



Members of the Board of Education  
and Management  
Fayette County School District  
Lexington, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Fayette County School District (the "District") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's 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 effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We did not identify any deficiencies in internal control that we consider to be significant deficiency.

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

This communication is intended solely for the information and use of management, the members of the Finance Committee and of the Board, others within the District, and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve the District and are available at your convenience to answer questions or assist in the implementation of these suggestions.

**STROTHMAN & COMPANY**

Louisville, Kentucky  
November 14, 2012

Current Year Comments and Management Responses

**Fayette County School District**

June 30, 2012

**Item 2012-01 – Review and Oversight Over Recording of Journal Entries Could Be Improved**

**Condition and Criteria:** A journal entry was incorrectly requested on the District's journal entry form, incorrectly approved by budget manager, and incorrectly posted by the financial services department. This resulted in the donated commodities balance being significantly understated.

**Cause:** Review and approval of the journal entry did not catch the misstatement.

**Effect:** Understatement of donated commodities for 2012.

**Recommendation:** We recommend that the journal entry review process be evaluated in order to reduce the risk of incorrect entries.

**Managements Response:** Financial Services Management agrees with the comment. Financial Services will start to review immediately all of the journal entry submissions by Food Service Department to Financial Services for processing and accuracy in relation to how it has been submitted and the desired ending amount to recorded into MUNIS. Additionally, Financial Services will document and sign their approval of the journal requests from the Department of Food Services.

**Item 2012-02 – Authorized Check Signers Should Be Reviewed and Updated**

**Condition and Criteria:** The bank confirmed that a former Board Member was still listed as an authorized check signer.

**Cause:** The bank records were not updated by the District after the Board Member left.

**Effect:** Bank records were not correct.

**Recommendation:** We recommend updating and reviewing the list of authorized check signers on an annual basis to ensure that former Board Members and/or employees are no longer listed as authorized check signers.

**Managements Response:** Management agrees and will implement a best practice to check and review the list of authorized check signers on an annual basis to ensure that former board members and/or employees are no longer listed as such.

Prior Year Comments and Management Responses

**Fayette County School District**

**Item 2011-01 – Employee Benefits Coordination Could Be Improved**

**Condition and Criteria:** We are assisting the District with an Internal Revenue Service audit of certain of its employee benefit plans. In connection with this, we noted that it is not always clear which departments within the District have authority and responsibility for employee benefit matters. Responsibility is divided between the Financial Services and Human Resources Departments.

**Cause:** Division of responsibilities among departments is not uncommon in large organizations.

**Effect:** Important compliance matters could be missed because one department thinks that the other department is taking care of it.

**Recommendation:** We recommend reviewing the division of responsibilities of payroll and employee benefit responsibilities between the Financial Services and Human Resources Departments. Centralization of certain functions in one department or the other may be preferable to the current arrangement to insure employee benefits and payroll are properly handled.

**Management's Response:** Management agrees and will begin improving efficiencies of scope and scale related to employee benefits management and compensation. Management will achieve this by analyzing and looking at restructuring these services by centralizing them upon recommendation by the Superintendent during the 2011-2012 fiscal year. Management will also work directly with the auditors to streamline processes and guidelines of improving processes related to all stakeholders compensation and benefits.

**Current Status:** Management reorganized this area during fiscal year 2012.

**Item 2011-02 – Accounting for Tax Revenue Could Be Improved**

**Condition and Criteria:** While testing revenue from taxes, we found a utility tax receipt recorded as an open accounts receivable item and as accrued accounts receivable thus overstating income.

**Cause:** This appeared to be an inadvertent oversight.

**Effect:** Revenue was overstated.

**Recommendation:** We recommend that management review items accrued as income after year end to insure that tax receipts already received are not recorded as a receivable.

**Management's Response:** Management concurs. Management will review items accrued as income after year end in comparison to the accounts receivable aging report to identify any duplicates before recording an additional accounts receivable. Management will also reconcile the accounts receivable items to the general ledger on a monthly basis to be proactive in identifying any duplicates.

**Current Status:** We found a similar situation this year, but the amounts involved were not as significant.

Prior Year Comments and Management Responses--Continued

**Fayette County School District**

June 30, 2012

**Item 2011-03 – Bond Interest Should Be Properly Accrued**

**Condition and Criteria:** While testing accrued interest expense, we noted that the state's portion of interest expense was not being accrued. Both the District's portion and the state's portion of bond interest expense should be accrued at year end.

**Cause:** This appeared to be an inadvertent oversight.

**Effect:** Expense was understated.

**Recommendation:** We recommend that management accrue all interest expense related to bond debt.

**Management's Response:** Management agrees. Initially the SFCC portion of interest accrual which the State pays on behalf of the District was omitted from the calculation. This resulted in an understatement of the bond interest accrual of \$158,113. The correction has been made by the Construction Accounting Department and notations have been added to the interest accrual calculation spreadsheet to insure this error does not occur in the future.

**Current Status:** This process was handled correctly for fiscal year 2012.