

PADUCAH INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER

Year Ended June 30, 2022



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

In planning and performing our audit of the basic financial statements of the Paducah Independent School District for the year ended June 30, 2022, we considered the District'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 District'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 January 23, 2023, 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 January 23, 2023 on the financial statements of the Paducah Independent School District 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 District's management, audit committee, and members of the Board of Education of Paducah Independent 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
January 23, 2023

Other Matters:

Criteria: Capital assets should be disposed of once they are no longer in service.

Condition: During testing of capital related expenditures, we noted obsolete technology and general equipment capital assets were still recorded in the MUNIS general ledger.

Cause: The District has not removed equipment from the MUNIS general ledger once it has been replaced or is no longer in service.

Context: Capital assets costs and related accumulated depreciation is overstated 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 to insure reporting of capital assets. The District should perform a complete inventory of its technology and general equipment and remove those assets which are no longer in service or previously disposed of. The District should consider costs versus benefits of filling a position of a capital assets manager to perform this activity annually.

Views of Responsible Officials and Planned Corrective Actions: Management will work on removing equipment from MUNIS general ledger in FY23.

Criteria: Projects should be properly monitored.

Condition: During testing of various fund's projects, we noted the following:

- Projects with no activity during the year still open.
- Projects with deficit balances at year-end.
- Reimbursement of grant projects not timely and consistently submitted.
- Instances of posting to inappropriate object codes.

Cause: The District has not properly monitored projects to ensure completed projects are timely closed and are properly funded.

Context: During testing of various fund projects, we noted multi-instances of projects completed which are still reflected in MUNIS budget reports, multi-instances of projects with expenditures in excess of revenues, grants not timely remitted for reimbursements, and posting of expenditures to object codes not applicable for project.

Effect: The risk of mis-posting revenues and expenditure to inactive projects increases when projects are not timely closed. Projects with expenditures in excess of revenues will require additional funding, normally from the General Fund. Not timely remitting for grant projects requires the use of General Fund assets to cover expenditures in excess of revenues, thus, reducing cash flow availability. Posting expenditures to object codes not appropriate for project may result in rejection of allowable cost reimbursement.

Recommendation: We recommend the District improve monitoring of projects, closing of projects upon completion and requesting reimbursements timely. Management should consider hiring or assigning personnel to ensure proper monitoring of projects.

Views of Responsible Officials and Planned Corrective Actions: The District will inactivate and close projects in a timely manner each year after the audit is complete. The District is looking into getting a staff member to assist the Finance Director in this process.

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

McNabb Elementary School & Clark 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 eighteen (10 at McNabb Elementary and 8 at Clark Elementary) 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 eighty (80) disbursements tested, we noted eighteen (18) 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.

Clark Elementary School & Paducah Tilghman High School:

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

Condition: We noted one instance at Clark Elementary and one instance at Paducah Tilghman where the F-SA-10 form was not completed. We noted two instances at Paducah Tilghman where the F-SA-10 form was not reviewed and signed by the principal before the transfer was made.

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

Context: Of two transfers tested at Clark Elementary, we noted one instance where the transfer form was not completed. Of forty-two transfers tested at Paducah Tilghman, we noted one instance where the transfer form was not completed and two instances where the transfer form was not reviewed and signed by the principal prior to making the transfer.

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

Recommendations: We recommend the principal and sponsor complete, review, and sign all transfer forms before making the transfer.

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.

Clark Elementary School, Paducah Middle School, & Paducah Tilghman High School:

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

Condition: We noted fourteen instances (10 at Clark Elementary, 3 at Paducah Middle, 1 at Paducah Tilghman) in which deposit slips did not have the treasurer receipt number.

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

Context: Of eighty (80) receipts tested, we noted four (14) 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.

Paducah Middle School & Paducah Tilghman High School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires multiple receipt form (F-SA-6) signed by students in the 6th grade and up.

Condition: We noted sixteen instances (1 at Paducah Middle and 15 at Paducah Tilghman) in which the multiple receipt form was not signed by the students.

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

Context: Of eighty (80) receipts tested, we noted four (16) instances in which the multiple receipt form was not signed by students.

Effect: Failure to follow “Redbook” procedures could result in errors or misappropriation of funds.

Recommendations: We recommend multiple receipts from be signed by students 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.

Clark Elementary School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires the bank statement to be reconciled on a timely basis (within one month).

Condition: We noted ten instances that the bank reconciliation was not completed in a timely manner.

Cause: Vacant school treasurer position.

