Kentucky State Committee for School District Audits and
Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2018, we considered the District’s internal control structure 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 structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 7, 2018 contains our report on the District’s internal control structure. This letter does not affect our report dated November 7, 2018 on the financial statements of the Nelson County School District.

We will review the status of our comments during our next audit engagement. We have already discussed the comments and suggestions with various District personnel, and their implementation is currently being reviewed. 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.

This report is intended solely for the information and use of management, members of the board of education, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Stiles, Carter & Associates, CPAs, P.S.C.
Bardstown, Kentucky
November 7, 2018
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

PRIOR YEAR UNCORRECTED COMMENTS

None noted.

CURRENT YEAR COMMENTS

BLOOMFIELD ELEMENTARY

SEGREGATION OF DUTIES
Upon review of the Internal Control Questionnaire that was completed by the school’s bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

MANAGEMENT’S RESPONSE
The District Finance Team is currently reviewing Redbook practices to develop consistency for the future. Segregation of duties will be reviewed and a plan of best practice will be implemented.

MISSING DOCUMENTATION
Upon review of receipts, we noted a $1,800.00 collection on 04/24/2018 for “Yearbook Sales”. Further investigation could provide no documentation for a yearbook fundraiser. Redbook requires all fundraisers involving the sale of yearbooks to have an applicable Fundraiser Approval form (F-SA-2A) and a Fundraiser Worksheet (F-SA-2B) on file.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and working to put consistent practices in place. Additional training is being provided in areas of non-compliance.

DISBURSEMENTS
Upon review of disbursements, we noted that check #1994, to Your Choice Uniforms in amount of $366.00, featured a purchase order dated 04/10/2018 while the corresponding invoice was dated 04/02/2018. Redbook requires the purchase order to be completed the same day or before ordering goods.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and working to put consistent practices in place. Additional training is being provided in areas of non-compliance.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

BLOOMFIELD MIDDLE SCHOOL

CREDIT CARD
Upon review of the Credit Card Sign-In/Out Logs (F-SA-13) that were filed for the 17-18 fiscal year, we noted that the Wal-Mart and Sam’s credit cards were checked out for several days on multiple occurrences. Redbook states that credit cards and all supporting documentation be submitted immediately or no later than the close of the next business day.

MANAGEMENT’S RESPONSE
Instances of prolonged use of the credit card have been addressed and will be monitored closely in the future

SEGREGATION OF DUTIES
We noted during the review of the Internal Control Questionnaire, completed by the school’s bookkeeper, that the bookkeeper is performing the following duties: photocopies checks/records receipts, records revenue in the accounting system and takes the deposit to the bank. Redbook requires the person that photocopies checks/records receipts and records revenue in the accounting system to be different from the person that takes the deposit to the bank.

We noted during the review of the Internal Control Questionnaire, completed by the school’s bookkeeper, that the bookkeeper is performing the following duties: enters invoices into the accounting system, prints checks, matches invoices to checks and mails the checks. Redbook requires the person that enters invoices and prints checks to be different from the person that matches and mails checks.

MANAGEMENT’S RESPONSE
The District disagrees with this interpretation of the Redbook. We feel that not only is it appropriate for the Bookkeeper to record revenue in the accounting system as well as take deposits to the bank, but it is preferable. The District has many steps in place to insure segregation of duties is still adhered to. The bookkeeper does not collect revenue and the principal reviews deposits and the bank statement. These steps insure that there are always multiple individuals involved in every process.

CASH ADVANCES
We noted during review of cash advances that check #11681 dated 6/5/2018 in the amount of $1,000 out of the Beta Fund was written to an individual for National Convention expenses. The advance was not supported by an Expense Report (F-SA-9). Redbook requires the completed form, related receipts, other supporting documentation and unused cash to be returned by close of the next business day after the trip.

MANAGEMENT’S RESPONSE
The bookkeeper recognizes this error and will be more vigilant to insure it does not happen again in the future.

INVENTORY
We noted during review of concession inventory that were not any Inventory Control Worksheets (F-SA-5) on file for concessions. Redbook requires activities involving inventory for sale to use the Inventory Control Worksheet. Redbook requires Inventory Control Worksheets to be kept monthly either until the end of the fiscal year or until there is zero ending inventory.

