**November December 2021 Finance Newsletter**

**New Fraud Threat Impacting Kentucky School Districts**

A new fraud scheme is impacting Kentucky school districts. To date, The Kentucky Department of Education (KDE) is aware of multiple districts suffering losses approaching $4 million.

In this scheme, a fraudster discovers a legitimate vendor of the school district who is verified on the district’s webpage. Generally, a construction vendor is chosen since their required project payments are large. The fraudster contacts the school district pretending to be from the legitimate vendor, as they can appear to be authentic due to the availability of vendor information located on the internet. The fraudster tells the school district the vendor has changed its accounts receivable procedures and instructs the school district to wire payments to the fraudster’s bank account. As **legitimate** invoices are received, the school district unknowingly issues payment to the fraudster’s bank account. The school district remains unaware until it receives past due notices from the legitimate vendor.

Most Kentucky school districts have insurance for cybersecurity related losses, however; the existence of such insurance does not waive legal or regulatory obligations to safeguard public funds. Additionally, like any liability insurance, it may not cover losses if it determines negligence played a role in the claim.

KDE would like to recommend all districts review their accounts payable policies and procedures to determine if they are enough to safeguard against this threat. Additionally, procedures to mitigate this threat include, but not limited to the suggestions below.

* independently verifying any changes through trusted phone numbers of the vendor;
* requiring vendors to receive payment through traditional checks;
* not accepting changes to payment information over email or the phone;
* establishing forms vendors must sign and submit to verify or modify payment information;
* confirming receipt of payment with the vendor through trusted means of communication.

**AFR and Balance Sheet Validation Module**

A few districts have already used this valuable tool for their FY2020-2021 AFR submissions. The Kentucky Department of Education (KDE) **strongly** encourages its use for districts who haven’t submitted their AFR for this fiscal year and submissions for the upcoming FY2021-2022 audit period.

The **AFR and Balance Sheet Validation Module**, also known as the “Audit Review Template,” is now available within the **SEEK District Data Submission Program**, under the Audited AFR. **Note-**the districts must submit their AFR before the Validation Module is available to use. KDE **strongly recommends** districts’ superintendents and/or finance officers, working together with their auditors, complete the **AFR and Balance Sheet Validation Module**. The module will assist the district in determining **any discrepancies** between the districts’ Audited AFR/BS submitted to KDE, and the Audit Report or proposed audit data. If **any discrepancies are noted**, KDE allows and recommends districts and/or the auditors, correct and resubmit the Audited AFR/BS and/or Audit Report if necessary.

The **AFR and Balance Sheet Validation Instructions,** are posted on the KDE, [District Financial Audits](https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx) website. Please forward any questions to the District Financial Management Branch (DFMB) at Finance.Reports@education.ky.gov.

**Use of Emergency Procurement with Child Nutrition Funds**

Emergency procurement is a type of noncompetitive procurement found in [2 CFR 200.320(c)](https://nam11.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.ecfr.gov%2Fcurrent%2Ftitle-2%2Fsubtitle-A%2Fchapter-II%2Fpart-200%2Fsubpart-D%2Fsubject-group-ECFR45ddd4419ad436d%2Fsection-200.320&data=04%7C01%7Cjackie.chism%40education.ky.gov%7C5d0e5896c4034c72ef1808d99a1b0978%7C9360c11f90e64706ad0025fcdc9e2ed1%7C0%7C0%7C637710263186671115%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C1000&sdata=RQcMuW4iQkUdgpySun50v7v72%2FebXF9vzo3T6BsauXc%3D&reserved=0) that may be used when a “public exigency or emergency” prevents a School Food Authority (SFA) from undertaking a competitive procurement. The Covid-19 Pandemic federally declared emergency as well as the unanticipated cancellation of food and supply contracts, have the effect of creating an emergency for SFAs participating in the Child Nutrition Programs. Therefore, if, at this time, a competitive procurement process is not possible, the child nutrition program may purchase the necessary items to operate the program using the emergency procurement method. SFAs do not need to request approval from KDE to use this method during the Covid-19 public emergency. However, as with all procurements, the SFA should document the justification for using noncompetitive procurement, comply with other state and local procurement requirements, and ensure that costs are necessary, reasonable and allocable.

