

McCRACKEN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER

Year Ended June 30, 2014



Kentucky State Committee for School
District Audits
Members of the Board of Education
McCracken County Board of Education
Paducah, Kentucky

In planning and performing our audit of the basic financial statements of the McCracken County Board of Education for the year ended June 30, 2014, we considered the Board's internal control in order 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. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these other matters. A separate report dated October 21, 2014, contains our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This letter does not affect our report dated October 21, 2014, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2014.

The District's responses to the matters identified in 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.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these items, or to assist you in implementing the recommendations.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Kentucky Department of Education, the School Board's management, audit committee, and members of the Board of Education of McCracken County School District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
October 21, 2014

Other Matters:

Criteria: Kentucky procurement policy requires invoices to be paid within 30 days of receipt.

Condition: Out of a sample of 48, we noted thirteen instances of invoices not paid within 30 days of the invoice date received.

Cause: This was due to invoices not timely presented to the finance office for payment after their initial receipt by the District.

Effect: While we did not note any late fees incurred, paying invoices outside of 30 days could cause the District to incur late payment fees.

Recommendation: We recommend District employees send all invoices to the finance office as soon as they are received and all invoices be paid within 30 days of receipt.

Board Response: Invoices that state there is a penalty for paying late (such as utility bills and credit card statements) are paid within the required time frame. Aside from those, here are instances when an invoice arrives with a shipment and staff members don't realize this may be the only copy and forward it to the finance department. There are other times when an invoice is sent by the vendor with a date several weeks or months earlier. In addition, Board meetings are sometimes more than four weeks apart, and with invoices having to be approved by the Board before payment according to Board policy, there will be situations when invoices are not paid within 30 days of the invoice date. We will examine existing Board policies to determine if an update is necessary and remind staff that invoices must be submitted and paid in a timely manner.

Criteria: District personnel should be paid in accordance with the Board's approved salary table.

Condition: During a sample of 40, we noted one instance of an employee not paid in accordance with the Board approved salary table.

Cause: An employee's approved salary rate was reduced for fiscal year end June 30, 2014. However, this change was not implemented due to inadequate review of accuracy of salaries paid, a function normally performed by an employee who was on maternity leave.

Effect: The District over paid the employee during the fiscal year end June 30, 2014.

Recommendation: We recommend the Board's review process include verification all district salaries are paid according to the approved salary table.

Board Response: The error was discovered almost immediately after the overpayment was issued and the employee affected was contacted. The employee repaid the funds. Internal controls are in place to prevent this in the future.

Criteria: Kentucky Department of Education (KDE) guidance for indirect cost allocation for food service states only salaries and benefits should be used in the calculation for indirect cost that can be charged.

Condition: We noted the District was using all direct costs allocated to food service to calculate the indirect cost charged.

Cause: District personnel did not properly implement KDE guidance for indirect costs of food service.

Effect: Based on the Board's approved indirect cost rates, food service was over allocated for indirect costs. However, the Board's approved indirect cost rate used was substantially less than the allowable rate and, accordingly, food service was charged less than what would have been allowable had the Board used a higher allowable rate.

Recommendation: We recommend the Board have a review process in place to verify KDE guidance is followed for indirect cost allocations.

Board Response: This process began when a supervising employee was on maternity leave and although she left written instructions, this detail was overlooked by staff. The calculation has since been adjusted and the supervising employee will review the journal entries in the coming year to ensure it is correct.

Status of prior year comments:

Condition: We noted instances where required retirement application form records could not be located. The State of Kentucky Record Retention Schedule recommends maintaining these records for sixty years from date of hire.

Status: Item is still present in the current year. However, we did not note any occurrences of non-compliance with employees hired after July 1, 2009.

Condition: During our testing of Title I and 21st Century programs, we noted instances of coding expenditures to object codes which were not applicable to those programs.

Status: This item was addressed and corrected during the current year.

Condition: We noted one high school supporting organization's bank account was in the District's federal identification number.

Status: This item was addressed and corrected during the current year.

