Communication of Management Comments

Members of the Board of Education, Audit Committee 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, 2018, 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 that are appropriate in the circumstances for the purpose of expressing our opinions 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 charges with governance. We consider item 2018-01 to be significant deficiency.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency that we have included in this letter.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.
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.

Louisville, Kentucky
November 14, 2018

STROTHMANN AND COMPANY
Current Year Comments and Management Responses

Fayette County School District

June 30, 2018

Item 2018-01 – Year End Close for Capital Assets

Condition and Criteria: During our audit procedures related to capital assets, we noted a number of food service capital assets assigned to a construction project that were capitalized in both the governmental funds and the food service fund. We also noted that there were some capital assets placed in service in the fiscal year ended June 30, 2018 but depreciation was not being calculated.

Cause: When Food Service capital assets are placed into service and tagged, Food Service personnel are sometimes not considering whether or not the additions were assigned to a construction project or not. In the instance that Food Service additions were purchased and placed into service under a construction project, Food Service personnel are not notifying the Capital Assets department to take those additions off the project so the assets are not double counted.

Capital assets are being entered into the Capital Asset Module of MUNIS during the subsequent fiscal year even though the capital assets should have been capitalized in the current fiscal year. The MUNIS system was calculating depreciation based on the date entered rather than the in service date.

Effect: Capital assets are overstated for the governmental funds and depreciation expense is understated.

Recommendation: We recommend having controls in place where Food Service personnel would notify Capital Assets each time they tag an item that was purchased through a construction project. We also recommend having controls in place to ensure that the Capital Assets Module is using the correct inputs to calculate depreciation.

Management Response: Management agrees with this comment. In the past Capital Assets, for cafeterias are purchased with construction funds and they are all associated with specific projects. Then at year-end when CIP and/or completed projects are booked into MUNIS, the cost of those assets will be deducted to reflect the transfer ownership from the CIP or completed project to food service. FCPS will request that all Capital Assets sent over from food service at year-end also specify if a project is associated with that asset, so that when CIP or completed assets are booked. The Finance staff will know how much to subtract out from that project and enter into the fund 81 food service Capital Asset Module.

The Capital Assets that did not depreciate was due to the import having an acquisition field that defaulted to the date the assets were entered. That date was in FY2019, so when MUNIS depreciated Capital Assets there was not a 2018 date, so no depreciation calculated. Management has found and corrected all those assets for FY2018. Management has also updated the acquisition field on the upload spreadsheet to not default to current date, you must now enter a true acquisition date from the information submitted from the warehouse after the asset has been tagged. This fixes this issue for upcoming years.

Management’s Anticipated Completion Date for Corrective Action: November 2018
Item 2018-02 – Allowable Expenditures for Student Activity Fund

Condition and Criteria: During our audit procedures related to student activity funds, we noted student funds being transferred to a teacher’s incentives account and subsequently spent on teachers rather than students. The funds were derived from unrestricted contributions and school energy reward dollars. According to the Redbook, any unrestricted contributions/rewards received by a school are to be spent on students.

Cause: Principal’s and bookkeepers at the individual schools are not complying with the Redbook as it relates to receiving donations and unrestricted funds and how the funds should be spent even though extensive training on the requirements of the Redbook is being provided by the District.

Effect: Student funds are being spent on teachers and other faculty.

Recommendation: We recommend documenting and explaining to all principals and bookkeepers allowable and disallowed items related to unrestricted contributions and school energy rewards dollars received by a school.

Management Response: Management agrees, and will continue to provide trainings required by school principals & bookkeepers. Redbook resource material will remain available on the web as a reference tool for all stakeholders to ensure compliance with the Redbook policy and procedures. Additionally, the District’s School Accounting Team and the Finance Compliance Officer will schedule additional site visits and reviews to assist and support the school principals in knowing and understanding the responsibilities of the Redbook. Management will also recommend mandatory Redbook Training again for the Principals out of compliance.

Management’s Anticipated Completion Date for Corrective Action: June 2019
Item 2018-03 – Employee’s Years of Experience

Condition and Criteria: During our audit procedures related to payroll testing, we noted that one employee was being paid at step 15, but based on years of experience documented in the personnel file, the employee should have been at a step 16.

Cause: The employee’s years of service appear to have been miscalculated after the employee took a two year leave of absence.

Effect: An employee was being paid at a lower rate than they were contracted to earn.

Recommendation: We recommend having a control in place to double check the approved step assigned to employees with what is entered into the payroll module of MUNIS.

Management Response: Management agrees. This employee returned to work with the District prior to the current process being implemented. The current auditing of previous FCPS experience includes the use of Classified Employees Education/Previous Experience Summary and Certified Experience Summary Forms that are completed by new hires and rehires as part of their new employee paperwork process. The completed forms provide a list of previous employers including Fayette County School District and are reviewed in conjunction with the experience verification forms that are submitted for processing. Experience audits are conducted for returning employees who list the district as a previous employer on their summary form. Additionally, annual salary notices are provided to current employees that include their grade and step levels as well as their current salary. Employees are instructed to review all of the information reported on the notice and send corrections to Human Resources for verification and correction.

Management’s Anticipated Completion Date for Corrective Action: Currently in place.
Item 2017-01 – Record the Appropriate Amounts for Fund 2 Deferred Revenues and Receivables

Condition and Criteria: During our testing over Fund 2, we determined that there were multiple reimbursement grants that had both Accounts Receivable and Deferred Revenue associated with them. Based upon the revenue recognition of Cost Reimbursement Grants, these grants should never be in a net deferred revenue position at any time.