An example of using emergency procurement would be in an instance when the vendor with the awarded contract for groceries is not able to provide certain types of food due to supply chain disruptions. This can happen with the vendor notifying the program in advance or the food not showing up with the delivery. The child nutrition program can utilize local grocery stores or other means to quickly purchase food products needed to implement the program. Another example would be if a vendor cancels an awarded contract or increases prices outside of the contract agreements due to supply chain issues. In this instance, the child nutrition program can either use emergency procurement to purchase what is needed from the existing vendor or enter into a short-term contract with another supplier who can meet the need. It is very important to remember that any contracts initiated using emergency procurement, should be narrow in scope and only address the immediate need. The contract should also be time limited because it was not procured competitively. During the duration of the contract established using noncompetitive procurement, the SFA should work to competitively procure a contract to meet the long-term needs of the program.

When used appropriately, emergency non-competitive procurement can greatly assist SFAs in navigating the difficult circumstances surrounding obtaining supplies and services that currently exist. For additional information regarding emergency procurement, reference [SP 23-2021, CACFP 18-2021](https://nam11.safelinks.protection.outlook.com/?url=https%3A%2F%2Ffns-prod.azureedge.net%2Fsites%2Fdefault%2Ffiles%2Fresource-files%2Fsp23-cacfp18-2021.pdf&data=04%7C01%7Cjackie.chism%40education.ky.gov%7C5d0e5896c4034c72ef1808d99a1b0978%7C9360c11f90e64706ad0025fcdc9e2ed1%7C0%7C0%7C637710263186671115%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C1000&sdata=xRqDjDQI2eLHaTRPSgQgmxGjITbnmKkaM9JOEPS67Ao%3D&reserved=0). For questions regarding the use of emergency procurement in the child nutrition programs, please contact Katie Embree, Kathryn.Embree@education.ky.gov.

## **School Security Funds (SSR) Request Guidance**

The School Security Funding is one of the appropriation measures from House Bill 352 (2020) which allocated monies to each district for upgrading security measures in schools. Districts have until May 30, 2022 to request these funds.

The six items identified in SB1 (2019) are to assist in controlling the access to each school building and are not limited to the items listed below.

* main entrance electronic locks
* main entrance camera
* main entrance intercom
* classroom door locks
* classroom door window coverings
* exterior door access control

Additional information for the School Security Funds is available on the [School Security Funds webpage.](https://lnks.gd/l/eyJhbGciOiJIUzI1NiJ9.eyJidWxsZXRpbl9saW5rX2lkIjoxMDEsInVyaSI6ImJwMjpjbGljayIsImJ1bGxldGluX2lkIjoiMjAyMDEwMjcuMjk0NzY2ODEiLCJ1cmwiOiJodHRwczovL2VkdWNhdGlvbi5reS5nb3YvZGlzdHJpY3RzL0ZpblJlcHQvUGFnZXMvU2Nob29sLVNlY3VyaXR5LUZ1bmRzLmFzcHgifQ.TGrygnkid0EDd32mjW0tutr_TeNbxH1r6NULt7AfK0w/s/947322037/br/87484357842-l) If you need suggestions enhancing building security, the regional compliance officer who represents the State School Security Marshall’s office, can offer ideas.

Districts can email Jana Cox or Sarah Tandy for any questions regarding this process.

**Volkswagen Bus Settlement Funds and ORGs**

The Kentucky Department of Education (KDE) has been asked about the Volkswagen Bus Settlement Funds and how they should be recorded. The link below has been provided for this process.

[Volkswagen Bus Settlement guidance](https://eec.ky.gov/Energy/Documents/School%20Bus%20Reimbursement%20Procedures%20-%2008092021.pdf)

The ORGs provided below, show how the revenues and expenditures should be recorded in the Annual Financial Reports.

Expenditure ORG—9011096-0732: Purchase of the bus, function 2740

Revenue ORG 220-3200-15VI: Volkswagen project revenue

Expenditure ORG 0002113-0910 15VI: Transfer from fund 2 into fund 1

Revenue ORG 110-5210: Transfers the revenue into fund 1 from fund 2

For any questions, please contact Karen Conway at Karen.Conway@education.ky.gov.

