In planning and performing our audit of the basic financial statements of the McCracken County Board of Education for the year ended June 30, 2018, 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 November 8, 2018, 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 8, 2018, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2018.

The District’s responses to the matters identified as an attachment to our letter 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
November 8, 2018
Other Matters:

Criteria: Capital assets should be recorded once the criteria for recognition has been met.

Condition: During testing of capital related expenditures, we noted capital assets were not posted in the MUNIS general ledger properly.

Cause: Reconciliation of the fixed asset module with the general ledger was not performed during the year due to lack of adequate staffing and training. By not timely performing reconciliations during the year, the District failed to identify assets posted in the fixed asset module and not properly reflected in the MUNIS general ledger.

Context: Capital related assets were not always properly reported in the MUNIS general ledger during the year.

Effect: The board and management were not provided accurate information regarding the District’s capital assets.

Recommendation: We recommend the District improve monitoring of capital asset related expenditures to insure proper posting and reporting of capital assets. The District should consider costs versus benefits of filling the position of capital assets manager.

Views of Responsible Officials and Planned Corrective Actions: In practicing ongoing frugality in staffing at the central office, the district attempted to use existing staff in various departments to cover the vacant role of the full-time fixed asset manager. We realize that properly accounting for capital assets and providing accurate information in financial reports related to those assets is difficult for people who already have full-time responsibilities in other areas. In a district of 7,000 students and a 1:1 laptop program at the high school level with potential for expanding to the middle school level in the future, we understand that accounting for capital assets should be a priority. We recognize from a series of past and continuing management letter recommendations, that the accounting and management of capital assets has weakened since the person previously in the position requested part-time status four years ago before vacating the position completely for FY2018. Consideration will be given to filling this role full-time so that the accounting and management of capital assets can return to the high standards of accounting practiced in other areas of the district’s finance department, as it was when there was a dedicated full-time fixed assets manager.

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.

The matrix below indicates conditions noted at individual schools:

<table>
<thead>
<tr>
<th>School Locations</th>
<th>Condition #</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Concord Elementary</td>
<td>X</td>
</tr>
<tr>
<td>Heath Elementary</td>
<td></td>
</tr>
<tr>
<td>Heath Middle</td>
<td>X</td>
</tr>
<tr>
<td>Hendron Lone Oak Elementary</td>
<td></td>
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<tr>
<td>Lone Oak Elementary</td>
<td></td>
</tr>
<tr>
<td>Lone Oak Intermediate</td>
<td>X</td>
</tr>
<tr>
<td>Lone Oak Middle</td>
<td>X</td>
</tr>
<tr>
<td>McCracken County High</td>
<td>X</td>
</tr>
<tr>
<td>Reidland Elementary</td>
<td></td>
</tr>
<tr>
<td>Reidland Intermediate</td>
<td></td>
</tr>
<tr>
<td>Reidland Middle</td>
<td></td>
</tr>
</tbody>
</table>
**ACTIVITY FUNDS**

**Condition #1:**
*Criteria:* Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires the signature of the student on Form F-SA-6 for students 3rd grade or higher when collecting money from students.

*Condition:* We noted thirteen instances where Form F-SA-6 was not signed by the student when collecting funds from students.

*Cause:* Lack of implementation of Redbook policy for the thirteen instances noted.

*Context:* Of one hundred and twenty (120) receipts tested, we noted thirteen (13) instances where Form F-SA-6 was not signed by the student when collecting funds from students.

*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 signed by students 3rd grade or higher when collecting funds from students.

*Views of Responsible Officials and Planned Corrective Actions:* Teachers and club sponsors are typically responsible for collecting funds from students and submitting those to the bookkeeper. Principals and bookkeepers receive annual training on use of appropriate forms and procedures for activity funds and will follow up with training to staff.

**Condition #2:**
*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) requires the treasurer receipt number be included on deposit slips.

*Condition:* We noted twenty-seven instances in which deposit slips did not have the treasurer receipt number.

*Cause:* Lack of understanding/implementation of Redbook policy for twenty-seven instances noted.

*Context:* Of one hundred and twenty (120) receipts tested, we noted twenty-seven (27) instances in which deposit slips did not have the treasurer receipt number.

*Effect:* Recording receipt numbers on deposit slips improves internal controls over receipts by providing supporting documentation of the amount, date, and person receiving the funds.

*Recommendations:* We recommend deposit slips include the treasurer receipt number in accordance with “Redbook” requirements.

*Views of Responsible Officials and Planned Corrective Actions:* “Redbook” training will continue to be provided annually to convey the importance of internal control procedures for the protection of student funds and the protection of staff responsible for those funds.

**Condition #3:**
*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) requires completion of purchase orders prior to making purchases.

*Condition:* We noted four instances where the purchase order was not dated or dated and completed after the date of purchase.

