

**Examination of Certain Policies, Procedures, Controls, and  
Financial Activity of the Fairview Independent School District**



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**AUDITOR OF PUBLIC ACCOUNTS**

June 29, 2015

Jeff Preston, Chairman  
Fairview Independent School District  
216 Chickasaw Ct.  
Ashland, Kentucky 41102

RE: Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Fairview Independent School District

Dear Chairman Preston:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Fairview Independent School District. This examination resulted in 16 findings and offers multiple recommendations to strengthen the management and internal controls of the District.

These findings identify serious concerns regarding a lack of appropriate policies and controls related to fiscal management, oversight, and other issues. Due to the nature of certain findings discussed within this report, we are referring these issues to law enforcement and the Education Professional Standards Board.

In performing this examination, auditors reviewed thousands of documents, conducted interviews, and examined the documentation for certain District expenditures. Documents reviewed included District Board policies, Board meeting minutes, Board meeting packets, School-Based Decision Making Council meeting minutes, employment contracts, evaluations, payroll records, reimbursement request reports, credit card statements, vendor invoice listings, monthly activity fund financial reports presented to the Board, District budgets, prior audits, certain District contracts, and training records. Auditors interviewed former and current Board members, the current Superintendent, District Central Office staff, school principals, and other current and former District employees. Auditors also contacted certain staff at the Kentucky Department of Education, the Kentucky Educational Development Corporation, Kentucky Association of School Administrators, Kentucky High School Athletic Association, Office of Education Accountability, and others.

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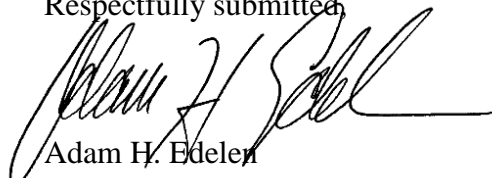
AN EQUAL OPPORTUNITY EMPLOYER M/F/D



Chairman Preston  
June 29, 2015  
Page 2

The Auditor of Public Accounts requests a report from the District on the implementation of the examination recommendations within (60) days of the completion of the final report. If you wish to discuss this report further, please contact me or Brian Lykins, Executive Director of the Office of Technology and Special Audits.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts





## Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Fairview Independent School District

### Impetus, Scope, and Methodology

The Auditor of Public Accounts (APA) received numerous concerns from multiple sources regarding various financial and other activities of the Fairview Independent School District (District). After careful consideration of these concerns, the APA initiated an examination to review certain District policies, procedures, internal controls, and financial activity.

The purpose of this examination was not to provide an opinion on financial statements or activities, but to review specific concerns brought to the attention of this office and ensure appropriate controls exist to provide strong oversight. The examination period was July 1, 2012 through June 30, 2014, unless otherwise stated.

### School Activity Funds and Accounts

Many of the concerns expressed to the APA involved school activity funds and individual school activity accounts. To address these concerns, the auditors reviewed certain state statutes and regulations, Board policies, and KDE's Accounting Procedures for Kentucky School Activity Funds, or "Redbook," as mandated and referenced by 702 KAR 3:130, Section 2 and KRS 156.170. The Redbook is incorporated by reference and is a part of the KAR cited. Due to the extent and severity of the concerns expressed to this office regarding the use of school activity funds, auditors were required to perform a detailed review of activity account transactions.

The District high school and elementary school each have a separate school activity fund and interest-bearing bank account to manage all activity accounts associated with each school. A few examples of the District's approximately 80 school activity accounts include Football, Basketball, Baseball, Golf, Annual/Yearbook, Band, Drama, Key Club, Senior Class, and Student Deposits. One bank account is used for all monies received or expended by each of the school activity accounts at an individual school.

District compliance with the guidance provided in the "Redbook" must hold to its minimum standard, however districts through their local board of education

may strengthen and add to any document or procedure that is within the scope of their authority and their responsibility of insuring an accurate accounting for all financial records, as well as insuring school activity funds are expended as intended. The system of safeguarding and accounting for school activity funds is dependent on the soundness and effectiveness of board of education policies and guidelines.

### Fairview Independent School District (District)

The District is one of three public school systems serving Boyd County, a county with a population of 49,542. During FY 2014, the District served a total of 864 students enrolled in two schools: one elementary school serving grades 1 through 5 and one high school serving grades 6 through 12. Approximately 71 percent of the student membership qualified for free or reduced lunch.

The Central Office has approximately 11 employee positions and is located in the residential area of Westwood, Kentucky. In FY 2014, the District employed approximately 51 full-time equivalent (FTE) classified staff and approximately 61 FTE certified staff, with approximately 49 of the 61 certified staff considered to be teachers. The pupil/teacher ratio was 18 students for every one teacher and the average teaching experience was 11.4 years. The District reported only one teacher certified by the National Board for Professional Standards.

### Academic Highlights

In FY 2013, the District had an overall score of 56.1 in accountability performance, which placed them in the 17th percentile compared to all other school districts in Kentucky. In FY 2014, the District's overall score increased to 66.5, which placed the District in the 61st percentile in comparison to other Kentucky school districts. The overall composite score for the 78 high school juniors who took the ACT in FY 2014 was 18.6 compared to the state's 19.4 overall composite score. No students enrolled at the District during FY 2014 took an Advanced Placement test.

### Financial Highlights

During FY 2014, the District reported total revenue per pupil as \$11,429, while total expenditures per pupil were reported as \$12,359. District salaries and benefits as a percent of total spending was 74.85 percent compared to the state average of 86.09 percent, which was the lowest of the 173 Kentucky public school districts. However, the District's administrative expenditures to total expenditures ranked 28th with 13.1 percent at the District versus the state average of 9.14 percent.

According to the District's audited financial statements, the District ended FY 2013 with a deficit of \$373,704. For FY 2014 the District had revenue of \$9.2 million and \$8.6 million in expenditures, for an excess of approximately \$660,000. The District's financial condition improved due to a Utility Gross Receipts Tax enacted at the end of FY 2013, which provided an additional \$1.2 million in District revenue in FY 2014.

### Findings and Recommendations

#### **Finding 1: Approximately \$360,000 was transferred from the District's General Fund to school activity funds with limited or no Board knowledge.**

To prevent a deficit balance in school activity funds, a total of approximately \$360,000 was transferred from the District's General Fund over three fiscal years with limited or no Board knowledge. Board members interviewed were unaware of the frequency or the dollar amounts of the transfers. These transfers were typically to cover overspending in certain school activity accounts. While the transfer of local board monies to the school activity fund account for any purpose is highly discouraged by the Redbook, the practice is a local board issue, but in doing so the District transferred monies from the General Fund account, which could have been used for instructional purposes, into the two school activity fund bank accounts.

**Recommendations:** The District should provide Redbook training for all sponsors of school activity accounts to ensure guidelines are followed. In addition, we recommend the sponsors of school activity accounts receive reports of the financial status of each account in a timely manner. We recommend the Board and appropriate Central Office staff receive training regarding the budgeting process and monitoring District financial activity.

#### **Finding 2: Based on Redbook regulations, over \$100,000 of District activity funds were inappropriately expended during the two-year examination period.**

Our examination identified over \$100,000 of District activity funds spent in violation of Redbook regulations related to allowable activity account expenditures. Redbook provides specific examples of disallowed expenditures from activity funds and states that all expenditures must benefit the student organization or support the established purpose of the account. Auditors were not able to determine an allowable benefit for \$101,322 in activity fund expenditures based on the criteria established in the Redbook. Compliance with Redbook for the use of activity funds does not appear to be monitored at the District's Central Office. Further, the District did not provide training to staff on Redbook requirements even though activity funds are used extensively, and substantial transfers from the District General Fund were required to be made to offset activity account expenditures.

**Recommendations:** We recommend the Board ensure all activity accounts have an established purpose that correlates with the source of funding for the activity. Procedures should be developed to review all expenditures' compliance with Redbook regulations. In addition, the Board should review and approve student fees collected by the schools. According to the Redbook, if the Board approves a student fee, the fee is mandatory and any waiver of the fee is subject to 702 KAR 3:220 to be paid from District funds. In addition, we recommend that the Board ensure staff involved in spending and approving activity funds, as well as Board members, are trained on Redbook regulations to promote and improve the District's understanding and compliance with the regulations. Due to the District's extensive use of activity funds, all staff involved should be aware of Redbook regulations.