**Construction Fund Guidance Utilizing ESSER Funds**

The Kentucky Department of Education (KDE) is providing guidance to assist districts in making accurate Munis entries for recording construction revenues and expenditures. Appropriations have allowed local education agencies (LEAs) to utilize ESSER funds for construction costs. Your spending plan should have the amounts to be used submitted to KDE for district construction projects. Follow all guidance to submit a BG project application that will include funds from ESSER allocations. KDE has assured changes made to reflect a “Yes” for the submission, by using the object codes below for expenditures:

CRSSA ESSER II project number 554G

ARP ESSER III project number 473G

**Below is a link to the guidance and updated Matrix**:

[ESSER II Guidance](https://education.ky.gov/comm/Documents/Elementary%20and%20Secondary%20School%20Emergency%20Relief%20Fund%20II.pdf)

[ESSER I\_ESSER II and ARP-ESSER\_Funding Matrix102521](https://education.ky.gov/districts/fin/Documents/ESEER%20I_ESSER%20II%20and%20ARP-ESSER_Funding%20Matrix102521.xlsx).

Since all construction funds need to be placed into fund 360 to be able to complete the process for the BG steps, all funds will need to be removed from Fund 2 and placed into Fund 360. Ensure the following procedures are completed for utilizing all ESSER Fund set asides for the construction projects for your district:

1. Revenues for ESSER II and ESSER III should have already been recorded in Fund 2.
2. Matrices for ESSER II and ESSER III both allow for the use of the expenditure object code 0910 transfer out. Use the correct amounts and projects with each amount that has been set aside for the construction transferring out of Fund 2
3. In fund 360, the revenue object code 5210 should be used, however; the project number should be tied to the assigned BG number, not the ESSER project number. If the approval is in process, you may have to use a temporary project number and transfer it to the correct BG number once it is assigned.
4. The expenditure object code 0910 transfer out, is permissible for the ESSER funds designated for construction use. Transfer the funds out of Fund 2 into Fund 360.  Since you are in the process of obtaining a BG for these funds for building improvement, you can report them in fund 360 and object 8735 (Restricted for Future Construction Project BG-1).

**ESSER Federal Funds in Construction and Earned Interest**

Districts who transfer federal funds out of Special Revenue (Fund 2) into Construction (Fund 360) for a project, must follow the instructions below.

Although being allowed to transfer funds for a construction project into Fund 360, there is a problem. These funds cannot accrue interest, and if they do, it must be paid back to the federal agency of the *Department of Health and Human Services*.

Subgrantees may earn interest on federal payments up to $500.00 per year and can be retained for administrative expenses.  Any additional interest earned over $500.00 on federal payments, must be remitted annually to the Department of Health and Human Services. Interest must be returned by check using the U.S. Postal Service only; however, returning interest via check may take 4-6 weeks for processing before a check payment may be applied to the appropriate program.  The check should be made payable to: ***Department of Health and Human Services***.

**Mail check to (USPS only):**

HHS Program Support Center

P.O. Box 979132

St. Louis, MO 63197

The returned interest should be accompanied with an explanation stating the refund is for interest; the name of the awarding agency and the grant number(s) for which the interest was earned. **Note-** the awarding agency and the grant number (PR Award Number) are on the district award notification on the KDE website at [Federal Grants](https://education.ky.gov/districts/fin/Pages/Federal-Grants.aspx).

Please forward any questions regarding the use of ESSER funds Munis entries to Karen Conway at karen.conway@education.ky.gov.

**Finance Officer Spotlight**



Cordelia Hardin has been with Jefferson County Public Schools (JCPS) for over 30 years. She began her JCPS career in payroll for eight years, human resources for four years and has been the CFO since 2003. She brings over 50 years of financial experience to the district as the Chief Financial Officer and Treasurer, with over 20 of those years in the private industry. As CFO, Hardin oversees all financial aspects of JCPS including accounting, accounts payable, budget, grants and awards accounting, payroll and cash management, purchasing, and insurance.

Prior to joining JCPS, Hardin worked thirteen years in the corporate office of a manufacturing housing corporation with retail offices throughout the United States, and eight years as controller for a local heating and cooling company.

Hardin is a native of Louisville and graduated from the Jefferson County public school system at Westport Road High School. She holds a BS and an MBA in accounting from Bellarmine University and is a Certified School Financial Officer.