal entry into the general ledger without the review and approval of an independent reviewer. This inherently results in a heightened risk of both fraud and error within the financial statements.

We recommend management consider implementing one or more controls to independently monitor the activity of individuals with create & post journal entry rights to help ensure that these access rights do not inappropriately impact the financial statements. Management should also review and monitor the list of individuals with such access rights to determine if such access is appropriate. Further, the System entities should consider enhancing the manual review of journal entries and other business process reviews to further compensate and mitigate this control deficiency.

This letter is intended solely for the information and use of management of the System entities, the Board of Trustees of the University of Alabama, 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 Kevin Kelly at (205) 250-8588.

Very truly yours,