#### **Finding 3: It appears the District violated Title IX requirements by spending more on football and boys sports than for girls sports.**

Title IX is a comprehensive federal law that prohibits discrimination on the basis of sex in any federally funded education program or activity. The District demonstrated a disregard for this law by underreporting football expenditures by at least \$148,260 and reporting inaccurate amounts for other sports. Because the former high school Principal/Athletic Director did not request actual athletic expenditures from the Finance Officer to complete the required Title IX Annual Report, he likely knew that inaccurate expenditure information was reported for school year 2012-13 and potentially for previous years not reviewed. Not including any District General Fund expenditures, the total amount of underreported athletic expenditures from District activity accounts was \$214,398. Full disclosure of actual expenditures would have drastically lowered the percentage of District expenditures for female sports and would have shown a

large disparity that was not made known to the KHSAA.

**Recommendations:** We recommend the District develop procedures to require the Athletic Director to establish and maintain an accounting system to track male and female sport expenditures within the categories required by KHSAA. This process will facilitate the accurate completion of the KHSAA Title IX Annual Report and document the District's awareness of its current spending patterns for male and female sports. We further recommend that a monthly reporting of sport-related expenditures be made to the Superintendent and to the Board at Board meetings and be documented in the meeting minutes.

**Finding 4: \$32,000 from the FRYSC elementary school activity account was used for high school weight room renovations and the FRYSC Coordinator and Assistant Coordinator subsequently received a \$5,000 salary increase at the Superintendent's direction.**

In order to pay for a weight room renovation at the high school, \$32,000 was transferred from an elementary school activity account maintained by the District's Family Resource and Youth Services Center (FRYSC) without the account sponsor's awareness. FRYSC is a state grant provided to school districts to fund services to address nonacademic barriers to enhance student academic success. According to Board members, the former high school Principal/Athletic Director told the Board that the weight room had to be renovated to comply with KHSAA requirements. On December 17, 2012, the Board accepted the low bid of \$52,000 for weight room remodeling with a unanimous 5-0 vote. To pay for the renovation expenditures, \$20,000 was transferred from three high school activity accounts and \$32,000 was transferred from the elementary school's FRYSC activity account. These funds were paid back into the FRYSC activity account by the end of FY 2013 on June 25, 2013. According to the FRYSC Coordinator, she was never informed that money was transferred from the FRYSC account. In addition, according to staff and audit reports from KHSAA, there is no record that the District needed renovations to be made to the weight room. The District, therefore, spent \$52,000 for an immediate renovation without a documented need, when sufficient funds were not available. In addition, restricted FRYSC funds were jeopardized due to the risk that these funds would not be repaid. Also, the FRYSC Coordinator and Assistant Coordinator received a \$5,000 increase in salary for the following school year at the direction of the Superintendent.

**Recommendations:** We recommend that the Board request support to document the need for a renovation or other such project prior to incurring significant costs

to the District, especially when funds are not readily available. If there is a need for donations or fundraisers to meet a specific objective, a separate activity account should be established with a purpose to collect funds to meet the specific need. Restricted donations should not be used for other purposes even if the intention is to reimburse the amount at a later date. We also recommend the Board make inquiries regarding the justification and authorization of the \$5,000 salary increase provided to two employees. After fully evaluating this issue, the Board should address the issue and take appropriate action. Further, we recommend the District follow the appropriate process to properly document and approve all salary increases made for any District employee. This documentation should identify the justification for employee salary increases and should be maintained in the records of appropriate Central Office staff.

**Finding 5: Individual scholarship donation amounts are not separately accounted for, which impairs transparency.**

According to the Finance Director, the Scholarship activity account contained money for just two scholarships, the Robert Morrison Scholarship and the Stephen Crisp Scholarship. Although both scholarships are awarded annually to graduating seniors, the Finance Director was not able to provide an individual accounting or balance for either scholarship and stated that he was not aware of donations for any other scholarship ever being deposited into this activity account. In contradiction to information from the Finance Director, funds were deposited into and awards were made from the Scholarship activity account for the Robert Morrison and Sophia Newman Scholarships, not the Stephen Crisp Scholarship. The lack of transparency related to scholarships paid out of the high school activity fund was evident in that the Scholarship activity account was used to pay for at least one expenditure that did not appear to meet the intended purpose of the account.

**Recommendations:** We recommend the District establish a separate school activity account to record donations and expenditures for each specific scholarship, as well as develop proper administrative procedures to allow for a more transparent process to monitor these funds. We recommend the Board develop and implement a policy to ensure the Board is made aware of the receipt or expenditure of restricted scholarship donations. We also recommend the Board require an annual reporting of donation receipts and expenditures. We further recommend donations restricted for scholarships only be used for that purpose.

**Finding 6: The District’s activity fund procedures violated basic Redbook operating requirements and adversely impacted the funds’ transparency and accounting accuracy.**

In addition to not being managed at the schools, the District’s activity fund procedures violated basic Redbook operating requirements and adversely impacted the funds’ transparency and accounting accuracy. First, the Board did not begin to approve activity account budgets until the spring of 2014. Except for the monthly financial reports developed at the Central Office, the required Redbook forms were not on file to support and account for the revenue and expenses related to fundraisers, ticket/concession sales, or donations received. Along with the lack of required forms, there were no controls or procedures developed for collecting and submitting cash receipts related to fundraisers or ticket/concession sales. Given that over 80 activity accounts existed during this two-year examination period with at least \$343,000 in fundraisers and ticket/concession sales at the high school and more than \$32,000 in donations, operating controls and procedures are essential to ensure transparency and accuracy. These violations were repeatedly reported in the District’s annual independent financial statement audits, yet the District has only taken steps to address the Board’s approval of budgets.

**Recommendations:** We recommend that the Board implement operational policies and procedures required by Redbook to manage and monitor activity funds. The adopted policies could give the school’s SBDM Council the responsibility to determine the required procedures and allow the schools the ability to monitor and track this information. The procedures adopted should contain proper cash handling requirements to ensure there is a segregation of duties to establish a system of checks and balances. In addition, a donation policy should be developed to ensure the Board is aware of any donations and their uses. If the policy gives the responsibility of reviewing donations to the schools, the Board should require an annual list of donations along with how each was used by the school to be presented to the Board. This policy should also address whether external/booster organizations will be used to operate certain activities to limit the need for school resources. These external/booster organizations should also be required to comply with Redbook regulations.

**Finding 7: School activity funds were managed at the District Central Office rather than at the schools as required by KDE’s Redbook regulations and District policies.**

The District’s Central Office tracked and approved the use of each school’s activity fund rather than the schools, which violated KDE’s Redbook regulations.

These regulations require that activity funds be established to benefit each particular school and be managed, including approving and making payments from these funds, by each school. According to the Superintendent and Finance Officer, however, activity funds for the two schools in the District have always been managed at the District Central Office. Though the District adopted policies that mirror Redbook requirements, staff were not aware of these policies and the policies did not reflect the District’s actual practices. Information regarding the balance of over 80 activity accounts was maintained only at the Central Office, with financial reports provided to the principals at the two schools typically one to two months in arrears. While the Central Office tracked the information and performed the needed reconciliations, auditors identified exceptions in accounting for this information. Further, the process followed prevented a system of strong controls providing checks and balances to ensure appropriate use of these funds. Transfers between accounts lacked adequate documentation and were not done transparently so that the schools and sponsors would know to adjust any informal tracking of account activity. This noncompliance with the Redbook and District policy was not reported in the District’s independent financial audit even though a significant amount of District General Funds were used to supplement activity accounts instead of supporting the District’s instructional needs.

**Recommendations:** We recommend that the District ensure compliance with KDE’s Redbook and the District’s adopted policies related to activity funds and their management. The Central Office should only be involved as an oversight authority to ensure that the Board approves the established budgets. As authorized by the Redbook, each school should initiate a bank account to manage the school’s desired activity accounts and to determine whether external booster clubs will be used to administer any activity accounts. The District schools must establish the needed controls required of the Redbook regulations related to the management and tracking of activity funds. Transfers between the funds should be documented as required by the Redbook with the complete knowledge of the activity sponsors. Any Board authorized transfers from the General Fund into activity funds should require explicit reporting to the Board for approval to ensure District funds are used to support instructional needs and are not being diverted to pay for extra-curricular activities. Further, the District should consider the establishment of external/booster organization to operate certain programs or activities to reduce the need for school resources.

**Finding 8: Board members have a limited understanding of school activity funds and lacked information to monitor financial activity.**

During the period under examination, the information necessary to fully understand school activity funds was not discussed with the Board. Through interviews with current and former Board members, auditors asked each member what their understanding was of the differences between school activity funds and the General Fund. The responses were varied, but it was clear that Board members did not understand their responsibility related to activity funds and had little or no exposure to the Redbook. When asked about the need for transfers from General Funds to cover the negative balances incurred by some school activity accounts (see Finding 1), the Superintendent stated that the Board had always been aware that certain school activity accounts could not raise enough revenue to meet their needs and that transfers would be necessary. However, a review of the minutes of Board meetings for the past three fiscal years did not yield a single example of the Board officially voting on the transfer of General Funds to a particular school activity account to cover a negative activity account balance. Though the monthly financial report for each school activity fund is provided in the Board packet, the Superintendent confirmed that neither District staff nor the Board ever discussed the financial reports in the Board packets at a Board meeting unless there was a specific question by a Board member.

