

BALLARD COUNTY BOARD OF EDUCATION
MANAGEMENT RECOMMENDATION LETTER
Year Ended June 30, 2013



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

In planning and performing our audit of the basic financial statements of the Ballard County Board of Education for the year ended June 30, 2013, 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 several 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 November 7, 2013, 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 November 7, 2013, on the financial statements of the Ballard County Board of Education as of and for the year ended June 30, 2013.

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, and members of the Board of Education of Ballard 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
November 7, 2013

Central Office

Other Matters:

Criteria: The State of Kentucky record retention policies provide governance for maintaining personnel records during and after employment.

Condition: During our payroll testing, we noted three instances out of a sample of forty where required Internal Revenue Service forms W-4 and one instance where form I-9 could not be located. The State of Kentucky Record Retention Schedule recommends maintaining these records during employment and for five years after employment.

Cause: These forms could not be located for these employees.

Effect: Payroll records were not totally compliant with personnel regulations and record retention policies.

Recommendation: We recommend management perform a review of all active employees to insure personnel records are up to date in accordance with applicable State and Board policies and personnel regulations. Management might also consider requiring verification and updating of these documents in conjunction with routinely scheduled employee evaluations or training.

Board Response: Our personnel secretary will perform a review of all active employees to insure personnel records are up to date in accordance with applicable State and Board policies.

Criteria: When various fund's cash is pooled, interest earned on the Districts pooled cash bank account should be allocated to the applicable funds, unless restricted by policy or applicable statutes.

Condition: During testing of cash, we noted the interest was not being allocated to the various funds that were pooled.

Cause: The District did not allocate the interest earned to the applicable funds where the interest was earned.

Effect: The pooled cash funds which were not allocated interest earnings lost revenues and purchasing ability.

Recommendation: We recommend allocating interest to the funds that earned the interest on a monthly basis unless restricted.

Board Response: Our finance officer will allocate interest to the funds that earned the interest on a monthly basis.

Criteria: Financial accounting records should include all trust activity in the MUNIS accounting system in accordance with generally accepted accounting principles.

Condition: We noted during our testing of trust funds, the fund records did not include all scholarship trust activities in the MUNIS accounting records.

Cause: While recommended, the Kentucky Department of Education has not mandated Districts to record scholarship trust activities in the District's trust fund. Accordingly, these activities have not been recorded in the MUNIS accounting system.

Effect: Trust funds did not reflect all activities in the fund's accounting records in accordance with generally accepted accounting principles.

Recommendation: We recommend the District account for scholarship trusts activities in the MUNIS accounting system trust fund. Accounting for these activities within the MUNIS accounting records as separate projects would reduce the need to maintain separate checking accounts for each scholarship fund. In addition, unless restricted by the donor, pooling of scholarship funds will maximize investment earning potential thus resulting in additional funds available for scholarship awards.

Board Response: Our finance officer will account for scholarship trust activities in the MUNIS accounting system. As these CD's mature we will be pooling the scholarship funds to maximize investment earning potential.

Status of prior year comments:

Condition: We noted two instances out of a sample of forty where required Internal Revenue Service forms W-4 and four instances where U.S. Citizenship and Immigration Services Form I-9 could not be located.

Status: Item is still present in the current year.

Condition: Private purpose trust funds include activity which supplement the District's operations are more appropriately reported as special revenue funds activities. In addition, while currently not required by KDE, trust fund records in the MUNIS system accounting records did not include scholarship trusts as required under generally accepted accounting principles.

Status: Scholarship trust account activity is still not recorded in the MUNIS accounting records.

Condition: During testing of disbursements, we noted one instance where the supporting purchase order was missing and two instances where supporting documentation for travel related charges on a credit card statement were missing.

Status: This item has been addressed and corrected in 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 areas with opportunities for strengthening internal controls or operating efficiency which, in some instances, were present at more than one location.

ACTIVITY FUNDS

Condition #1: Ballard Memorial High School and Ballard County Middle School

Criteria: Accounting Policy for Kentucky School Activity Funds ("Redbook") does not allow school activity funds to pay for faculty related items. Activity funds must be used for the benefit of the students.

Condition: During our testing of transfers, we noted two instances of transfers to pay for expenditures not used for the sole benefit of the students, but were used for teacher's Christmas lunch and coaches cards.

Cause: Lack of understanding/implementation of the "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 be made to directly benefit students as required by Redbook.

Board Response: Our principals will ensure that all activity fund expenditures will directly benefit students as required by Redbook.

Condition #2: Ballard Memorial High School

Criteria: Accounting Procedures for Kentucky School Activity Funds ("Redbook") requires the use of Form F-SA-6 for teachers/sponsors/students when collecting money from students.

Condition: During our testing of receipts, we noted three instances where Form F-SA-6 was not used when collecting funds from students.

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

Effect: The lack of use of the Form F-SA-6 weakens internal controls which would otherwise provide support for funds collected and documentation of the amount, date, and person collecting the funds.

Recommendations: We recommend Form F-SA-6 be used when collecting funds from students.

Board Response: Our school secretaries will ensure that F-SA-6 forms are always used when collecting funds from students.

Condition #3: Ballard County Career and Technical Center

Criteria: Accounting Procedures for Kentucky School Activity Funds ("Redbook") states the schools are exempt from the payment of sales tax.

Condition: We noted one instance where sales tax was paid on school expenses.

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

Effect: Payment of sales tax on items purchased results in less funding available for students' activities.

Recommendations: Authorized personnel making purchases on behalf of the school should utilize the school's tax exemption certificate. Likewise, before reimbursements are made, receipts should be reviewed to ensure sales tax is not included in the reimbursement.

Board Response: Our career and technical center secretary will ensure that no sales tax is paid on school expenses.

Prior Year Comments Still Present in the Current Year

Ballard Memorial High School

Prior Finding: We noted instances where multiple receipt forms could not be located.