ACTIVITY FUNDS

Kentucky Administrative Regulations (702 KAR 3:130) requires school activity funds to adhere to its “Accounting Procedures for Kentucky School Activity Funds”, commonly referred to as the “Redbook”. We noted various instances where activity fund records and accounting procedures were not maintained in accordance with the “Redbook” requirements. These items are noted in the remainder of this report.

Audit testing of school activity funds indicated several areas with opportunities for strengthening internal controls or operating efficiency which were present at more than one location.

ACTIVITY FUNDS

The matrix below indicates conditions noted at individual schools:

School Locations	Condition #							
	1	2	3	4	5	6	7	8
Concord Elementary			X					
Heath Elementary			X					
Heath Middle			X					
Hendron Lone Oak Elementary			X					
Lone Oak Elementary		X	X					
McCracken County High	X		X	X	X	X	X	
Reidland Middle		X						X

District Wide:

Criteria: Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires cash donations received at the schools for general use shall be deposited in a general account. The principal and SBDM council will decide the use of these donations. These donations must be used to support student activity as required by Redbook.

Condition: We noted several instances of donations at the school level for general use. The donations for general use must be spent in accordance with Redbook requirements of funds used for the direct student benefit. General use donations could be deposited at the Board and provide greater flexibility of use depending on Board’s policy.

Cause: Lack of Board policy regarding receipt of general use donations.

Effect: Donation use has more flexibility when accounted for at the Board level.

Recommendations: We recommend accounting for general use donations at the Board to provide greater flexibility of use at the direction of the school’s SBDM council.

Board Response: KDE has provided an option to add a fund at the district level to account for school level donations. Funds deposited there have fewer restrictions on how they can be spent. The district will work with schools over the next year to set up district level accounts. "Redbook" training will also be provided to schools to help clarify recently implemented "Redbook" guidelines.

Condition #1:

Criteria: Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires the use of Form F-SA-17 for concessions, bookstore, and pencil machine receipts. It also requires the use of Form F-SA-2B for fundraising activities.

Condition: We noted two instances where Forms F-SA-17 and Form F-SA-2B were not used for sales from bookstore, concessions, or fundraising activities.

Cause: Misunderstanding of the purpose of Forms F-SA-17 and F-SA-2B.

Effect: The use of Forms F-SA-17 and F-SA-2B improves internal control by providing support for monies collected and documentation of the amount, date, and person collecting the funds.

ACTIVITY FUNDS

Recommendations: We recommend Form F-SA-17 be used for concessions and bookstore sales and Form F-SA-2B be used for fundraising activities.

Board Response: "Redbook" training will be provided to help staff understand which forms to use.

Condition #2:

Criteria: Procedures for Kentucky School Activity Funds ("Redbook") requires the deposit slip to note the receipt numbers on the deposit slip documentation.

Condition: Deposit slips did not contain the treasurers receipt number on the deposit slip documentation.

Cause: Lack of understanding/implementation of Redbook policy for the item noted.

Effect: Failure to note which treasurer's receipts make up a deposit could result in reconciliation difficulties from the treasurer's receipts to the deposits.

Recommendations: We recommend deposit slips note the receipt numbers on the deposit.

Board Response: Training will be provided to help correct this issue in the coming year.

Condition #3:

Criteria: Procedures for Kentucky School Activity Funds ("Redbook") does not allow school activity funds to pay for basic routine operating expenses, renovations, maintenance of school facilities or buildings, faculty related items or parent volunteer items. Activity funds must be used for the benefit of the students.

Condition: We noted seven instances where the funds disbursed were not used for the sole benefit of the students, but were used for service of a copier, printer ink, snow removal, and athletic field renovations.

Cause: Lack of understanding/implementation of Redbook policy for the items noted.

Effect: Expenditures that were not for the sole benefit of students reduced the amount of funds available for student purposes.

Recommendations: We recommend all activity fund expenditures directly benefit students as required by Redbook.

Board Response: "Redbook" training will be provided to clarify acceptable uses of activity funds. Also, the district will set up district level accounts for activity funds to allow these types of purchases when necessary.

