

## Communication of Management Comments



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, 2013, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 consider items 2013-01 through 2013-03, noted in the following pages, to be significant deficiencies. Other matters discussed on the following pages are opportunities for strengthening internal control over financial reporting and operating efficiency.

The District's written responses to the comments identified during our audit have not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

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 AND COMPANY*

Louisville, Kentucky  
November 12, 2013

**Fayette County School District**

June 30, 2013

**Item 2013-01 – Lack of Oversight over School Food Service Accounting**

**Condition and Criteria:** The Fayette County School District (the “District”) Food Service Department’s financial activity is recorded on a separate accounting system outside of the Munis Financial Management Software (“Munis”). Summary financial data is then input into Munis. All other financial activity of the District is recorded within Munis. The Kentucky Department of Education (“KDE”) has mandated that Munis be used by all school districts in the Commonwealth.

**Cause:** The District’s Food Service department has decided to use a separate accounting system.

**Effect:** The Food Service Department is not using the same system as the rest of the District. The District’s Financial Services Department does not have access to this separate system, which makes its responsibility for financial oversight difficult. This also raises issues of segregation of duties in that the Financial Services Department cannot perform a proper supervisory review of the Food Service accounting records.

**Recommendation:** We recommend that the Food Service Department implement the Munis system. If this is not feasible, we recommend that a way be found for the existing Food Service Department accounting system to be able to load detailed transaction data into the Munis system.

**Management’s Response:** Management agrees with this comment. Financial activity has been recorded on a separate accounting system outside of the MUNIS Financial Management Software. A separate system has been used due to the volume of invoices and the necessity to generate internal profit and loss statements, operations that MUNIS does not provide. The Food Services Department will begin researching and eventually implementing a process with the ability to upload more detailed transaction data into the MUNIS system. This will provide better continuity, transparency, and the additional monitoring oversight required in relation to these operations to the District and its stakeholders.

**Item 2013-02 – Properly Record Accounts Payable**

**Condition and Criteria:** During our procedures over accounts payable we noted numerous invoices, mainly construction related, which were inadvertently left out of accounts payable at June 30, 2013.

**Cause:** An incorrect service date was used to record the invoices.

**Effect:** Accounts payable at year end were understated.

**Recommendation:** We recommend that controls be implemented to ensure that invoices are being properly evaluated.

## Current Year Comments and Management Responses

### Fayette County School District

June 30, 2013

#### **Item 2013-02 – Properly Record Accounts Payable--continued**

**Management's Response:** Management agrees with this comment. During this fiscal year, some duties were reassigned to new employees, these employees were not trained properly during the transition on invoice dates. Management will train accounts payable, tax and construction offices on how to enter proper service dates for applicable invoices. The proper dates to be used as invoice dates for travel reimbursements will be the date the actual service/professional development took place. Utility Bills will use the service dates or meter reading date, whichever is available. Tax office refunds will use the date signed off on by tax supervisor that show all documents have been received and reviewed and refund can be processed. Construction invoices will use the date the construction project was put into place as listed on the pay application during the month of July only. The remainder of the year will use the architect authorization date as the invoice date.

#### **Item 2013-03 – Segregation of Duties**

**Condition and Criteria:** Accounts payable clerks have rights in Munis to edit vendor info as well as set up vendors.

**Cause:** Although clerks do not set up new vendors they have access in Munis to do so. They are responsible for vendor changes.

**Effect:** Clerks could potentially enter fraudulent invoices for payment.

**Recommendation:** We recommend that Munis rights for the accounts payable clerk be altered so that they cannot set up vendors. We also recommend that segregation of duties be implemented as much as administratively possible. When not possible we recommend an alternate review, such as a vendor audit, be performed.

**Management's Response:** Management agrees with this comment. In prior years the accounting software (MUNIS) would not allow permissions to divide up the area of updating and adding vendors, it was an all or nothing access. Our process allowed for Accounts Payable clerks to only update remit addresses but there were no permissions in place to prevent them from adding a new vendor if they wanted too. To mitigate this risk, we do have a process of reviewing an audit trail report to see if the Accounts Payable Staff entered vendors or updated remit addresses without prior approval. As of November 1, 2013 Fayette County has just updated our accounting system to MUNIS version 10.3 which now allows management to break up these permissions in Accounts Payable through role based security. Effective November 5, 2013, all accounts payable clerks only have permissions in MUNIS to update remit addresses, they no longer have access to add, delete or update any vendor records.

#### **Other Audit Findings**

In addition to the above recommendations, we are also aware that the Kentucky Auditor of Public Accounts issued a report dated July 18, 2013 containing recommendations. For more information about this report, please go to <http://auditor.ky.gov/Pages/default.aspx>.

Prior Year Comments and Management Responses

**Fayette County School District**

**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.

**Management's 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.

**Current Status:** Not noted as in issue during the current year.

**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.

**Management's 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.

**Current Status:** Not noted as an issue during the current year.