

McCRACKEN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER

Year Ended June 30, 2019



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

In planning and performing our audit of the basic financial statements of the McCracken County Board of Education for the year ended June 30, 2019, 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 October 22, 2019, 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 October 22, 2019, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2019.

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
October 22, 2019

Other Matters:

Criteria: Kentucky Revised Statutes (KRS) 424.260 requires districts to advertise for sealed bids for contractual services other than professional involving an expenditure of more than \$20,000. KRS 162.070 requires contracts for construction of additions to existing buildings, which exceed \$7,500, must be awarded by competitive sealed bidding.

Condition: During testing of expenditures, we noted three instances of contractual services to improving security entrance to three of the elementary schools greater than \$7,500 each, which were not bid in accordance with KRS 424.260 and 162.070.

Cause: The former superintendent of the District instructed finance and facility maintenance management to ignore the bid requirement to expedite the improvements.

Context: The District was not compliant with the bid requirements of KRS 424.260 and 162.070 related to contractual and construction services.

Effect: In addition to non-compliance with state statutes, the District may have not obtain the best price and quality for these services.

Recommendation: We recommend the District comply with the requirements of KRS 424.260 and 162.070.

Views of Responsible Officials and Planned Corrective Actions: The former superintendent resigned from the District in March 2019. The interim superintendent and finance and facility maintenance management self-reported the noncompliance with the above-referenced statutes to the Kentucky Department of Education and to the District's external auditors as well as to the local Board of Education to determine how to correct the issue moving forward. Since that time, additional internal controls and oversights for the role of superintendent have been put in place with the hope to minimize risk of a similar issue occurring in the future.

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

Condition: During testing of capital related expenditures, we noted instances of technology, playground, and general equipment capital assets were not recorded in the MUNIS general ledger. While reporting technology equipment is generally no longer required, the District was not consistent in reporting these assets during the year as the District still capitalizes these capital additions.

Cause: The District failed to properly identify all capital asset during the fiscal year and properly report these in the MUNIS general ledger.

Context: Capital related assets were not consistently 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. A full-time position has been posted and should be filled soon, 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 previously 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 five areas with opportunities for strengthening internal controls or operating efficiency which, at times, were present at more than one location.

The matrix below indicates conditions noted at individual schools:

School Locations	Condition #												
	1	2	3	4	5								
Concord Elementary				X									
Heath Elementary													
Heath Middle	X	X		X	X								
Hendron Lone Oak Elementary													
Lone Oak Elementary		X		X									
Lone Oak Intermediate		X											
Lone Oak Middle	X												
McCracken County High	X	X											
Reidland Elementary													
Reidland Intermediate													
Reidland Middle		X	X										

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 six 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 six instances noted.

Context: Of one hundred and twenty (120) receipts tested, we noted six (6) 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:

Heath Middle School

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. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Lone Oak Middle School

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. The District’s finance officer plans to provide training

materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

McCracken County High School

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. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Condition #2:

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

Condition: We noted eleven 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 eleven (11) 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.

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

Views of Responsible Officials and Planned Corrective Actions:

Heath Middle School

“Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September 2019, and will be reviewed with principals and bookkeepers again. In addition, principals are encouraged to require staff to pay personally for items purchased outside of the proper procedures, or return the materials and follow proper protocol. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Lone Oak Elementary School

“Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September 2019, and will be reviewed with principals and bookkeepers again. In addition, principals are encouraged to require staff to pay personally for items purchased outside of the proper procedures, or return the materials and follow proper protocol. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Lone Oak Intermediate School

“Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September 2019, and will be reviewed with principals and bookkeepers again. In addition, principals are encouraged to require staff to pay personally for items purchased outside of the proper procedures, or return the materials and follow proper protocol. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

McCracken County High School

“Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September 2019, and will be reviewed with principals and bookkeepers again. In addition, principals are encouraged to require staff to pay personally for items purchased outside of the proper procedures, or return the materials and follow proper protocol. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Reidland Middle School

“Redbook” training will continue to be provided annually. This aspect in particular was a large focus during training in September 2019, and will be reviewed with principals and bookkeepers again. In addition, principals are encouraged to require staff to pay personally for items purchased outside of the proper procedures, or return the materials and follow proper protocol. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers in the coming weeks to help ensure better implementation of required practices.

Condition #3:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires dual signatures for purchase orders by both the principal or designee and the sponsor.

Condition: We noted one instance of a purchase order 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 purchase order with only one signature.

Effect: Lack of dual signatures on purchase orders could result in unallowable expenditures occurring.

Recommendations: We recommend dual signatures by both the principal or designee and the sponsor on all purchase orders as required by Redbook.

Views of Responsible Officials and Planned Corrective Actions: We agree that dual signatures are required on all purchase orders. This issue has been addressed with bookkeepers and principals in our annual “Redbook” training. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers and club sponsors in the coming weeks to help ensure better implementation of required practices.

Condition #4:

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

Condition: We noted four 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 four (4) 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:

Concord Elementary School

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. Unfortunately, this is often an issue that occurs from lack of understanding on the part of those collecting money. The District’s finance officer plans to provide training materials regarding “Redbook” procedures that are specific to teachers and club sponsors in the coming weeks to help ensure better implementation of required practices.

Heath Middle School

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. Unfortunately, this is often an issue that occurs from lack of understanding on the part of those collecting money. The District's finance officer plans to provide training materials regarding "Redbook" procedures that are specific to teachers and club sponsors in the coming weeks to help ensure better implementation of required practices.

Lone Oak Elementary School

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. Unfortunately, this is often an issue that occurs from lack of understanding on the part of those collecting money. The District's finance officer plans to provide training materials regarding "Redbook" procedures that are specific to teachers and club sponsors in the coming weeks to help ensure better implementation of required practices.

Condition #5:

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 one instance noted.

Context: Of one hundred and twenty (120) disbursements tested, we noted one (1) instance where sales tax was paid on school expenses.

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.

Views of Responsible Officials and Planned Corrective Actions:

Heath Middle School

Staff will use the school's tax exempt certificate when making purchases. Also, reimbursements will be checked and sales tax will not be reimbursed.

Status of prior year comments:

Condition: During testing of capital related expenditures, we noted capital assets were not recorded in the MUNIS fixed asset module consistently.

Status: Item was still present in the current year.

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

Status – Still present during current year testing.

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

Status – Not present during current year testing.

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

Status – Still present during current year testing.

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.

Status – Not present during current year testing.

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

Status – Not present during current year testing.

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

Status – Still present during current year testing.

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

Status – Not present during current year testing.