Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
325 West Main Street
Louisville, KY 40202
502 585 1600

Strothman+Co

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, 2014, 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 2014-01 through 2014-03 on the following pages, to be significant deficiencies.

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 10, 2014

Current Year Comments and Management Responses

Fayette County School District

June 30, 2014

Item 2014-01 – 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. Upon receiving the management comment in November for the 2013 fiscal year audit, Financial Services began collaboratively meeting and planning the transition with food service with consultation from our internal auditors to assure compliance. Based on these meetings and planning, Food Service and Financial Services started a pilot program with five food service vendors in March of 2014. We implemented the requisition/purchase orders and AP batch payment/scanning with these 5 food service vendors.

To be diligent in our process related to this transition, we used these five vendors to work out any kinks, questions or concerns that we encountered during this transition. All travel from the Food Service Department was also implemented to go through financial services first for review, and then sent back to food service to process for payment. Financial Services met monthly with Food Service for a few months to discuss any concerns/questions or issues that came up during this pilot phase. As of July 1, 2014, Food Service is fully using the MUNIS requisition/purchase order and accounts payable module for all vendors. During fiscal year 2015, we will also start the process of implementing the accounts receivable module and other food service reports if applicable. We plan to have all processes fully implemented by July 1, 2015 for better monitoring, transparency, and oversight.

Item 2014-02 – Budgeting Process Could Be Improved

Condition and Criteria: During our review of budgeted versus actual revenues and expenditures for the fiscal year ended June 30, 2014, we noted mathematical errors in the working and tentative budgets.

Cause: Lack of review and oversight of work performed by Department of Budget and Staffing Services personnel.

Effect: The Budgets were not correct.

Recommendation: We recommend that the District evaluate the overall budgeting process in order to develop a process more useful in managing District resources in an effective and efficient manner.

Management's Response: Management agrees with this comment and we have already began reviewing current procedures to ensure adequate collaboration among departments and assure appropriate oversight of the budgeting process. Additionally, we are investigating MUNIS modules that can support budget document development. We expect implementation of new modules to eliminate potential for mathematical errors. Furthermore, the development of a 3 – 5 year Strategic Finance Plan will be complete in January, 2015 and will serve as a tool in annual budget development.

Item 2014-03 – Properly Record Accounts Receivable

Condition and Criteria: During our procedures over accounts receivable, we noted that management of the District was unable to reconcile Accounts Receivable for the year ended June 30, 2014.

Cause: The District did not record all accounts receivable journal entries at year end.

Effect: The Accounts Receivable reconciliation did not agree to the supporting detail.

Recommendation: We recommend that controls be implemented to ensure that all journal entries are recorded at year end, are properly evaluated and are allocated to the correct accounts/funds.

Management's Response: Management agrees with comment. To ensure that all journal entries in fund 2 are recorded at year end, management will implement several additional control activities to assure that any year end accounts receivable adjustments along with the supporting documentation will be reviewed and recorded appropriately.

Other Audit Findings

In addition to the above recommendations, we noted that the Kentucky Auditor of Public Accounts issued a report dated September 17, 2014 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 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.

Current Status: See current year comment 2014-01

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.

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.

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

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.

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