To the Board of Education  
Henderson County School District  
Henderson, Kentucky  

Ladies and Gentlemen:  

The following recommendations resulted from our audit of the Henderson County School District for the fiscal year ended June 30, 2018. We have developed these recommendations to assist the District in improving financial operations as well as the related internal controls over various operational areas.

**Improving Procedures Over School Activity Funds:**

During our testing of the receipts and disbursements cycles of the student activity funds for the District, we noted several instances where staff failed to follow procedures promulgated by the Kentucky Department of Education's *Accounting Procedures for Kentucky School Activity Funds* (The Redbook). The following conditions were noted from our sample:

- Two instances where the multiple receipt form was missing;
- One instance where the donation form was not signed by the bookkeeper as receiving funds;
- One instance of deposit voucher split between deposits;
- Twenty Five instances where the deposit ticket is not signed or initialed by two people;
- Five instances where no deposit ticket was prepared;
- Five instances where there is no duplicate deposit ticket in file;
- Four instances where deposit ticket did not match agree with the Multiple Receipt Forms;
- Fifty instances where deposit receipts are not initialed;
- Ten instances where funds were not deposited on time, in one instance $1,575 cash held for four and one half months;
- Two instances of gate receipt forms not matching the starting or ending ticket number attached.;
- Eighty Eight instances of Multiple Receipt Forms being completed incorrectly;
- Eight instances of checks signed by one person;
- Thirty Seven instances of Purchase Orders signed by one person;
- Thirty Seven instances of invoices without approval signature and/or approval date;
- Twelve instances of invoices without check numbers and/or dates paid;
- Two instances of check number missing on Purchase Order;
- Five instances of checks issued without supporting documentation in file;
- One instance of no invoice to support disbursement;
- Two instances of disbursement exceeding Purchase Order amount;
- Two instances of no purchase order supporting disbursement;
- One instance of a purchase order amount being altered without initials;
- One instance of an invoice amount not matching the disbursement;
- Fifteen instances of bank statements not signed and/or dated by the principal
- Four instances of bank statements being reviewed after bank reconciliations were completed
**Recommendation:**

We recommend as we did in the prior year, that management continue to provide training to ensure compliance with the procedures mandated by the Kentucky Department of Education as they relate to activity fund financial practices. Management of the District may also consider having someone within the District review activity in each fund on a monthly basis or perhaps engage a consultant as was previously done to perform an internal audit of activity fund operations and provide training. Additionally, we recommend that the consultant engaged by the District to perform internal audits over each fund perform more in-depth procedures related to the cash receipts and the underlying reports and supporting documentation.

**Management Response:**

Management concurs with this recommendation and at the time of the audit has already communicated to responsible staff the procedures as they relate to the Redbook. From the heightened awareness of risk and responsibility, we will continue to provide yearly “Redbook” trainings from a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds. The consultant will be advised to perform more in-depth reviews of cash receipts and related supporting reports and documentation.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the “Redbook” will be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
2017-18 Findings by School:

A. B. Chandler Elementary School:

- The following issues were noted that relate to the cash receipts process:
  1) One instance was noted where a deposit voucher was split into two deposits rather than one.
  2) One instance of no Multiple Receipt Form in file, one person received and deposited funds.
  3) One instance of donation form not signed by bookkeeper as receiving the funds.

- The following were noted over the cash disbursement process:
  1) One check was noted as lacking dual signatures.
  2) Three transactions had purchase orders with only one signature.
  3) One invoice was signed for approval, but was lacking the date of the approval.

- The following were noted related to the review and approval process of the bank statement and reconciliation.
  1) One bank statement was noted as being reviewed and approved after the date of the reconciliation.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Cash receipts procedures were reviewed with staff at A.B. Chandler and the importance of documenting the money received was stressed. The process for authorizing, approving, documenting and reviewing disbursements was discussed with staff, also, as was the need to review the bank statement for the activity fund in conjunction with the review of the reconciliation.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
**Bend Gate Elementary School:**

- The following were noted related to the cash receipt process:
  1) Ten instances were noted where the deposit slips and receipts were not signed or initialed.
  2) Three instances were noted where no deposit slip was prepared as the bookkeeper was out of the tickets.

- The following were noted related to the cash disbursement process:
  1) Two invoices selected for testing were found to be lacking approval via the signature of the principal.
  2) Ten invoices were noted as being signed for approval, but lacking the date of approval.
  3) Ten invoices were noted as lacking a reference to the corresponding check number.
  4) One purchase order was found to be signed by only one person rather than two.

*Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Bend Gate Elementary School and the importance of documenting the money received was stressed, as was the process for authorizing, approving, documenting and reviewing disbursements was discussed with staff.*

*From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds.*

*We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.*
**Central Learning Center**

- The following were noted from our review of the receipt process:
  1) Five instances were detected where there were no duplicate bank receipts in the file, and these receipts were not initialed by the principal.