**Recommendations:** We recommend the District ensure that all Board members and District staff that are involved with school activity accounts receive Redbook training, as well as access to the current Redbook. In addition, we recommend the Board and District follow the requirements set forth by Board Policy 4.3111, including the “Orders” of the Treasurer and the review of supporting documentation by Board members prior to the meetings. We also recommend the Board approve budgets for all school activity accounts on an annual basis, not just for those accounts related to a sports team or activity. The Board minutes should specify both the total budget and the portion of the budget or particular expenditures approved to be paid by the Board with General Funds. We recommend the Board discuss and approve all General Fund transfers beyond the amounts agreed to during the budgetary process. The amount to be transferred and the school activity account to receive the transfer should be documented in the Board meeting minutes. We further recommend the Board discuss whether Board packets should be provided by the District to members at an earlier time prior to the Board meeting. Finally, we recommend the Board have the Finance Officer provide a summary presentation on the financial status of the District at each regular Board meeting.

**Finding 9: Several staff reported the Superintendent used intimidation tactics so that staff would not question his decisions or discuss his actions.**

Several District administration staff members reported to auditors that the Superintendent used intimidation to deter staff from questioning his practices or decisions. Repeatedly, when auditors asked staff why a practice was not questioned, we were told that “if you ask questions, you’re gone.” The intimidation tactics reported to auditors included threats delivered by the Superintendent through third parties and the Superintendent’s actions during a District administrators meeting, which is further discussed below. Also, staff were not provided with any budget information, which also put staff at a disadvantage. It is not clear why the Superintendent engaged in this reported conduct, but it is clear from auditor interviews with staff that staff did not have the impression that academics was a top priority of the Superintendent. Most staff stated to auditors, however, that the Superintendent was always willing to assist students in attending or participating in non-academic events. This atmosphere was not conducive to the instructional education of students, meeting academic goals, or complying with KDE requirements.

**Recommendations:** Though the Superintendent is scheduled to retire on June 30, 2015, we recommend that the Board take steps to address employee concerns related to reported instances of intimidation so that this type of work environment is not permitted to exist moving forward. The Superintendent is hired by the Board and the Board should monitor the Superintendent’s performance and his actions to promote an atmosphere that encourages academics and compliance with education laws. We also recommend the Board establish a process for employees to report issues to the Board anonymously and directly. As recommended in Finding 16, the Board should ensure that the Superintendent is evaluated regularly to avoid the appearance that the Superintendent can act without oversight. Related to carrying a concealed weapon on school property, the Board should address this issue with staff going forward to ensure compliance with KRS 527.070.

**Finding 10: The Superintendent circumvented Board oversight, used the District credit card for personal expenses, and provided a 32 percent pay raise for an employee.**

The Superintendent’s contract required reimbursement for expenses, yet the Superintendent did not receive a reimbursement from the General Fund during the examination period. Instead, the Superintendent had certain expenses paid directly with District credit cards. Documentation concerning these expenditures was not

provided to the Board for informational or review purposes during the examination period. In addition, the contract requires the Board to pay all reasonable expenses for the Superintendent's spouse, yet none of the Board members interviewed were aware of this benefit. The Superintendent also used the District credit card to purchase flights for family members and guests. Although he repaid these amounts in a timely manner, the Superintendent violated Board Policy 4.31 which states that personal purchases on District/school credit cards are prohibited. After the Superintendent announced, in January 2015, his expected retirement, he continued to incur travel and conference costs though his employment was scheduled to end upon conclusion of the fiscal year. In addition, the lack of external booster clubs in the District, along with the continued approval of expenditures related to activity accounts that had a negative balance, meant the Superintendent had ultimate control over the use of revenue raised by the two schools' activity funds. In November 2013, the Superintendent directed the Payroll Officer to increase the Finance Officer's annual salary by 32 percent, which increased it from \$66,457 to \$87,903. At the November 25, 2014 Board meeting, the Board approved the hiring of an individual as construction manager for the Fairview Independent Schools to oversee the renovation project at the high school. Neither the Board meeting minutes or the contract provide defined duties or expectations regarding the individual's job as construction manager or the Board's responsibilities as employer.

**Recommendations:** We recommend that the Board's attorney review the Superintendent's proposed contract prior to being approved by the Board to ensure the contract clearly represents the salary, benefits, and other terms and conditions associated with the Superintendent's employment. All terms and conditions of the contract should be clearly stated, not be redundant in nature, and provide clear criteria as to how the Board will monitor the contract's terms and conditions, including benefits. The Board should ensure current and future employment contracts properly define all intended benefits and that the Board require sufficient reporting to monitor the benefits of the contract. We recommend that the Board pre-approve all out-of-state travel for District employees and Board members, including travel for professional development. Budgeted or known travel costs for the trip should be specifically pre-approved by the Board in a public meeting. To ensure compliance and transparency, the Board should receive and review a detailed report of the actual out-of-state travel and reimbursement expenses incurred as well. We recommend that the full Board, Board Chair, or a designated Board committee review the Superintendent's credit card purchases to ensure the

transactions are reasonable in amount, necessary, and properly supported by receipts or other appropriate documentation. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent. We recommend that all reimbursement requests made and credit card charges incurred by the Superintendent be provided to the full Board, Board Chair, or a designated Board committee. The Board should require the District's Finance Officer to conduct an initial review of the Superintendent's reimbursement request or credit card expenditure and submit any concerns or issues to the Board before approval for payment is made. The full Board, Board Chair, or a designated Board committee should review and document the approval or other action taken regarding the Superintendent's requests for reimbursement and ensure the transactions are reasonable, necessary, and compliant with the contract. We recommend the District consistently follow Board Policy 4.31 that states personal purchases on District/school credit cards are prohibited and unauthorized charges made by employees to District/school credit cards may result in disciplinary action. We also recommend the District establish a specific credit card policy to require supporting documentation for credit card expenditures. This supporting documentation should include a business purpose, the name of individuals involved in the purchase, as well as a detailed invoice or other appropriate documentation. This policy should also contain a statement that credit card purchases not supported by detailed, itemized receipts must be repaid by the employee within a reasonable period. Related to conferences and training, we recommend a District policy require the Superintendent and other District staff to provide specific supporting documentation for all requested reimbursements. This documentation should include the identity of the organization or agency sponsoring the event, a brief description of the business purpose, and an original itinerary, agenda, or registration materials related to the event. The District should maintain a list of employees attending the training. To be eligible to attend conferences and trainings, the employee should be a full-time district employee and not an interim employee whose training may not be as beneficial to the district. Due to limited budgets, the District should consider sending a limited number of employees to conferences or training and encourage the development of effective in-house training that will extend the benefit of this external training to other staff. We further recommend that significant increases in classified employee salaries be disclosed to the Board and an employee's contract be modified to document any updated or new terms of an employee's contract. Finally, service contracts should

provide detailed responsibilities and duties to ensure work is properly performed and monitored.

**Finding 11: Over a two-year period, the District paid almost \$37,000 for unleaded gasoline with no supporting documentation.**

The examination of the District's gasoline credit card statements found a total of \$36,908 was paid by the District for unleaded gasoline with no existing supporting documentation for the charges. This amount accounts for 88 percent of all unleaded gasoline charges made on the District's primary gasoline account. These expenses cannot be connected to an employee, specific trip, event, or other District activity. The other unleaded gasoline expenses were only supported by store receipts with an employee's name or a general District vehicle description. The amount of gasoline purchased for inappropriate or personal benefit cannot be determined due to the lack of documentation. When traveling for business purposes, the District allowed gasoline purchased to be used in personal vehicles. The District had not implemented controls to ensure gasoline was only used for a business purpose.

**Recommendations:** We recommend that the District initiate controls and processes to minimize the risk of abuse in the purchase of unleaded gasoline and to ensure the purchase and use of all types of fuel is only for appropriate business purposes of the District. Gasoline should only be purchased for District vehicles and receipts should be required in addition to documenting the purchasing employee's name, the business purpose for the purchase, the vehicle license plate number, and an odometer reading at the time of purchase. This documentation should be consistently reviewed and any gaps or undocumented purchases addressed in a timely manner. In addition, we recommend the credit account not be used to purchase gasoline for personal vehicles. Instead, a request for mileage reimbursement should be used when personal vehicles are driven for business related purposes. A mileage reimbursement request form should be developed that requires the name of the person, the date and time travel, the business purpose, and travel destination. We further recommend that this form be fully complete and then reviewed by an appropriate staff person prior to payment. The mileage reimbursement request is a transparent method that documents the activity as well as the business purpose of the travel. Any mileage reimbursement requests made by the Superintendent should be reviewed and approved by the Board or a designated member of the Board prior to payment. Having a subordinate employee approve a request for payment from the Superintendent is not effective or reasonable. Considering the size and requirements of the District, the need for three maintenance vehicles should be

reviewed for reasonableness. Further, the District should comply with its policies and not allow the take-home assignment of District vehicles. The District should determine the taxable benefit provided to staff if the assignment of District vehicles continues.