Condition #4:

Criteria: Procedures for Kentucky School Activity Funds ("Redbook") requires the Requisition and Report of Ticket Sales (Form F-SA-1) be used to report and reconcile the number of tickets sold and the funds collected.

Condition: We noted four instances where the Requisition and Report of Ticket Sales (Form F-SA-1) form was not used for tickets sold before events.

Cause: Lack of understanding/implementation of Redbook policy for the items noted.

Effect: Lack of supporting documentation of ticket sales, makes it difficult to reconcile amount of funds collected compared to number of tickets sold increasing risk of ticket sales not being deposited.

Recommendations: We recommend completing the Requisition and Report of Ticket Sales (Form F-SA-1) form for all ticket sales.

Board Response: "Redbook" training will be provided to staff to ensure that guidelines are being followed properly.

ACTIVITY FUNDS

Condition #5:

Criteria: A good system of internal control for ticket sales would allow only one ticket sale per individual for admittance into an event.

Condition: We noted there were online ticket sales before events and individuals purchasing tickets online could print their ticket from home for scanning at the event they were attending, cancelling out the ticket from being used again. However, the scanner would not work properly and the school began marking the tickets as used.

Cause: Issues with the wireless network connecting with server for the scanners to properly work.

Effect: An individual purchasing a ticket online could print multiple copies of the ticket and allow multiple individuals to enter the event without paying.

Recommendations: We recommend online ticket sales not be sold until the wireless network is strengthened and working properly with the scanners.

Board Response: District staff will research the electronic ticketing system and ensure it works properly before it is used in the coming year.

Condition #6:

Criteria: Accounting Procedures for Kentucky School Activity Funds ("Redbook") requires money collected after school business hours for evening events be placed in a night depository or night drop at a bank or in the locked school safe and processed for deposit the following business day by the school treasurer

Condition: We noted one instance where gate receipts from an athletic event were not timely deposited.

Cause: Lack of implementation of Redbook policy for the item noted.

Effect: Increased risk funds from the gate receipts could be misplaced or stolen from the school before a deposit is made.

Recommendations: We recommend making deposits for after hours events the next business day.

Board Response: This issue will be reviewed with staff so that someone is designated to make deposits in a timely manner.

Condition #7:

Criteria: Accounting Procedures for Kentucky School Activity Funds ("Redbook") requires the proper supporting documentation of expenses.

Condition: We noted three instances of expenses not having the proper supporting documentation as to what the expenses were for and/or who was attending.

Cause: Lack of implementation of Redbook policy.

Effect: Expenses could be paid for unallowable items and individuals not allowable by Redbook.

Recommendations: We recommend all expenses have the proper supporting documentation.

Board Response: "Redbook" training will be provided to staff to strengthen internal controls and to prevent an unauthorized invoice from being paid.

ACTIVITY FUNDS

Condition #8:

Criteria: Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires boosters accounts to have supporting documentation stating how their funds can be spent.

Condition: We noted one instance where a softball booster account funded by booster donations maintained in the activity funds did not have supporting documentation stating how funds can be spent.

Cause: Lack of implementation of Redbook policy for the item noted.

Effect: Redbook compliance cannot be verified unless supporting documentation from the boosters stating how the funds can be spent is on file.

Recommendations: We recommend the school receive and maintain supporting documentation for how the softball boosters’ funds can be spent.

Board Response: "Redbook" training will be provided for district staff and for booster club presidents and treasurers to help correct this issue.

ACTIVITY FUNDS

Prior Year Comments Still Present in the Current Year

Hendron Lone Oak Elementary

Prior Finding: We noted one instance where the funds disbursed were not used for the sole benefit of the students, but were used for operational expenses.

McCracken County High School

Prior Finding: We noted two instances where funds disbursed were not used for the sole benefit of the students, but were used for snow removal and field athletic field renovations.

We noted no fiscal year end June 30, 2014 reoccurrence of other prior year comments at schools having such comments in the prior year.