- The following were noted as they relate to the disbursement process:
  1) Two invoices were noting as lacking the signature of the principal, along with the date of approval.

*Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Central Learning Center and the importance of documenting the money received was stressed, as was the process for authorizing, approving, documenting and reviewing disbursements was discussed with staff.*

*From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.*

*We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.*
East Heights Elementary:

- The following were noted related to the bank reconciliation process:
  1) One occurrence was noted where the principal did not sign the bank statement.

- The following were noted as they relate to the disbursement process:
  1) One instance of disbursement with no supporting documentation.
  2) Two instances of invoices with no approval signature and date.
  3) One instance of no invoice in file to support disbursement.
  4) Two instances of invoices not annotated with check number and date paid.

- The following were noted related to the bank reconciliation process:
  1) One instance of bank statement not signed and dated by the principal.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at East Heights Elementary School and the importance of preparing a bank reconciliation and having the reconciliation and related bank statement reviewed and approved by the principal, as by signing and dating these documents.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Henderson County High School:

- The following were noted related to the cash receipt process:
  1) Four instances were noted where the funds were held and not deposited in a timely fashion. One deposit in the amount of $1,575 appeared to have been held by the teacher-sponsor for approximately four and one-half months.
  2) One instance was noted where the multiple receipt form did not agree to the corresponding receipts.
  3) One instance was noted where the total on the multiple receipt form was incorrect.
  4) Two instances were noted on gate receipt forms from athletic events where the beginning and ending ticket numbers attached to the form did not agree to the information on the related form.

- The following were noted related to the cash disbursement process:
  1) Two instances were noted where the amount of the disbursement was in excess of the amount noted on the purchase order.
  2) One instance of a purchase order with one signature.
  3) One instance of a stipend being paid to band instruction with the documentation indicated the percentage to be paid, but there was no documentation of the amount. Auditor was unable to determine the accuracy of the amount paid.
  4) Two checks were noted as having only one signature.

- The following were noted related to the bank reconciliation process:
  1) Three bank statements were noted as being signed and approved after the date of the reconciliations.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Henderson County High School and the importance of preparing a bank reconciliation and having the reconciliation and related bank statement reviewed and approved by the principal, as by signing and dating these documents. Proper accounting for gate receipts was discussed along with the appropriate procedures for authorizing, approving, and issuing payments.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Jefferson Elementary School:

- The following were noted related to the cash receipts process:
  1) Numerous instances were noted where multiple receipt forms were being re-used with additional transactions added, rather than preparing another form making it impossible to confirm the amount of cash is accurate on the corresponding deposit.

- The following were noted related to the cash disbursement process:
  1) Seven instances were noted where there was only one signature on the purchase order.
  2) Two instances were noted where there was no purchase order for disbursements.
  3) Two instances were noted where there was only one signature on the check.

- The following were noted related to the bank reconciliation process:
  1) General ledger reports for the School’s activity fund were not signed by the principal and the bookkeeper.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Jefferson Elementary School and the importance of using the multiple receipt form in proper fashion; the need to prepare and review the bank reconciliation in a timely manner and the appropriate procedures for authorizing, approving, and issuing payments.

From the heightened awareness of risk and responsibility, we will continue to provide yearly “Redbook” trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the “Redbook” will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Niagara Elementary School:

- The following were noted related to the cash disbursement process:
  1) One instance was noted where there was only one signature on a purchase order.
  2) One instance of discrepancy between cash shown on Multiple Receipt Form and cash listed on deposit ticket.

- The following were noted related to the bank reconciliation process:
  1) Statements were not signed and dated by the principal.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Niagara Elementary School the appropriate procedures for authorizing, approving, and issuing payments.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
North Middle School:

- The following were noted related to the cash receipt process:
  1) Eleven instances were noted where the currency listed on the multiple receipt form did not match the currency listed on the deposit tickets.
  2) One instance of a missing multiple receipt form for a deposit.
  3) Four instances were noted where funds were not deposited in a timely manner.
  4) Eighty-one instances where the multiple receipt forms were not completed properly and/or were not totaled.

- The following were noted related to the cash disbursement process:
  1) Twenty instances were noted where the purchase order was signed by one individual.
  2) One instance was noted where the amount on the invoice did not match the amount on the check.
  3) One instance of a check being back dated was noted.
  4) One instance of a purchase order being changed without initials of the original signers of the form.

- The following was noted related to the bank reconciliation process:
  1) Nine stale checks were noted on the year end bank reconciliation form.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at North Middle School the need to prepare and review the bank reconciliation in a timely manner and the appropriate procedures for authorizing, approving, and issuing payments. Due to the numerous findings at this school, management will focus on taking corrective action in the form of additional training for the bookkeeper and the principal. A meeting was held October 1, 2018 with the auditor, finance director, and the principal and bookkeeper to discuss the issued noted from a review of the activity fund.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Spottsville Elementary School:

- The following were noted related to the cash receipts process:
  
  1) Two instances were noted where cash reported on the multiple receipt forms was less than the corresponding bank deposit.
  2) One deposit ticket was noted as being incorrectly totaled and corrected by the bank.
  3) Ten instances were noted where the deposit receipt is not initialed.