**Finding 12: The District had not established a formal process to hire students for the summer work program.**

According to a Board member who grew up in the District, the District has, for over 40 years, operated a summer work program that employed students to provide general labor for maintenance projects on school grounds. However, the Central Office staff was unable to provide evidence of a formal application, eligibility criteria, or a documented selection process ever existing. Also, all current and former Board members interviewed stated they had no involvement in the selection process and were unaware of the criteria for eligibility. The lack of criteria related to the District-managed summer work program has not only prevented the program from being operated in a transparent manner, but has also put it at risk of producing a biased selection of participants. A review of students hired for the program during the last three fiscal years shows that of the 17 individuals identified as summer workers for one or more of the last three summers, 13 were athletes and at least five of those 13 were children of District employees.

**Recommendations:** The Board should develop a policy to establish the purpose of the summer work program for students, provide guidance to District staff as to how the program should be advertised to the whole student population, what requirements should be met in selecting a student to participate, and the payment method/rates to be used. The District should consider the guidance provided by the Board when creating formalized procedures that document the application process, eligibility criteria, and the selection process. The District should also formalize in a procedure how the students will be supervised by District staff and how they will report their time worked.

**Finding 13: The Superintendent allowed the former high school Principal to assume a dual role as Athletic Director causing a conflict of interest that weakened the management controls related to the high school's activity fund.**

A principal and an athletic director are two distinct employment positions that could have conflicting interests, yet the District Superintendent allowed the same employee, now former employee, to assume both positions starting in 2009. As a principal, the employee's primary objective should have been to maximize the amount of funds for classroom education

instead of for sports and non-instructional activities. According to the Superintendent, he thought the former employee could handle both roles without any problem, but the management controls over the activity fund provided by the segregation of duties involving multiple staff members were eliminated. In addition, the appointment of the former Principal/Athletic Director's nephew as head football coach also caused a conflict because an employee is supervising a relative. In addition, the former Principal/Athletic Director sold "slush puppies" at the high school and there were no mechanisms in place to determine if the total cash collected was actually deposited into the proper activity fund. Though there were large deficits in activity funds that had to be supplemented by District funds that should have been spent on classroom instruction, the Superintendent allowed this conflictive situation to continue until the school received sanctions from KHSAA. After the sanctions, the former Principal/Athletic Director resigned from both positions.

**Recommendations:** Since the current high school Principal is not serving in a dual role as the Athletic Director, we recommend that the District develop procedures to consistently implement the Board policy that activity funds be managed at the school level. The Principal or designee should review all of the purchase orders requested by the activity account coach/sponsor. We further recommend the procedures contain safeguards for an authorized person to review and approve an activity account purchase order requested by the Principal.

**Finding 14: Sporting goods contract was entered into without Board knowledge.**

Despite statutory language that states a board has general control and management of all school funds, the high school Principal/former Athletic Director and the Superintendent entered into a brand-specific sporting goods contract without the knowledge or approval of the Board. The District, however, did not use the vendor from the contract as the sole source for athletic apparel and equipment.

**Recommendations:** We recommend that all contracts and incentive programs be brought before the Board for review and approval. The District Finance Officer should ensure all contracts are approved by the Board prior to making payments to the vendor.

**Finding 15: The Board did not consistently perform Superintendent evaluations required by state statutes, District policy, and the Superintendent's contract.**

Despite multiple criteria citing the requirement for an annual evaluation of the Superintendent, as well as statements by several current and former Board

members that evaluations of the Superintendent were completed multiple times during their tenure, auditors were only provided documentation to support one evaluation during the approximate 46 month period of July 1, 2011 through April 27, 2015. The Finance Director, who was a former Board member, indicated that the documented evaluations were prepared as a result of "a strong request" by OEA. In responding to the APA's request for documentation of evaluations performed, a District employee also commented that, "our Board apparently does not have a history of conducting formal written evaluations."

**Recommendations:** We recommend the Board ensure it complies with KRS 156.557 and Board Policy 2.14. This will require the Board to not only perform the Superintendent's evaluation annually, but also present, discuss, and adopt a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, the Board should ensure that written evaluations are performed annually and that the summative evaluation is available to the public upon request in accordance with KRS 165.557(6).

**Finding 16: The District paid the local educational cooperative \$1,050 for Principal Network training not attended by the high school Principal.**

Based on attendance records with the local educational cooperative, the District paid a total of \$1,050 for principal training that the District high school Principal did not attend in FY 2013, FY 2014, and FY 2015. The local educational cooperative provided Principal Network training in two meetings in FY 2013 for a total cost of \$250 per registrant. In FY 2014 and 2015, the Principal Network training was held in four meetings for a total cost in each fiscal year of \$400 per registrant. While the high school Principal registered for the training and his name was printed on the class sign in-sheet, there was no signature verifying his attendance. Employees should attend training paid for by the District or a refund should be requested unless extraordinary circumstances exist prohibiting the employee from attending the training.

**Recommendations:** We recommend the District implement procedures to monitor the required professional development of each District staff position and assign this responsibility to specific staff at each school. We also recommend that the Board develop a policy that failing to attend training paid by the District must be reimbursed by the employee, unless documented exceptional circumstances prevent the employee from attending the scheduled training.



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## Chapter 1

# Introduction and Background

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### **Impetus, Scope, and Methodology for Examination**

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The Auditor of Public Accounts (APA) received numerous concerns from multiple sources regarding various financial and other activities of the Fairview Independent School District (District). After careful consideration of these concerns, the APA initiated an examination to review certain District policies, procedures, internal controls, and financial activity.

The purpose of this examination was not to provide an opinion on financial statements or activities, but to review specific concerns brought to the attention of this office and ensure appropriate controls exist to provide strong oversight. The examination period was July 1, 2012 through June 30, 2014, unless otherwise stated.

To address the concerns expressed to this office, auditors reviewed thousands of documents, conducted interviews, and examined the supporting documentation for certain District expenditures. Documents reviewed included, but were not limited to: District Board (Board) policies, Board meeting minutes, Board meeting packets, School-Based Decision Making (SBDM) Council meeting minutes, employment contracts, evaluations, payroll records, reimbursement request reports, credit card statements, vendor invoice listings, monthly activity fund financial reports presented to the Board, District budgets, prior audits, certain District contracts, athletic rosters, and training records.

Auditors reviewed receipts, purchase orders, bank statements, and other supporting documentation for all Fairview high school (high school) activity fund transactions for fiscal year (FY) 2013 and FY 2014, as well as performed a high-level review of similar transactions for the Fairview elementary school (elementary school) activity fund for FY 2013 and FY 2014. In addition, auditors reviewed supporting documentation for District credit cards, with a focus on those cards with a significant amount of expenditures.

Our examination included discussions and interviews with one former and five current Board members, the current Superintendent, District Central Office (Central Office) staff, principals at both District schools, and other current and former District employees, including certain coaches and sponsors associated with school activity accounts. Auditors also had discussions with certain staff at the Kentucky Department of Education (KDE), the Kentucky Educational Development Corporation (KEDC), Kentucky Association of School Administrators (KASA), Kentucky High School Athletic Association (KHSAA), Office of Education Accountability (OEA), an outside vendor, and a sample of similarly-sized districts.

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**Chapter 1**  
**Introduction and Background**

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To address the concerns expressed to auditors throughout this examination process, auditors developed findings and made recommendations for improving policies, procedures, and internal controls. While thoroughly investigated, several concerns expressed to this office could not reasonably be substantiated through documentation or interviews and did not result in a finding. The findings and the recommendations resulting from this examination are presented in Chapter 2. In addition, the District’s response to this report is included in this report.

**School Activity  
Funds and  
Accounts**

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Many of the concerns expressed to the APA involved school activity funds and individual school activity accounts. To address these concerns, the auditors reviewed certain state statutes and regulations, Board policies, and KDE’s Accounting Procedures for Kentucky School Activity Funds, or “Redbook,” as mandated and referenced by 702 KAR 3:130, Section 2 and KRS 156.170. The Redbook is incorporated by reference and is a part of the KAR cited. Due to the extent and severity of the concerns expressed to this office regarding the use of school activity funds, auditors were required to perform a detailed review of activity account transactions.