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

*Context:* Of one hundred and twenty (120) disbursements tested, we noted four (4) instances where the purchase order was not dated or dated and completed after the date of purchase.

*Effect:* Lack of proper authorization for purchases increases the risk of misappropriation of assets.
**ACTIVITY FUNDS**

*Recommendations:* We recommend additional training regarding requirement to complete purchase orders prior to making purchases.

*Views of Responsible Officials and Planned Corrective Actions:* “Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September, 2018, and will be reviewed with principals and bookkeepers again.

**Condition #4:**
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 one instance where Forms F-SA-17 and Form F-SA-2B were not used for sales from bookstore and concessions or fundraising activities.

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

*Context:* Of one hundred and twenty (120) receipts tested, we noted one (1) instance where Forms F-SA-17 and Form F-SA-2B were not used for sales from bookstore and concessions or fundraising activities.

*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.

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

*Views of Responsible Officials and Planned Corrective Actions:* The Board provides yearly Redbook training and will continue to do so. This was a lengthy topic of conversation during the Rebook training in September, 2018. Staff will receive training to clarify any misunderstandings regarding which forms to use for fundraisers.

**Condition #5:**
Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires dual check signatures by both the principal or designee and the treasurer.

Condition: We noted one instance of a check disbursed with only one signature.

*Cause:* Lack of understanding/implementation of Redbook policy for the one instance noted.

*Context:* Of one hundred and twenty (120) disbursements tested, we noted one (1) instance of a check disbursed with only one signature.

*Effect:* Lack of dual signatures on check disbursements could result in unallowable expenditures occurring.

*Recommendations:* We recommend dual signatures by both the principal or designee and the treasurer on all check disbursements as required by Redbook.

*Views of Responsible Officials and Planned Corrective Actions:* We agree that dual signatures are preferable and we already require checks to contain two signature lines although banks will not enforce the requirement of two signatures. This issue will be addressed with bookkeepers and principals will be trained on reviewing bank statement images for dual signatures in our annual “Redbook” training.

**Condition #6:**
Criteria: Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires funds collected in excess of $100 be deposited the day received.
**ACTIVITY FUNDS**

*Condition:* We noted five instances where funds greater than $100 were not deposited the day received.

*Cause:* Lack of implementation of Redbook policy for the five instances noted.

*Context:* Of one hundred and twenty (120) receipts tested, we noted five (5) instances where funds greater than $100 were not deposited the day received.

*Effect:* Student funds are at risk of loss when not deposited in a timely manner.

*Recommendations:* We recommend depositing funds received greater than $100 the day received in accordance with Redbook procedures.

*Views of Responsible Officials and Planned Corrective Actions:* We agree that funds should be deposited in accordance with Redbook requirements. Principals and bookkeepers receive training annually on this topic and we will continue to remind them of proper procedures.

*Condition #7:*

*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) recommends District level activity accounted for at the District level.

*Condition:* During review of student activities, we noted one non-allowable expenditure activity with student activity funds.

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

*Context:* During review of student activities, we noted one instance of expenditure related to resurfacing the tennis courts. Maintenance of schools facilities are not allowable expenditures which can be paid student activity funds.

*Effect:* Disbursements for non-allowable expenditures reduces funds available for student benefit.

*Recommendations:* We recommend maintenance of facilities be accounted for at the District level.

*Views of Responsible Officials and Planned Corrective Actions:* Staff will continue to receive training annually regarding the importance and requirement of this process.
**Status of prior year comments:**

*Condition:* During testing of capital assets, we noted disposal of asset differences between historical cost and accumulated depreciation were posted to fund 8 “Investment in Government Assets” account.

*Status:* Item is still present in the current year.

*Condition:* During testing of capital related expenditures, we noted capital assets were not recorded in the MUNIS fixed asset module consistently. In addition, we noted technology related equipment acquired at year-end were not recorded in the MUNIS fixed asset module until the next fiscal year.

*Status:* Item was still present in the current year.

*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.

**ACTIVITY FUNDS**

*Condition:* We noted six instances where Form F-SA-6 was not signed by the student when collecting funds from students.

*Status –* Still present during current year testing.

*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) requires the treasurer receipt number be included on deposit slips.

*Condition:* We noted sixteen instances in which deposit slips did not have the treasurer receipt number.

*Status –* Still present during current year testing.

*Condition:* We noted two instances where sales tax was paid on school expenses.

*Status –* Not present during current year testing.

*Condition:* We noted twelve instances where the purchase order was dated and completed after the date of purchase.

*Status –* Still present during current year testing.

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

*Status –* Still present during current year testing.

*Condition:* We noted three instances in which support was lacking for disbursements.

*Status:* Item was not present in the current year.

*Condition:* We noted one instance of check disbursed with only one signature.

*Status –* Still present during current year testing.

*Condition:* During review of student activities, we noted non-allowable expenditures of Day Care activities with student activity funds.

*Status:* Item was not present in the current year.