Cause: The revised reconciliation process for Fund 2 Deferred Revenues and Receivables implemented by management is still a work in process. The District records receivables subsequent to year end just before reimbursements are requested in July using the Fund 2 report. Subsequently, Deferred Revenue is recorded after all accruals have been booked using an updated Fund 2 report. When deferred revenue is recorded, the next step in the process of considering what was initially recorded as a receivable and any additional revenue that should be recorded due to accrued expenses that were incurred prior to year-end, had not been implemented.

Effect: This caused a shift of revenues between years and differences in the recorded and actual balances of deferred revenues and accounts receivable from grants.

Recommendation: We recommend that this additional step in the Fund 2 reconciliation process is implemented so that grant revenues are recorded at the appropriate amounts. For example:

   a) Cost reimbursement grant revenues are recognized when a qualifying expense is incurred.
   b) Deferred Revenue is recognized when advanced funds have been received and the associated expenses have not yet been incurred on a specific grant.
   c) Fee for Service grant revenue is recognized when the qualifying service has been performed.

Management Response: Management agrees that the revised reconciliation process as part of transitioning from the zero out process of fund 2 to a more accurate reporting is required. Management implemented amended procedures to record only the expected receivables and deferred revenue after consulting with the external auditors and consulting with several other districts that do not close out Fund 2 at yearend to zero. The process was communicated with the Kentucky Department of Education to also ensure we comply with their requirements. Management will proceed in future years with the agreed understanding in the recommendation from the auditors for more specific steps a through c to assure that the process meets both the expectations and understanding of the external auditors and management.

Current Status: Recommendations were implemented during the fiscal year ended June 30, 2018.
Prior Year Comments and Management Responses—Continued

Fayette County School District

June 30, 2018

**Item 2017-02 – Include Only Outstanding Bank Transactions During the Reconciliation Process**

**Condition and Criteria:** During our testing over the bank statement reconciliations, we determined that reconciling items totaling approximately $6 million were related to wire transactions that were not initiated until over one week subsequent to year end.

**Cause:** When MUNIS books payroll entries, the related tax and benefit payments are automatically recorded to cash prior to funds being transferred.

**Effect:** This caused an understatement in cash and an understatement in liabilities of approximately $6 million.

**Recommendation:** We recommend that all bank reconciliations and supporting documents be reviewed to ensure that the reconciling items are appropriately included.

**Management Response:** Management agrees and will implement standard operating procedures for the Payroll Accounting Manager to complete this process timely and thus ultimately record this transaction with all bank reconciliation and supporting documentation as required by management.

**Current Status:** No such issue was noted in the current year.

**Item 2017-03 – Calculate the Sick Leave Accrual in Accordance with District Policy**

**Condition and Criteria:** During our testing of the sick leave accrual, we discovered that the parameters with which the report had been run were incorrect, thus including employees within the calculation that were not eligible for a sick leave payout.

**Cause:** The cause was due to turnover in the Payroll Accounting Manager position in the Financial Services department.

**Effect:** This resulted in an understatement of the sick leave accrual of approximately $1.74 million.

**Recommendation:** We would recommend that the sick leave report be standardized within MUNIS and that the exported Excel document be reviewed by at least one other individual to ensure the individuals pulled within the report are indeed eligible for retirement.

**Management Response:** Management agrees and will implement standard operating procedures for the Payroll Accounting Manager to complete this process working with assistance from the MUNIS Technology staff. Management will subsequently verify prior to recording this transaction in the financials, Management has already implemented separate verifications levels of review related to the final Excel document.

**Current Status:** No such issue was noted in the current year.
Item 2017-04 – The District Should Create and Test a Disaster Recovery Plan

Condition and Criteria: A formal disaster recovery plan, including procedures for recovery of MUNIS, has not been created or tested.

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

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

Recommendation: We recommend creating and testing a formal disaster recovery plan by the end of the next fiscal year.

Management Response: Management agrees and has implemented a plan that will utilize FCPS IAKSS Key Connections and Systems Recovery Plan, which management initially developed in March of 2017. Management inadvertently failed to provide this document to the auditors to demonstrate the plan is to maintain our ability to use MUNIS and, to a lesser extent, Infinite Campus during network outages. Management will update this plan as we update the district technology plan over the next approximate 6 months. This process along with the MUNIS Disaster Recovery plan submitted as an attachment to the auditors will be the basis for our response.

Current Status: A formal Disaster Recovery Plan was fully implemented during fiscal year ended June 30, 2018.

Item 2017-05 – Annual Information Technology Security Awareness Training

Condition and Criteria: Cybercrime is becoming much more prevalent in our society.

Cause: The District is not currently requiring all employees to attend annual information technology security awareness training.

Effect: Employees are not properly updated on the potential for cybercrime.

Recommendation: Information technology security awareness training should be implemented on a yearly basis for all employees. This training could be an online video on the District’s intranet similar to the other training videos offered.

Management’s Response: Management agrees and will explore adding a technology\cybersecurity course as part of the required annual courses in Safe Schools Training that all employees complete each year. Currently, there are 11 IT related courses available, including courses on Internet Browsing Security Basics, Cybersecurity Overview, Online Safety, Password Security, Protection against Malware, and Email Security. These courses will be reviewed to determine if they meet the needs of the district and added as part of the required training either on an annual or rotating basis. If these courses do not meet the needs of the district, FCPS will evaluate and select another cybersecurity course for employees.
Fayette County School District

June 30, 2018

Item 2017-05 – Annual Information Technology Security Awareness Training—Continued

Current Status: District Policy 08.2323 (Access to Technology Resources) was approved and adopted on June 25, 2018. Effective July 1, 2018, all District employees are required to attend annual training related to security awareness as part of the Safe Schools Training.