The District high school and elementary school each have a separate school activity fund and interest-bearing bank account to manage all activity accounts associated with each school. See Exhibit 1. A few examples of the District’s approximately 80 school activity accounts include Football, Basketball, Baseball, Golf, Annual/Yearbook, Band, Drama, Key Club, Senior Class, and Student Deposits. One bank account is used for all monies received or expended by each of the school activity accounts at an individual school.

The Central Office staff at the District creates, processes, and tracks deposits, expenditures, checks, and fund balances related to every school activity account within the two school activity funds. Table 1 presents dollar amounts and number of purchase orders associated with each school activity fund during the examination period.

**Table 1: School Activity Fund Data by Fiscal Year and School**

| School Activity Fund Data         | Elementary School |          | High School |           |
|-----------------------------------|-------------------|----------|-------------|-----------|
|                                   | FY 2013           | FY 2014  | FY 2013     | FY 2014   |
| Total Receipts for the Year       | \$124,344         | \$79,156 | \$352,199   | \$234,841 |
| Total Expenditures for the Year   | \$128,198         | \$77,885 | \$513,072   | \$357,161 |
| Number of Purchase Orders Created | 303               | 216      | 1189        | 903       |

Source: Auditor of Public Accounts based on information provided by the District.

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## Chapter 1

# Introduction and Background

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The information presented in the Redbook enables districts to provide the necessary reporting of monies received and expended through a method of uniform accounting for school activity funds as required by 702 KAR 3:130(3). The Redbook explains the need for consistent supporting documentation that can attest to the authenticity, accuracy, and authority of each financial transaction.

According to the Redbook,

After incorporating the guidance provided in the “*Redbook*”, all schools will be able to present to the public an efficient system of accounting for all monies received and expended through school activity funds.

District compliance with the guidance provided in the “*Redbook*” must hold to its minimum standard, however districts through their local board of education may strengthen and add to any document or procedure that is within the scope of their authority and their responsibility of insuring an accurate accounting for all financial records, as well as insuring school activity funds are expended as intended. The system of safeguarding and accounting for school activity funds is dependent on the soundness and effectiveness of board of education policies and guidelines.

According to information provided by KDE to school districts, each school activity fund is to be reported on the district’s financial statements as a fiduciary fund because the expenditure of these funds is directed by student groups, not the local board of education. This fund shall be audited annually by a certified public accountant. The audit report shall be reviewed and accepted by the local board and appropriate action taken.

Per the Redbook, expenditures needed to operate the school district’s regular activities are considered disallowed expenditures of school activity accounts. Examples of operating costs include textbooks, copier lease payments, and instructional supplies. School activity funds may be used to pay for these items only if they are used solely and specifically by the group raising the funds.

### **The District**

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#### *Description & Demographics*

The District is one of three public school systems serving Boyd County, a county with a population of 49,542. During FY 2014, the District served a total of 864 students enrolled in two schools: one elementary school serving grades 1 through 5 and one high school serving grades 6 through 12. Approximately 71 percent of the student membership qualified for free or reduced lunch.

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## Chapter 1

# Introduction and Background

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The Central Office has approximately 11 employee positions and is located in the residential area of Westwood, Kentucky. In FY 2014, the District employed approximately 51 full-time equivalent (FTE) classified staff and approximately 61 FTE certified staff, with approximately 49 of the 61 certified staff considered to be teachers. The pupil/teacher ratio was 18 students for every one teacher and the average teaching experience was 11.4 years. The District reported only one teacher certified by the National Board for Professional Standards.

### *Academic Highlights*

In FY 2013, the District had an overall score of 56.1 in accountability performance, which placed them in the 17<sup>th</sup> percentile compared to all other school districts in Kentucky. In FY 2014, the District's 66.5 overall score for accountability performance was a significant increase. This score placed the District in the 61<sup>st</sup> percentile in comparison to other Kentucky school districts.

The overall composite score for the 78 high school juniors who took the ACT in FY 2014 was 18.6 compared to the state's 19.4 overall composite score. No students enrolled at the District during FY 2014 took an Advanced Placement test.

### *Financial Highlights*

During FY 2014, the District reported total revenue per pupil as \$11,429, while total expenditures per pupil were reported as \$12,359. District salaries and benefits as a percent of total spending were the lowest among the 173 Kentucky public school districts, 74.85 percent at the District compared to the state average of 86.09 percent. The District, however, ranked 28<sup>th</sup> for the percent of administrative expenditures to total expenditures, 13.1 percent at the District versus the state average of 9.14 percent.

According to the District's audited financial statements, the District ended FY 2013 with a deficit of \$373,704. For FY 2014 the District had revenue of \$9.2 million and \$8.6 million in expenditures, for an excess of approximately \$660,000. The District's financial condition improved due to a Utility Gross Receipts Tax enacted at the end of FY 2013, which provided an additional \$1.2 million in District revenue in FY 2014.

## Findings and Recommendations

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**Finding 1:  
Approximately  
\$360,000 was  
transferred from  
the District's  
General Fund to  
school activity  
funds with limited  
or no Board  
knowledge.**

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To prevent a deficit balance in school activity funds, a total of approximately \$360,000 was transferred from the District's General Fund over three fiscal years with limited or no Board knowledge. Though highly discouraged by the Redbook, the District transferred monies from the General Fund account, which could have been used for instructional purposes, into the two school activity fund bank accounts. According to a District policy, the Superintendent may require a plan be presented for Board approval to reimburse any deficient school activity amounts. While these transfers were presented on the monthly activity fund financial report under the column heading "BOARD THIS MONTH," Board members interviewed were unaware of the frequency or the dollar amounts of the transfers.

During the review, it became clear that the District routinely transferred monies from the General Fund into the school activity fund bank accounts. These transfers were typically to cover overspending in certain school activity accounts. While the transfer of local board monies to the school activity fund account for any purpose is highly discouraged, the practice is a local board issue. The Redbook states that if a transfer is made, it shall be clearly described in the Principal's Combined Activity Fund Ledger (form F-SA-11) and, if the money is restricted to a specific use, it shall be posted to a new Individual Activity Account Ledger (F-SA-12) for audit trail purposes.

Regarding account balances, the Redbook states,

Individual school activity accounts and the school activity fund bank account as a whole shall not end the fiscal year with a negative (deficit) balance. If an activity account ends the year with a negative balance (after taking receivable and accounts payable into consideration), then the general activity account must cover the deficit by June 30. If the school activity fund bank account ends the year with a negative balance (after taking receivable and accounts payable into consideration), then the district's general fund shall cover any deficit by June 30.

In addition, according to District Board Policy 4.312,

Because no school activity fund is permitted to end the fiscal year with a deficit balance, the school shall not expend or commit to expend any activity fund in excess of revenue received for the fiscal year. Should this occur, the employee(s) responsible shall be subject to appropriate disciplinary action, and the Superintendent may require the school/council to present for Board approval a plan for reimbursement of any deficit amount.

**Chapter 2**  
**Findings and Recommendations**

While the form suggested for a Principal’s Combined Activity Fund Ledger was not used by the District, the Central Office maintained activity account financial information on two spreadsheets, one for receipts and one for expenditures, which contained the information listed on the suggested form. Activity account financial information was typically provided to school principals one or two months late, while this information was not directly provided to the sponsors of school activity accounts. In reviewing these two spreadsheets for FY 2013 and FY 2014, as well as the monthly activity fund financial reports presented to the Board, auditors noted four transfers occurring each fiscal year from the District’s General Fund into school activity accounts within the high school activity fund. In response to this discovery, auditors performed a review of these transfers and also reviewed transfers made during FY 2012. Table 2 shows the total amount transferred to each school’s activity fund from the General Fund for the three periods analyzed.

**Table 2: General Funds Transferred to Each School’s Activity Fund**

| <b>School Activity Fund</b> | <b>FY 2012</b>  | <b>FY 2013</b>   | <b>FY2014</b>    | <b>Three Year Total</b> |
|-----------------------------|-----------------|------------------|------------------|-------------------------|
| Elementary                  | \$309           | \$0              | \$1,200          | \$1,509                 |
| High                        | \$83,152        | \$162,197        | \$111,311        | \$356,660               |
| <b>Total</b>                | <b>\$83,461</b> | <b>\$162,197</b> | <b>\$112,511</b> | <b>\$358,169</b>        |

Source: Auditor of Public Accounts based on information provided by the District.

Over the three fiscal years reviewed, the District made a total of 17 transfers from the General Fund into the two school activity fund bank accounts. In speaking with two Office of Administration and Support staff members at KDE, they acknowledged that transfers, though rare, do occur and are allowable; however, when the auditors shared with them the frequency and the magnitude of the transfers, both staff members appeared concerned.

