

McCRACKEN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER

Year Ended June 30, 2022



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, 2022, 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 27, 2022, 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 27, 2022, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2022.

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 27, 2022

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 instances of technology equipment capital assets 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 assets 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.

Views of Responsible Officials and Planned Corrective Actions: There was turnover in the Property Records Auditor position during the year which led to items being missed and not correctly capitalized. The new employee is involved in ongoing training in accounting for fixed assets to ensure that significant improvements are made in this area. In addition, accounting department staff are involved in cross-training to address any miscommunications that may occur in the future should there be a vacancy in the department.

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 these areas with opportunities for strengthening internal controls or operating efficiency which, at times, were present at more than one location.

Heath Middle School and Lone Oak Intermediate School:

Criteria: Accounting Procedures for Kentucky School Activity Funds ("Redbook") requires activities should not have deficit balances in the Annual Financial Report.

Condition: We noted three instances where the activities had deficit balances at the end of the year.

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

Context: We noted the Bookstore and Softball activities each had a deficit balance at year-end at Heath Middle School. We noted the FCC activity had a deficit balance at year-end at Lone Oak Intermediate School.

Effect: The school was not compliant with procedures for Kentucky School Activity Funds ("Redbook").

Recommendations: We recommend the school improve monitoring of student activities and correct the deficit balances in these activities.

Views of Responsible Officials and Planned Corrective Actions: Bookkeepers and principals receive annual training in Redbook procedures. In each instance, the negative balances were anticipated to be resolved with revenues received after June 30th. This issue has been discussed with the bookkeepers and principals to explain that general funds may cover negative balances at the end of the fiscal year until all revenues are received.

Lone Oak Middle School and McCracken County High School:

Criteria: Accounting Procedures for Kentucky School Activity Funds (“Redbook”) states the schools are exempt from the payment of sales tax.

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

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

Context: Of one hundred and forty (140) disbursements tested, we noted two (2) instances 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: Sales tax is sometimes charged for an online purchase made via credit card and the vendor is unwilling to accept a purchase exemption certificate or remedy the situation. Bookkeepers and principals receive annual training on Redbook procedures and this issue has been discussed with staff to ensure understanding of the guidelines.

Heath Middle School and McCracken County High School:

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

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

Cause: Lack of implementation of Redbook policy for four instances noted.

Context: Of one hundred and forty (140) receipts tested, we noted four (4) 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.

Heath Elementary School:

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

Condition: We noted two instances where the purchase order was not completed and included with the invoice package.

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

Context: Of one hundred and forty (140) disbursements tested, we noted two (2) instances where the purchase order was not completed and included with the invoice package.

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: “Redbook” training will continue to be provided annually and this will be reviewed with principals and bookkeepers again.

Heath Elementary School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires the transfer form (F-SA-10) to be signed by both the principal and sponsor.

Condition: We noted four instances where the F-SA-10 form was not signed by the principal.

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

Context: Of four transfers tested, we noted four instances where the transfer form was not signed by the principal.

Effect: Lack of proper authorization for transfers increases the risk of inappropriate transfers.

Recommendations: We recommend the principal and sponsor review and sign all transfer forms.

Views of Responsible Officials and Planned Corrective Actions: “Redbook” training will continue to be provided annually and this will be reviewed with principals and bookkeepers again.

Reidland Elementary School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires an employee, other than the person who prepared the deposit slip, to review the bank deposit receipt to verify the bank validation matches the deposit slip amount.

Condition: We noted two instances that another employee did not review the bank deposit receipt.

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

Context: Of one hundred and forty (140) disbursements tested, we noted two (2) instances that bank deposit receipt was not reviewed.

Effect: Lack of review of bank deposit receipts weakens internal controls over receipts.

Recommendations: We recommend bank deposit receipts be reviewed to verify the bank validation matches the deposit slip amount and initiated by the person performing the review.

Views of Responsible Officials and Planned Corrective Actions: “Redbook” training will continue to be provided annually and this will be reviewed with principals and bookkeepers again.

Reidland Elementary School, Reidland Intermediate School, and Reidland Middle School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires the principal to receive the monthly bank statements directly and review it before the treasurer can access it.

Condition: We noted eight instances that the bank statement was not reviewed and signed by the principal before the treasurer had access to it.

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

Context: We reviewed all Reidland Elementary School bank statements for the year and noted 5 months that the principal did not review and sign the bank statement before the treasurer received. We reviewed all Reidland Intermediate School bank statements for the year and noted 2 months that the principal did not review and sign the bank statement before the treasurer received. We reviewed all Reidland Middle School bank statements for the year and noted 1 month that the principal did not review and sign the bank statement before the treasurer received.

Effect: Lack of review of bank deposit receipts weakens internal controls and could lead to misappropriation of funds not being detected.

Recommendations: We recommend bank statements be emailed directly to the principal, who reviews and signs it before providing to the treasurer.

Views of Responsible Officials and Planned Corrective Actions: Principals and bookkeepers receive annual training in “Redbook” best procedures and practices. This item has been reviewed and discussed to ensure staff understand that a review by the principal should be done before the bookkeeper receives the bank statement. We will also explore options with our bank regarding bank statements being emailed to principals only or restricting access to online statements for our bookkeepers.

McCracken County High School:

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

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

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

Context: Of one hundred and forty (140) disbursements tested, we noted five (5) 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 in 6th grade or higher when collecting funds from students.

Views of Responsible Officials and Planned Corrective Actions: For the last three years, the District has provided employees with annual required training regarding “Redbook”, which includes some of these basic guidelines for non-bookkeepers. Principals and bookkeepers are also expected to train staff on these procedures and the use of appropriate forms at the start of each school year. We will continue to provide this training to teachers and club sponsors.

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.

Location: Central Office

Status: Item was still present in the current year.

Condition: We noted three instances where the activities had deficit balances at the end of the year.

Locations: Heath Middle School

Status – Item was still present during current year testing.

Condition: We noted one instance the bank statement was not signed by the principal or treasurer.

Location: Heath Middle School

Status – Not present during current year testing.