

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, 2015, 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.

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 material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 13, 2015

Current Year Comments and Management Responses

Fayette County School District

June 30, 2015

Item 2015-01 – Budgeting Process Could Be Improved

Condition and Criteria: In connection with our audit, we reviewed the tentative budget (approved May 12, 2014), the working budget (approved September 22, 2014) and the revised working budget (approved January 26, 2015) for the year ended June 30, 2015. We noted that the budgeted expenditure numbers that are in the monthly MUNIS reports presented to the Board generally did not agree to the Board approved budgets.

Cause: Budgeted expenditures per MUNIS are often changed throughout the year without Board approval. The current Board budget policy does not contain a budget transfer policy with an appropriate threshold to ensure any revisions to the annually adopted budget are appropriately reviewed and approved by the Board. As noted in the report issued by the Kentucky Auditor of Public Accounts on September 17, 2014, the District should reinstate a budget transfer policy.

Effect: The monthly MUNIS financial statements with budget comparisons are not accurate.

Recommendation: We recommend that Board approval be obtained for budget transfer changes based on a predetermined threshold.

Management's Response: Management agrees. Our Board has requested an appropriate threshold to be put in place within the operational budget expenses related to movement of budget via budget transfers at the District Office level. SBDM has the authority to move their allocated Section 4, 5, 6 funds around without Board approval. Per KDE unless the overall working budget changes there is no requirement for approval by the Board for transfers within the general fund budget. Based on this directive and extensive research no other district within the state of Kentucky has implemented a budget transfer threshold. However, to create transparency and maintain trust, an appropriate threshold requiring board approval is being reviewed by the Superintendent to present to the board for appropriate resolution. Implementation of these changes in policy will occur upon the Superintendent's presentation of these changes and the Board's final approval.

Item 2015-02 – Properly Record Accounts Payable

Condition and Criteria: During our procedures over grant disbursement testing for Title II, Title III, and IDEA B, we noted that Purchase Order Dates were after the invoice dates for professional development conferences and translator services.

Cause: Management did not properly approve conferences and services prior to invoice dates.

Effect: Per the District's policy, all purchases require management approval prior to the date of purchase.

Recommendation: We recommend that controls be implemented to ensure that all purchase orders have prior approval.

Current Year Comments and Management Responses -- Continued

Fayette County School District

June 30, 2015

Management's Response: Management agrees with the comment and will continue to train budget managers on the proper process for issuing purchase orders before the invoice. All travel reimbursements will be checked for board approval prior to processing reimbursements. However, please note that there are exceptions such as interpreting service, private schools reimbursements and other contracted services for students IEP plans. Interpreting services are done on a case by case basis when needed, the District does not know ahead of time how many students or how many hours will be needed in order to create a purchase order prior to the invoice. This is the same case for other therapy services for students. These services are based on students IEP plans. Fayette County is also the custodian for federal dollars for private schools. The private schools spend the funds similarly to an individual and then send us documentation for FCPS to reimburse them for expenses. These are exceptions and we will never be able to issue a purchase order prior to these expenses, due to the fact that we are reimbursing the funds. The District agrees that when we provide PD services to our ESL and Special Ed staff that we receive a contract with a quote prior to the services, so that the purchase order can be issued using the quote.

Item 2015-03 – Not All Users Should Have Administrative Rights on Workstations

Condition and Criteria: During the technology review portion of our audit, we noted that users have administrative rights on their workstations due to requirements from some software programs needed for their job duties.

Cause: Due to some software programs that are required for job duties, users have admin rights on their workstations.

Effect: Not all users should have admin rights because they may have access to information that they should not or may be able to alter the configuration of their computers or download unauthorized programs.

Recommendation: We recommend that management perform a process analysis to determine the applications which require the access and either replace or upgrade the software, or if possible modify the software settings, and then remove Local Admin access from user workstations.

Management's Response: Management agrees and we will identify the programs/job duties that require local administrative access. As we move to cloud based software, the requirements for local administrative access has been reduced, such as for MUNIS, but the rights have not been removed from workstations. We have begun working on systematically removing local administrative rights through group policy and will assign local rights at the lowest level possible. We are also expanding the automation of software installation so that service accounts can be used without requiring users to have local administrative rights. We are also reviewing the KETS Best Practice Guidelines to ensure that we are following proper procedure and practices.

Item 2015-04 – MUNIS Roles Should Be Reviewed Regularly

Condition and Criteria: User access in MUNIS is not reviewed regularly to ensure segregation of duties.

Cause: Management does not review MUNIS user access on a regular basis.

Current Year Comments and Management Responses -- Continued

Fayette County School District

June 30, 2015

Effect: Employees may have access to areas of MUNIS they no longer need for their role. Additionally, by not reviewing access there could be segregation of duty issues.

Recommendation: We recommend opening a case with MUNIS Support to assist with an audit that examines whether roles have proper permissions and whether users are assigned proper roles for their jobs. Reports should be created that make this two-step audit a simple and repeatable regular activity, suggested once a year.

Management's Response: Management agrees. Technology (MUNIS group) are the gate keepers of the permissions and they monitor and question any additions/removal of permission that can only be requested by Principals/Managers. A process to review each schools/departments MUNIS users and permissions should be done on a quarterly or semi-monthly basis with each Principal/Manager is recommended. This should then be followed up with a review with Budget/Finance/HR to confirm the access and segregation of duty for all MUNIS users roles that identify functionality and data permissions.

Item 2015-05 – The District Should Create and Test a Disaster Recovery Plan

Condition and Criteria: A disaster recovery plan, including recovery of MUNIS, has not been planned or performed.

Cause: The District has not implemented a disaster recovery plan.

Effect: By not having a disaster recovery plan in place, including the recovery of MUNIS, there could be a loss of substantial data should anything happen to the network.

Recommendation: We recommend creating and testing a disaster recovery plan by the end of the 2016 calendar year.

Management's Response: Management agrees and we tested our back\disaster recovery procedure on November 6 with MUNIS. We successfully connected to a backup site in order to ensure that we were able to function properly if the main MUNIS site was down. We are also implementing a backup connection at IAKSS in order to ensure that key individuals can continue to operate in the event that our main internet connection goes down. We will be working on defining the process for switching from the main connection to the backup connection, including the priority of access, once the connection and equipment is in place. We expect to have that complete by the end of December, 2015. We are also updating our District technology plan and will include specific tasks in order to move to a fully developed disaster recovery plan.

Prior Year Comments and Management Responses

Fayette County School District

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.

Current Status: This was not noted as an issue during the current year audit.

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.

Prior Year Comments and Management Responses -- Continued

Fayette County School District

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 begun 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.

Current Status: See current year issue 2015-01.

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.

Current Status: This was not noted as an issue during the current year audit.