One of the primary responsibilities in the operation of activity funds is to ensure that the individual accounts do not have a negative balance. However, the Finance Officer and the Superintendent allowed activity accounts to incur costs that were not supported by the amount of revenue generated by the activity. The Superintendent stated that he was not aware of the deficits in the activity accounts because he does not review the monthly financial reports created by the Finance Officer.

The following table provides a detailed breakdown of General Fund transfers received by school activity accounts for FY 2013 and FY 2014.

## Findings and Recommendations

Table 3: School Activity Accounts Receiving General Fund Transfers

| School Activity Fund               | School Activity Account | FY 2013 General Fund Transfers | FY 2014 General Fund Transfers | Two Year Total of General Fund Transfers Received |
|------------------------------------|-------------------------|--------------------------------|--------------------------------|---|
| Elementary School                  | School Patrol           | \$0                            | \$1,200                        | \$1,200   |
| High School                        | Athletics               | \$12,682                       | \$321                          | \$13,002  |
|                                    | Band A                  | \$7,000                        | \$7,000                        | \$14,000  |
|                                    | Baseball                | \$1,500                        | \$4,106                        | \$5,606   |
|                                    | Bowling                 | \$1,500                        | \$2,000                        | \$3,500   |
|                                    | Boys Basketball         | \$13,500                       | \$4,842                        | \$18,342  |
|                                    | Boys Golf               | \$0                            | \$1,070                        | \$1,070   |
|                                    | Cheerleaders VAR        | \$0                            | \$1,702                        | \$1,702   |
|                                    | Chorus                  | \$6,000                        | \$0                            | \$6,000   |
|                                    | Chorus ACT              | \$0                            | \$4,524                        | \$4,524   |
|                                    | Drama                   | \$0                            | \$2,525                        | \$2,525   |
|                                    | Football                | \$58,332                       | \$47,997                       | \$106,328   |
|                                    | Football MS             | \$16,500                       | \$3,406                        | \$19,906  |
|                                    | Girls Basketball        | \$16,500                       | \$6,006                        | \$22,506  |
|                                    | Girls Golf              | \$0                            | \$375                          | \$375   |
|                                    | Senior Class Trip       | \$7,963                        | \$13,442                       | \$21,405  |
|                                    | Softball                | \$1,000                        | \$3,638                        | \$4,638   |
|                                    | Student Deposit         | \$10,721                       | \$0                            | \$10,721  |
|                                    | Tennis                  | \$0                            | \$3,532                        | \$3,532   |
|                                    | Track                   | \$9,000                        | \$4,826                        | \$13,826  |
| <b>General Fund Transfer Total</b> |                         | <b>\$162,198</b>               | <b>\$112,512</b>               | <b>\$274,708</b>                                  |

Source: Auditor of Public Accounts based on information provided by the District.

The majority of the General Fund transfers to school activity funds were apparently made to cover or offset the deficits incurred by the overspending in certain school activity accounts. This is supported in that many of the transfers to particular school activity accounts occurred either when a District employee spent more than was available in the activity account or an activity account had a deficit balance as the fiscal year was ending.

For example, during FY 2013, the high school Football activity account ended each of the first eleven months of the year with a negative balance, despite receiving two transfers totaling \$29,000 during this time. In June 2013, the Finance Director transferred an additional \$29,332, for total transfers of \$58,331.57 transferred, from the General Fund into the Football activity account to end the fiscal year with a zero balance. In FY 2014, the Football activity account ended with a negative balance for eight of the twelve months. Based on the monthly activity fund financial reports presented to the Board, Tables 4 and 5 show the financial information provided for the Football activity account.

## Findings and Recommendations

Table 4: FY 2013 Football Activity Account Financial Information

| Month         | Balance Beginning Month | Receipts During Month | Board Transfers This Month | Transfer To During Month | Disbursed During Month | Transfer From During Month | Balance Ending Month |
|---------------|-------------------------|-----------------------|----------------------------|--------------------------|------------------------|----------------------------|----------------------|
| Jul           | \$11,108                | \$1,850               | \$0                        | \$0                      | \$18,838               | \$0                        | (\$5,880)            |
| Aug           | (\$5,880)               | \$14,822              | \$0                        | \$0                      | \$13,269               | \$0                        | (\$4,328)            |
| Sep           | (\$4,328)               | \$7,068               | \$0                        | \$0                      | \$16,180               | \$0                        | (\$13,439)           |
| Oct           | (\$13,439)              | \$10,221              | \$0                        | \$0                      | \$11,829               | \$0                        | (\$15,048)           |
| Nov           | (\$15,047)              | \$15,711              | \$0                        | \$0                      | \$20,219               | \$0                        | (\$19,555)           |
| Dec           | (\$19,555)              | \$3,482               | \$0                        | \$0                      | \$14,771               | \$0                        | (\$30,844)           |
| Jan           | (\$30,844)              | \$3,050               | \$26,500                   | \$0                      | \$11,799               | \$0                        | (\$13,093)           |
| Feb           | (\$13,093)              | \$5,994               | \$0                        | \$0                      | \$7,648                | \$0                        | (\$14,748)           |
| Mar           | (\$14,748)              | \$4,390               | \$0                        | \$0                      | \$14,963               | \$0                        | (\$25,321)           |
| Apr           | (\$25,321)              | \$4,150               | \$0                        | \$0                      | \$1,798                | \$0                        | (\$22,969)           |
| May           | (\$22,969)              | \$6,689               | \$2,500                    | \$0                      | \$5,403                | \$0                        | (\$19,183)           |
| Jun           | (\$19,183)              | \$6,852               | \$29,332                   | \$0                      | \$17,000               | \$0                        | \$0                  |
| <b>Totals</b> |                         | <b>\$84,279</b>       | <b>\$58,332</b>            | <b>\$0</b>               | <b>\$153,717</b>       | <b>\$0</b>                 |                      |

Source: Auditor of Public Accounts based on monthly financial reports provided by the District.

Table 5: FY 2014 Football Activity Account Financial Information

| Month         | Balance Beginning Month | Receipts During Month | Board Transfers This Month | Transfer To During Month | Disbursed During Month | Transfer From During Month | Balance Ending Month |
|---------------|-------------------------|-----------------------|----------------------------|--------------------------|------------------------|----------------------------|----------------------|
| Jul           | \$0                     | \$2,800               | \$0                        | \$0                      | \$25,350               | \$0                        | (\$22,550)           |
| Aug           | (\$22,550)              | \$3,255               | \$20,000                   | \$0                      | \$29,378               | \$0                        | (\$28,673)           |
| Sep           | (\$28,673)              | \$13,248              | \$0                        | \$0                      | \$8,541                | \$0                        | (\$23,966)           |
| Oct           | (\$23,966)              | \$9,320               | \$0                        | \$1,358                  | \$11,635               | \$0                        | (\$24,923)           |
| Nov           | (\$24,923)              | \$661                 | \$0                        | \$0                      | \$3,178                | \$0                        | (\$27,441)           |
| Dec           | (\$27,441)              | \$93                  | \$0                        | \$0                      | \$650                  | \$0                        | (\$27,997)           |
| Jan           | (\$27,997)              | \$0                   | \$27,997                   | \$0                      | \$0                    | \$0                        | \$0                  |
| Feb           | \$0                     | \$0                   | \$0                        | \$0                      | \$0                    | \$0                        | \$0                  |
| Mar           | \$0                     | \$0                   | \$0                        | \$0                      | \$3,457                | \$0                        | (\$3,457)            |
| Apr           | (\$3,457)               | \$1,350               | \$0                        | \$0                      | \$0                    | \$0                        | (\$2,107)            |
| May           | (\$2,107)               | \$4,689               | \$0                        | \$0                      | \$0                    | \$0                        | \$2,582              |
| Jun           | \$2,582                 | \$150                 | \$0                        | \$0                      | \$2,328                | \$0                        | \$404                |
| <b>Totals</b> |                         | <b>\$35,566</b>       | <b>\$47,997</b>            | <b>\$1,358</b>           | <b>\$84,517</b>        | <b>\$0</b>                 |                      |

Source: Auditor of Public Accounts based on monthly financial reports provided by the District.



**Findings and Recommendations**

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The Senior Trip activity account is another clear example of a school activity account receiving a General Fund transfer at fiscal year end to offset a deficit. For both years reviewed, the high school senior class traveled to Florida for a senior trip staying at a hotel on Cocoa Beach for a week with time spent in Orlando at Universal Studios, Walt Disney World, and SeaWorld. In FY 2013, the Senior Trip activity account recorded expenditures of \$42,392 offset by receipts of \$34,463, while in FY 2014 expenditures amounted to \$42,593 with receipts of only \$28,348. The Finance Officer transferred \$7,963 in FY 2013 and \$13,442 in FY 2014 from the General Fund into this activity account to bring the year-end balance to \$0 for each year.