MANAGEMENT’S RESPONSE
The form being used previously has been replaced with the F-SA-5 for the 2018 – 2019 school year.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

DISBURSEMENTS
Upon review of disbursements, we noted that check #11572, to Bluegrass Inks in amount of $385.00, featured a purchase order dated 03/08/2018 while the corresponding invoice was dated 03/05/2018. Redbook requires the purchase order to be completed the same day or before goods are ordered.

Additionally, we noted that check #11572, to Bio Corporation in amount of $163.23, featured a purchase order dated 05/14/2018 while the corresponding invoice was dated 03/08/2018. Redbook requires the purchase order to be completed the same day or before goods are ordered.

MANAGEMENT’S RESPONSE
These errors have been addressed. The school is working carefully to insure the proper purchasing process is being followed.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

BOSTON SCHOOL

NEGATIVE BALANCE
We noted that the Guidance Fund had a balance of (231.44) at June 30, 2018. Redbook states that if an activity fund ends the year with a negative (deficit) balance, the school activity general account shall be used to cover the deficit prior to the end of the fiscal year.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and is working to put consistent practices in place. Additional training is being provided in areas of non-compliance.

SEGREGATION OF DUTIES
Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

MANAGEMENT’S RESPONSE
Schools across the state of Kentucky have one Bookkeeper per school which limits segregation of duty options. However, there are multiple processes in place to reduce risk. The District Finance Team will continue to look for new ways to insure segregation of duty issues are addressed.

FUNDRAISER APPROVAL FORMS
We noted that the Fundraiser Request Forms that were on file in place of Fundraiser Approval Forms (F-SA-2A) for the 17-18 fiscal year did not indicate which funds were holding the stated fundraisers or the purpose of the fundraisers. Redbook states that fundraisers have an approved activity fund to which funds be deposited and expensed from and the purpose of the fundraiser should be approved before the fundraiser is held.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and working to put consistent practices in place. Additional training is being provided in areas of non-compliance.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

NEW HAVEN SCHOOL

CREDIT CARDS
We noted during review of credit cards that there were multiple instances of the card being checked out for more than one business day. Redbook requires the card, approved purchase orders and itemized store receipts to be submitted immediately or no later than the close of the next business day.

MANAGEMENT’S RESPONSE
The principal and bookkeeper are aware of the issue and are working to insure that those who sign out the card are aware that it must be returned the next business day.

SEGREGATION OF DUTIES
We noted during review of the internal control questionnaire that the bookkeeper photocopies checks/record receipts on the deposit ticket, records revenue in the accounting system and takes the deposit to the bank. Redbook requires the person taking the deposit to the bank to be a different person than the one that photocopies checks/records receipts and records revenue.

We noted during review of the internal control questionnaire that the bookkeeper enters invoices into the accounting system, prints checks, matches invoices to the checks (with the principal) and mails the checks. Redbook requires the person that mails the checks to be different than the person that enters invoices and prints checks.

MANAGEMENT’S RESPONSE
The District disagrees with this interpretation of the Redbook. We feel that not only is it appropriate for the Bookkeeper to record revenue in the account system as well as take deposits to the bank, but it is preferable. The District has many steps in place to insure segregation of duties is still adhered to. The bookkeeper does not collect revenue and the principal reviews deposits and the bank statement. These steps insure that there are always multiple individuals involved in every process.

DISBURSEMENTS
Upon review of disbursements, we noted that check #3380, to Little Caesars Pizza Kit in amount of $2,146.00, featured a purchase order dated 09/13/2017 while the corresponding invoice was dated 09/07/2017. Additionally, we noted that check #3444, to The Apparel & Awards Factory in amount of $624.00, featured a purchase order dated 11/10/2017 while the corresponding invoice was dated 11/02/2017. Finally, we noted that check #3540, to Paragon Promotions in amount of $3,334.50, featured a purchase order dated 02/15/2018 while the corresponding invoice was dated 02/14/2018. Redbook requires the purchase order to be completed the same day or before goods are ordered.