Context: We reviewed all Clark Elementary School bank statements for the year and noted 10 months that the bank statement was not reviewed and reconciled until June 2022.

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

Recommendations: We recommend bank statement review and reconciliation be performed on a monthly basis, either by the school principal & treasurer or by the District finance director.

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.

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires that shipping tickets for merchandise ordered be compared to the purchase order and initialed and dated by the receiver, indicating the merchandise has been received.

Condition: We noted one instance that there was no confirmation of person receiving the goods.

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

Context: Of six disbursements tested, we noted one instance of lack of confirmation for receipt of goods.

Effect: Lack of confirmation of items received could lead to payment of funds without support of items received.

Recommendation: We recommend the person receiving goods sign/initials the shipping ticket to provide supporting documentation that items were received.

Views of Responsible Officials and Planned Corrective Actions: Bookkeepers receive annual training in Redbook best procedures and practices. This item has been reviewed and discussed to ensure staff understand that items received should be signed and dated by the receiver to confirm receipt of goods.

Paducah 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. This should be done on a timely basis (within one month).

Condition: We noted seven 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 Paducah Middle School bank statements for the year and noted 6 months that the principal did not review and sign the bank statement and 1 month that the principal did not review and sign the bank statement before the treasurer received it.

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.

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires purchase order completed and approved prior to initiating the purchase.

Condition: We noted seven instances where a Form F-SA-7 was not completed prior to initiating the purchase.

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

Context: Of one hundred and twenty (120) disbursements tested, we noted seven (7) instances where a Form F-SA-7 was not completed prior to initiating the purchase.

Effect: Failure to follow Redbook procedures increases the risk of errors or misappropriation of receipts.

Recommendations: We recommend purchase orders completed and authorized prior to initiating purchases.

Paducah Middle School Views of Responsible Officials and Planned Corrective Actions: Principals and bookkeepers receive annual training of Redbook best procedures and practices. This item has been reviewed and discussed to ensure staff understand that purchase orders should be completed and authorized before initiating purchases.

Paducah Tilghman High School:

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires dual signature on check disbursements.

Condition: We noted one instance where a disbursement was missing a second authorized endorser.

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

Context: Of one hundred and twenty (120) disbursements tested, we noted one (1) instance where a disbursement check was missing a second signature.

Effect: Lack of second endorsement on checks for disbursements may result in errors or misappropriation of funds.

Recommendations: We recommend dual signature on all disbursements.

Paducah Tilghman High School Views of Responsible Officials and Planned Corrective Actions: Principals and bookkeepers receive annual training of Redbook best procedures and practices. This item has been reviewed and discussed to ensure staff understands that all disbursements should have dual signatures.

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 twenty (120) 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.

Paducah High School Views of Responsible Officials and Planned Corrective Actions: Principals and bookkeepers receive annual training of Redbook best procedure and practices. This item has been reviewed and discussed to ensure staff understand that a tax exempt form should be used for school expenses. If taxes are charged the staff will need to get them refunded or reimburse the District for the amount of tax charged.

Criteria: Procedures for Kentucky School Activity Funds (“Redbook”) requires outstanding checks to not be held longer than 12 months.

Condition: We noted one instance on the bank reconciliation where outstanding checks were held greater than 12 months.

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

Context: One instance of checks outstanding greater than 12 months.

Effect: Non-compliance with the procedures required by Redbook.

Recommendations: We recommend the school treasurer review outstanding checks monthly and follow up on any checks outstanding greater than 90 days. Checks may need to be voided and reissued.

Paducah Tilghman High School Views of Responsible Officials and Planned Corrective Actions: Treasurer will be sure to void checks that are more than 12 months outstanding.

Status of prior year comments:

Condition: During testing of capital related expenditures, we noted obsolete technology and general equipment capital assets were still recorded in the MUNIS general ledger.

Location: Central Office

Status: Still present during current year testing.

Condition: During testing of various projects, we noted projects completed but still reflected as active projects.

Location: Central Office

Status: Still present during current year testing.

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

Location: Clark Elementary School; Paducah Tilghman High School

Status: Still present during current year testing.

Condition: We noted one instance where a disbursement was missing supporting invoice or Form F-SA-8.

Location: Paducah Tilghman High School

Status: Not present during current year testing.

Condition: We noted eleven instances on the bank reconciliation where outstanding checks were held greater than 12 months.

Locations: Paducah Tilghman High School

Status: Still present during current year testing.

Condition: We noted one instance where a Form F-SA-1 was not signed by the school treasurer.

Locations: Paducah Middle School

Status: Not present during current year testing.