While current and former Board members interviewed seemed aware that General Fund monies were needed to support the Football and Senior Trip activities, they seemed genuinely surprised that it was a significant amount transferred. For example, some Board members remembered approving payment for the cost of chaperones for the Senior Trip, while others remembered only approving the destination and the fundraisers initiated to pay for the trip.

The Finance Officer reported continuing the process followed by his predecessor, which was to use a certain account to make all transfers of General Fund amounts to the two school activity funds. The Finance Officer provided information for both FY 2013 and FY 2014 that confirmed each transfer made from the General Fund to the two school activity funds. In addition, documentation identified that the District budgeted \$50,000 in each of these fiscal years in a General Fund account code for student transportation and instruction with this and other amounts subsequently transferred to school activity funds.

The amounts actually transferred from this General Fund account to the activity accounts during FY 2013 and FY 2014 far surpassed the amount budgeted. The Finance Officer transferred \$162,197 in FY 2013 and \$111,311 in FY 2014 from this account into the high school activity fund. Amounts spent in excess of budgets represent funds that were not available for spending for other District purposes. Therefore, the needs of a few school activity accounts have been placed ahead of the instructional needs of the District's students.

***Recommendations***

The District should provide Redbook training for all sponsors of school activity accounts to ensure guidelines are followed. In addition, we recommend the sponsors of school activity accounts receive reports of the financial status of each account in a timely manner.

We recommend the Board and appropriate Central Office staff receive training regarding the budgeting process and monitoring District financial activity.

## Findings and Recommendations

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The Board should be fully aware and specifically approve each individual transfer made from the General Fund to a school activity account. We also recommend Board Policy 4.312 be enforced to prevent the overspending of various school activity accounts. This policy should be distributed to the Board members, Superintendent, Principals, and SBDM members. The Board and others should carefully review the policy to ensure a clear understanding of all of the policy requirements.

Finally, we recommend District funds be used in a manner to maximize instruction to the benefit of the students.

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**Finding 2: Based on Redbook regulations, over \$100,000 of District activity funds were inappropriately expended during the two-year examination period.**

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Our examination identified over \$100,000 of District activity funds spent in violation of Redbook regulations related to allowable activity account expenditures. Redbook provides specific examples of disallowed expenditures from activity funds and states that all expenditures must benefit the student organization or support the established purpose of the account. Auditors were not able to determine an allowable benefit for \$101,322 in activity fund expenditures based on the criteria established in the Redbook. Compliance with Redbook for the use of activity funds does not appear to be monitored at the District's Central Office. Further, the District did not provide training to staff on Redbook requirements even though activity funds are used extensively, and substantial transfers from the District General Fund were required to be made to offset activity account expenditures. See Finding 1 for additional information regarding General Fund transfers.

District Policy 4.312, states that activity funds may only be expended as authorized by KDE's Redbook. Moreover, once a school district chooses to deposit money into a school activity fund bank account, the district must comply with Redbook regulations.

Redbook regulations require that funds should only be spent to support the established purpose of the activity or organization. Any fundraising events should establish the purpose related to the collection of funds and the money should only be expended for that established purpose. In addition to these overarching principles, the following is a list of specifically disallowed expenditures from page 17 of the Redbook, July 1, 2013 edition. The Redbook states this list is "a guideline and not all inclusive of disallowed expenditures."

1. Cash awards, gift cards, or prepaid credit cards;
2. Personal purchases for staff members even with a reimbursement agreement;
3. Renovation or maintenance of school facilities or buildings;

**Findings and Recommendations**

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4. Attendance incentives for the compulsory instructional day, unless the incentives are considered instructional, (i.e., instructional field trips, books, magazines, or other instructional materials); attendance incentives such as tee shirts, parties, or non-instructional field trips shall be funded by non-tax, non-board controlled dollars such as donations from local businesses, external support/booster organizations such as the PTA or PTO.
5. Gifts, services, or donations to district employees or external support/booster organizations, unless using staff generated funds, such as proceeds from snack machines in staff areas (not used by students at any time of the day) or money donated by staff for this purpose;
6. Loans to employees, parents, students, or sponsors or organizations for any reason;
7. Any purchase that benefits the adult sponsors or district personnel and not the student organization;
8. Payment of an individual's organization dues or fees that do not provide a direct benefit to the student, or group of students;
9. Extra compensation or bonuses to district employees whether in the form of cash or gifts;
10. Alcoholic beverages, tobacco products, controlled substances, firearms, and weapons;
11. Furniture for administrative offices;
12. Structural additions or improvements to the buildings or grounds;
13. Books, magazines, and memberships not benefiting the students;
14. Expenditures related to professional development or staff development;
15. Any expenditure prohibited by federal or state law or regulations.

To respond to an auditor's request for information, the District gathered the purpose and source of funds for each activity. Auditors reviewed the supporting documentation of all high school activity account expenditures during the examination period to determine the District's compliance with Redbook. As stated previously, expenditures totaling \$101,322 were found to be out of compliance with Redbook requirements. Table 6 provides a breakdown by activity account of the expenditures that appear to be inappropriate identified during the two-year examination period.

**Chapter 2**  
**Findings and Recommendations**

**Table 6: Inappropriate Expenditure Totals Per Activity Account**

| <b>Activity Account</b> | <b>Inappropriate Expenditures</b> |
|-------------------------|-----------------------------------|
| Athletic Boosters       | \$14,000                          |
| Athletics               | \$1,307                           |
| Boys Basketball         | \$4,023                           |
| Football                | \$36,796                          |
| HS Bookstore            | \$681                             |
| HS General              | \$784                             |
| HS School Pictures      | \$2,526                           |
| Scholarship Fund        | \$1,000                           |
| Senior Class Trip       | \$4,965                           |
| Student Deposit         | \$35,032                          |
| Track                   | \$78                              |
| Volleyball              | \$130                             |
| <b>Total</b>            | <b>\$101,322</b>                  |

Source: Auditor of Public Accounts based on activity fund documentation provided by the District.

Examples of inappropriate expenditures include over \$4,000 to pay for Superintendent and coaches to attend the Boys Sweet Sixteen Tournament, approximately \$1,000 for staff sweatshirts for an unknown purpose and other travel for District employees, and nearly \$1,400 for meals or other food for District staff. Auditors found no evidence that the District monitors Redbook compliance at the Central Office. The lack of proper controls and the risks involved in the expenditure approval process are identified in Finding 6. According to interviews with staff, the District has not provided training for Redbook regulations even though activity funds are used extensively by the District. It appears the decisions to make certain expenditures were based on historical practices or the desires of the staff.

Activity fund money should not be used for any possible purpose just because money is available. According to an activity account sponsor, staff had concerns that unused money would be transferred to another account to prevent a negative balance. However, Redbook regulations, if followed, are designed to prevent funds collected for a specific purpose from being used for personal benefit or to supplement the school’s operating costs. A remaining balance in an activity fund can be carried over to the following year if the balance is not excessive.

**Findings and Recommendations**

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*Recommendations*

We recommend the Board ensure all activity accounts have an established purpose that correlates with the source of funding for the activity. Procedures should be developed to review all expenditures' compliance with Redbook regulations. In addition, the Board should review and approve student fees collected by the schools. According to the Redbook, if the Board approves a student fee, the fee is mandatory and any waiver of the fee is subject to 702 KAR 3:220 to be paid from District funds.

In addition, we recommend that the Board ensure staff involved in spending and approving activity funds, as well as Board members, are trained on Redbook regulations to promote and improve the District's understanding and compliance with the regulations. Due to the District's extensive use of activity funds, all staff involved should be aware of Redbook regulations.

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**Finding 3: It appears the District violated Title IX requirements by spending more on football and boys sports than for girls sports.**

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Title IX is a comprehensive federal law that prohibits discrimination on the basis of sex in any federally funded education program or activity. The District demonstrated a disregard for this law by under-reporting football expenditures by at least \$148,260 and reporting inaccurate amounts for other sports. Because the former high school Principal/Athletic Director did not request actual athletic expenditures from the Finance Officer to complete the required Title IX Annual Report, he likely knew that inaccurate expenditure information was reported for school year 2012-13 and potentially for previous years not reviewed. Not including any District General Fund expenditures, the total amount of underreported athletic expenditures from District activity accounts was \$214,398. Full disclosure of actual expenditures would have drastically lowered the percentage of District expenditures for female sports and would have shown a large disparity that was not made known to the KHSAA.