MANAGEMENT’S RESPONSE
The principal and bookkeeper are aware of the issue and are working to insure purchasing processes are followed.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

COX’S CREEK ELEMENTARY

NEGATIVE BALANCE
Upon review of the Annual Financial Report for the 17-18 school year, we noted that the following activity funds had a negative balance at June 30, 2018: Yearbook, Kindergarten Field Trips, 1st Grade FT, and 3rd Grade FT. Redbook states that if an activity fund ends the year with a negative (deficit) balances, the school activity general account shall be used to cover the deficit prior to the end of the fiscal year.

MANAGEMENT’S RESPONSE
There were a few accounts in EPES that ended the year with a negative balance. The balances on those accounts were cleaned up, but that was completed the first week of July, instead of the end of June. All monies to clean up those negative balances was taken from the General Fund and applied to the negative balances, but it was done a week later than it should have been completed according to Redbook guidelines.

Beginning this year, all account balances in EPES will be reviewed by the bookkeeper and principal at the end of June, before closing out the year. All accounts with a negative balance will be cleaned up using funds from the General fund.

SEGREGATION OF DUTIES
Per review of the Internal Control Questionnaire that was completed by the school’s bookkeeper the bookkeeper performs the following duties: photocopies checks/records receipts on the deposit ticket, records revenue in the accounting system, and takes the deposit to the bank. Redbook requires that one individual record receipts on the deposit ticket and record revenue into the accounting system and a separate individual take the deposit to the bank.

Per review of the Internal Control Questionnaire that was completed by the school’s bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

MANAGEMENT’S RESPONSE
Effective immediately, the Attendance Clerk will be included in this process, to segregate duties. The bookkeeper will continue the process of photocopying checks/record receipts on the deposit ticket and will record revenue in the accounting system. The Attendance Clerk will begin taking deposits to the bank.
Effective immediately, the Attendance Clerk will be included in the check processing procedure. The bookkeeper will continue to enter invoices into the accounting system and print checks. Effective immediately, the Attendance Clerk will begin matching checks to invoices and mailing the checks.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

OKH MIDDLE SCHOOL

INVENTORY CONTROL WORKSHEETS
We noted that the Inventory Control Worksheets (F-SA-5) that were on file for the concessions that were held during the 17-18 fiscal year were not completed on a monthly basis. Redbook requires that Inventory Control Worksheets be completed on a monthly basis to show the flow of inventory.

MANAGEMENT’S RESPONSE
The worksheets are completed on a monthly basis for each event. The worksheets are filed with the approved Fundraiser Approval form in a binder.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

FOSTER HEIGHTS ELEMENTARY

CREDIT CARD
Upon review of the Credit Card Sign-In/Out Logs (F-SA-13) that were filed for the 17-18 fiscal year, we noted that the Wal-Mart credit card was checked out for several days on multiple occurrences. Redbook states that credit cards and all supporting documentation be submitted immediately or no later than the close of the next business day.

MANAGEMENT’S RESPONSE
I reviewed the Redbook and my sign in and out sheets in detail. I was not aware there was an actual time limit for returning the card back to me. I realized that employees should not hold the card but was not aware of the returning "no later than the close of the next business day". On Monday, October 22, 2018 I sent an email to our staff telling them of this policy of returning the card no later than the close of the next business day. If a card is not returned timely I will call the staff member.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

NELSON CO. HIGH SCHOOL

SEGREGATION OF DUTIES

Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: photocopies checks/records receipts on the deposit ticket, records revenue in the accounting system, and takes the deposit to the bank. Redbook requires that one individual record receipts on the deposit ticket and record revenue into the accounting system and a separate individual take the deposit to the bank.

Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: clears the checks in the accounting system, reconciles the bank account, and reviews the bank reconciliation.

MANAGEMENT’S RESPONSE

In response to the Nelson County Schools Year ending June 2018 Audit of School Financial Statements, I would like to give a brief explanation on the areas of interest highlighted in your report as well as give an action plan for these findings.

The first item of interest, under the heading of Segregation of Duties, detailed the bookkeepers duties which includes taking the deposit to the bank. Your suggestions show apprehensiveness about the bookkeeper taking the deposit to the bank when performing other duties as listed in your audit summary. I truly appreciate your suggestions and interpretation on the Redbook. It is most helpful to us receiving feedback on this and thank you for that. However, I do have concerns regarding the suggested changes. My apprehension was voiced the day of the audit when it was verbally conveyed to me about another individual taking the deposits to the bank. This is because we have always had the expectation from the district to do so. Respectfully, I disagree with this and the reason is because I do not directly take money from individuals and someone else always verifies and signs both my deposit ticket and vouchers. Our principal also reviews the statements. I feel that segregation of duties has been followed thoroughly in this area and that me taking the deposit to the bank is justifiable. It is also my understanding that the district fully supports my opinion on this as well.