- The following were noted related to the cash disbursement process:
  
  1) One purchase order was noted as being signed by one individual.
  2) Three checks were issued having only one signature.

- The following were noted related to the bank reconciliation process:
  
  1) Two bank statements were signed, but not dated by the principal.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at Spottsville Elementary School the need to prepare and review the bank reconciliation in a timely manner and the appropriate procedures for authorizing, approving, and issuing payments. Also, the manner in which receipts should be processed and accounted for were discussed.

From the heightened awareness of risk and responsibility, we will continue to provide yearly “Redbook” trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the “Redbook” will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
South Heights Elementary School:

- The following were noted related to the cash receipts process:

  1) Ten instances were noted where the deposit receipts are not initialed.
  2) One instance was noted where the Multiple Receipt Form did not agree with the deposit.

- The following were noted related to the cash disbursement process:

  3) Invoices are not being signed and dated by an approving party and the date of payment and check number are not listed.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at South Heights Elementary School the appropriate procedures for authorizing, approving, and issuing payments.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
South Middle School:

- We noted the following related to the cash receipts process:
  1) Multiple instances were noted of cash not being in agreement with the multiple receipt form.
  2) One multiple receipt form for game gate indicated cash was over when upon further review, cash was short.
  3) Two instances of no duplicate bank receipt.
  4) Ten instances were noted were the bank receipts are not being initialed.
  5) Two instances were noted were the funds were not deposited timely.

- The following were noted related to the cash disbursement process:
  1) Four instances were noted where there was not supporting documentation in file.
  2) Three instances were noted where POs were signed by one person.
  3) Ten instances were noted where invoices were not approved and dated by recipient.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at the Thelma B. Johnson Learning Center related to the appropriate use of the multiple receipt form and bank deposits procedures.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
The following were noted related to the cash disbursement process:

1) Two instances were noted where the purchase order was not numbered.
2) One instance where the purchase order had only one signature.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with staff at the Thelma B. Johnson Learning Center the appropriate procedures for authorizing, approving, and issuing payments.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school’s activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
General Observations:

Maintaining Copy of Check for Vendors that Process Electronically

It should be noted that Wal-Mart does not process checks through their bank deposits, opting instead to process an electronic version of the check. The auditor was unable to verify two signatures are present on these checks as they were not retained by the bookkeeper.

It is recommended that when checks are processed electronically by a vendor, the original be returned to the disbursement file and attached to the supporting documentation after completion of the transaction as support for dual signatures.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with District responsible for activity funds to reiterate the appropriate procedures for authorizing, approving, and issuing payments. Staff also have been advised not to make purchases with activity funds from Wal Mart.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Obtaining Signatures on Multiple Receipt Forms

Students third grade and older should sign or print their name on the form and indicate the amount paid in cash or by check in the appropriate column. This is an internal control procedure to insure dual control over funds. Teachers dealing with students in the second grade and younger may complete the form for them. Auditor noted multiple instances where it appears that teachers are completing the forms without the student's involvement.

Management should consider emphasizing the appropriate use of the multiple receipt form.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. Procedures were reviewed with District responsible for activity funds to reiterate the appropriate procedures for use of the multiple receipt form.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings from Ron Flannery, a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.
Prior Year Findings:

Improving Procedures Over School Activity Funds:

We noted several conditions where procedures mandated by the Kentucky Department of Education over school activity funds was not followed. A summary by school of the findings related to the activity funds is below:

- Nine instances where the multiple receipt form was not used;
- Eight receipts for which dual signatures were not present;
- Eleven checks for which dual signatures were not present;
- Five instances where purchase orders were not issued;
- Nine purchase orders for which dual signatures were not present;
- One purchase order that did not agree with the check issued for payment;
- Once instance where funds were not deposited in a timely fashion;
- One instance where the deposit receipt was missing;
- Twelve instances where there were no approvals on the invoice prior to payment being issued;
- Two instances where invoices were not present to support the check issued;
- Six instances where deposit slips did not have any indication of review via initials of responsible party;
- Two ticket reports were missing the beginning ticket number to adequately account for all tickets sold at the event;

Recommendation:

We recommend that management continue to provide training to ensure compliance with the procedures mandated by the Kentucky Department of Education as they relate to activity fund financial practices. Management of the District may also consider having someone within the District review activity in each fund on a monthly basis or perhaps engage a consultant as was previously done to perform an internal audit of activity fund operations and provide training.

Status:

These and other conditions continue to exist in fiscal year 2017-2018. Management is committed to continually improve the handling of activity funds.

Alexander Thompson Arnold PLLC

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Henderson, Kentucky
October 22, 2018