CREDIT CARD

Upon review of the Credit Card Sign-In/Out Logs (F-SA-13) that were filed for the 17-18 fiscal year, we noted that the Wal-Mart, Kroger, and Lowes credit cards were checked out for several days on multiple occurrences. Redbook states that credit cards and all supporting documentation be submitted immediately or no later than the close of the next business day.

MANAGEMENT’S RESPONSE

For the most part, the next business day rule is abided by, but on occasion cards and receipts have been returned several days later. Employees are aware of this rule but sometimes it does not get followed. My plan of action for this matter is to remind employees more frequently to get cards turned back in the next business day. If we still have an issue with some not following protocol we will ask the principal to intervene. It is my hope that it will not come to pass that we will need to take extreme measures.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

THOMAS NELSON HIGH SCHOOL

NEGATIVE BALANCES
We noted during review of the Annual Financial Report that the Volleyball account ended the 17-18 fiscal year with a balance of $2,121.89 and the Bowling account ending the 17-18 fiscal year with a balance of $11.64. However, after considering the payables totaling $2,778.04 for the Volleyball account and $115.00 for the Bowling account, the ending balances of the Volleyball and Bowling accounts at June 30, 2018 were ($656.15) and ($103.36) Redbook states that if an activity account ends the year with a negative balance (after taking receivable and accounts payable into consideration), the general activity account must cover the deficit by June 30.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and working to put consistent practices in place. Additional training is being provided in areas of non-compliance.

SEGREGATION OF DUTIES
Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: photocopies checks/records receipts on the deposit ticket, records revenue in the accounting system, and takes the deposit to the bank. Redbook requires that one individual record receipts on the deposit ticket and record revenue into the accounting system and a separate individual take the deposit to the bank.

Per review of the Internal Control Questionnaire that was completed by the school's bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

MANAGEMENT’S RESPONSE
The District disagrees with this interpretation of the Redbook. We feel that not only is it appropriate for the Bookkeeper to record revenue in the account system as well as take deposits to the bank, but it is preferable. The District has many steps in place to insure segregation of duties is still adhered to. The bookkeeper does not collect revenue and the principal reviews deposits and the bank statement. These steps insure that there are always multiple individuals involved in every process.
NELSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

HORIZONS ACADEMY

FUNDRAISERS
Upon review of fundraisers, we noted that the Greenhouse Plants fundraiser featured an incomplete Fundraiser Worksheet (F-SA-2B). Additionally, upon request, no Fundraiser Approval form (F-SA-2A) could be produced. Redbook requires fundraisers involving the sale of merchandise to have both an applicable Fundraiser Approval form (F-SA-2A) and a Fundraiser Worksheet (F-SA-2B) on file.

MANAGEMENT’S RESPONSE
The District Finance Team is aware of the inconsistency and working to put consistent practices in place. Additional training is being provided in areas of non-compliance

SEGREGATION OF DUTIES
Per review of the Internal Control Questionnaire that was completed by the school’s bookkeeper the bookkeeper performs the following duties: photocopies checks/records receipts on the deposit ticket, records revenue in the accounting system, and takes the deposit to the bank. Redbook requires that one individual record receipts on the deposit ticket and record revenue into the accounting system and a separate individual take the deposit to the bank.

Per review of the Internal Control Questionnaire that was completed by the school’s bookkeeper the bookkeeper performs the following duties: enters invoices into the accounting system, prints checks, matches checks to the invoices, and mails the checks. Redbook requires that one individual enter invoices into the accounting system and print checks and a separate individual match the invoices and mail the checks.

MANAGEMENT’S RESPONSE
The District disagrees with this interpretation of the Redbook. We feel that not only is it appropriate for the Bookkeeper to record revenue in the account system as well as take deposits to the bank, but it is preferable. The District has many steps in place to insure segregation of duties is still adhered to. The bookkeeper does not collect revenue and the principal reviews deposits and the bank statement. These steps insure that there are always multiple individuals involved in every process.