Each year, all KHSAA members are required to submit Form T-35 to KHSAA by April 15<sup>th</sup>. KHSAA personnel reviews this form and other information to create a summary of their review that is forwarded to the District Superintendent, Principals, and Athletic Directors. The Title IX report information is reviewed by KHSAA to provide any necessary recommendations and comments. Auditors were told by KHSAA staff that audits of this information are on a seven-year cycle. The last KHSAA audit of the District was conducted on February 13, 2009, and the next one is planned for 2016.

After a new Athletic Director was appointed in October 2013, he immediately began to review athletic expenditures. He requested from the District Finance Officer the same financial information that was previously provided to the former high school Principal/Athletic Director to complete the Title IX Annual Report. The Finance Officer advised the Athletic Director that he had not previously provided financial information for such a report.

Subsequently, the Athletic Director reported to the District Superintendent that the Title IX reports submitted over the last couple of years were incorrect. The Superintendent told him to report this information to KHSAA but “that little could be done” now. However, this could have been investigated further since the former Athletic Director was still employed by the District.

After further review of the Title IX expenditures, the Athletic Director advised the Superintendent that it would be difficult to determine an accurate breakdown of male versus female expenditures since the District had general “Athletics” activity accounts. The Superintendent advised him to discuss this with the Finance Officer and the KHSAA.

In mid-November 2013, the Athletic Director met with KHSAA to report the discrepancies between submitted and actual expenditures. The Athletic Director was told that it was up to the District’s Superintendent and the KHSAA Commissioner how to address this matter. KHSAA provided the Athletic Director with recommendations for operating the athletics program. One recommendation was to do away with any general activity accounts. The other was to establish a system moving forward to track the purchase orders to account for both male and female expenditures separately.

Auditors were provided with a narrative specifying how the District reported incorrect Title IX information; however, no one determined the amount that was under-reported to KHSAA. Therefore, auditors attempted to compare total expenditures reported to KHSAA, excluding salaries, to the total expenditures from actual activity accounts related to all the District’s sports. While auditors did not have the needed information to identify the activity fund expenditures related to the KHSAA categories of “Equipment,” “Travel,” “Awards,” or “Facilities,” the total of these categories was compared to similar District activity account totals. The comparison excluded the salaries reported to KHSAA for each sport because these amounts are paid from District funds and not activity funds. Table 7 identifies the discrepancies between each sport for school year 2013.

**Findings and Recommendations**

**Table 7: Comparison of Total Amounts Reported to KHSAA to District Monthly Financial Reports for Activity Accounts**

| <b>Sport</b>   | <b>Reported to KHSAA for the 2012-13 School Year</b> | <b>Reported by the District’s Monthly Financial Reports for Activity Accounts for 2012-13 School Year</b> | <b>Difference from KHSAA Reported Amount</b> |
|--|--|---|--|
| Baseball   | \$2,285  | \$13,078  | \$10,793                                     |
| Boys Basketball  | \$20,840   | \$27,493  | \$6,653                                      |
| Girls Basketball   | \$17,975   | \$25,769  | \$7,794                                      |
| Boys Bowling*  | \$1,232  | \$154   | (\$2,310)                                    |
| Girls Bowling*   | \$1,232  |   |  |
| Cross Country – Boys*  | \$770  | \$4,830   | (\$11,321)                                   |
| Cross Country – Girls*   | \$15,381   |   |  |
| Softball   | \$6,525  | \$6,976   | \$451  |
| Football   | \$27,800   | \$176,062   | \$148,262                                    |
| Boys Golf  | \$10,075   | \$3,785   | (\$6,290)                                    |
| Girls Golf   | \$5,325  | \$2,014   | (\$3,311)                                    |
| Boys Tennis*   | \$1,140  | \$1,889   | (\$3,441)                                    |
| Girls Tennis*  | \$4,190  |   |  |
| Boys Track*  | \$3,910  | \$15,671  | \$4,756                                      |
| Girls Track*   | \$7,005  |   |  |
| Volleyball   | \$6,885  | \$9,328   | \$2,443                                      |
| <b>Non-Sports Specific Activity Account Expenditures (Not Reported to KHSAA)</b> |  |   |  |
| Athletic Boosters  | \$0  | \$14,000  | \$14,000                                     |
| Athletics  | \$0  | \$45,919  | \$45,919                                     |
| <b>Totals</b>  | <b>\$132,570</b>                                     | <b>\$346,968</b>  | <b>\$214,398</b>                             |

Source: Auditor of Public Accounts based on information provided by KHSAA and the District.

\* The District divided up these sports when reporting to KHSAA but the District’s accounting does not denote that there was a separate boys and girls team for this sport.

Related to the non-sports specific activity accounts, the Athletic Boosters expenditures, which were not included in the report to KHSAA, were used solely to pay for the weight room renovation. Likewise, the majority of the Athletics expenditures primarily benefited football, although certain purchases could have benefited other sports.

## Findings and Recommendations

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Based on the information reported for the 2012-13 school year, the former Athletic Director did not accurately account for any sports expenditures. Since football is a male sport, full disclosure of actual football expenditures would have drastically lowered the percentage of District expenditures for female sports. If reported accurately, the disparity between male and female expenditures should have raised sufficient “red flags” for the District and KHSAA to initiate an investigation.

### *Recommendations*

We recommend the District develop procedures to require the Athletic Director to establish and maintain an accounting system to track male and female sport expenditures within the categories required by KHSAA. This process will facilitate the accurate completion of the KHSAA Title IX Annual Report and document the District’s awareness of its current spending patterns for male and female sports. We further recommend that a monthly reporting of sport-related expenditures be made to the Superintendent and to the Board at Board meetings and be documented in the meeting minutes.

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**Finding 4: \$32,000 from the FRYSC elementary school activity account was used for high school weight room renovations and the FRYSC Coordinator and Assistant Coordinator subsequently received a \$5,000 salary increase at the Superintendent’s direction.**

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In order to pay for a weight room renovation at the high school, \$32,000 was transferred from an elementary school activity account maintained by the District’s Family Resource and Youth Services Center (FRYSC) without the account sponsor’s awareness. FRYSC is a state grant provided to school districts to fund services to address nonacademic barriers to enhance student academic success. According to Board members, the former high school Principal/Athletic Director told the Board that the weight room had to be renovated to comply with KHSAA requirements. On December 17, 2012, the Board accepted the low bid of \$52,000 for weight room remodeling with a unanimous 5-0 vote. To pay for the renovation expenditures, \$20,000 was transferred from three high school activity accounts and \$32,000 was transferred from the elementary school’s FRYSC activity account. These funds were paid back into the FRYSC activity account by the end of FY 2013 on June 25, 2013. According to the FRYSC Coordinator, she was never informed that money was transferred from the FRYSC account. In addition, according to staff and audit reports from KHSAA, there is no record that the District required renovations to be made to the weight room. The District, therefore, spent \$52,000 for an immediate renovation without a documented need, when sufficient funds were not available. In addition, restricted FRYSC funds were jeopardized due to the risk that these funds would not be repaid.

According to our interviews with Board members, the former Principal/Athletic Director told them that the high school’s weight room was not compliant with KHSAA because it was not female friendly. Auditors contacted KHSAA to confirm the former high school Principal/Athletic Director’s statement to the Board that the weight room had to be renovated. KHSAA staff stated that the last audit was performed on February 13, 2009. According to that audit, “[t]he Weight Room is scheduled for both male and female athletes. Many improvements have been made to the weight room since the last visit to make it more female friendly.”



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## Chapter 2

# Findings and Recommendations

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One Board member said that it was also discussed that the weights were old and a safety hazard. Per our interviews, the Board agreed to pay a partial amount from the District's General Fund and the rest would be paid by donations and fundraisers. However, the Board minutes only document that the Board accepted the low bid of \$52,000.

A review of the high school and elementary school's activity funds identified the activity accounts used to pay for this renovation. Documentation was found that FRYSC was repaid \$32,000 by the end of FY 2013. Table 10 presents the entries from the elementary school's receipt spreadsheet that document the following amounts entered back into FRYSC.

In response to auditor's questions regarding the use of the FRYSC activity account, the District's Finance Officer simply stated that the funds were needed and it was the only activity account with a large enough balance. When auditors asked the Superintendent, he said that he never knew how it was paid because the Finance Officer took care of these issues. According to the FRYSC Coordinator, she was never informed that FRYSC funds were used for this purpose and would have been upset if the District had not been able to repay the funds.

This disbursement for the weight room renovation was a violation of the Funding Allocation and Management instructions for non-state FRYSC funds. Any donations provided to FRYSC are restricted for that purpose only. The instructions state, "[i]t is not allowable for donated funds to be arbitrarily accessed by the district to address other shortfalls in funding unrelated to the center."

*The FRYSC  
Coordinator and  
Assistant  
Coordinator  
received a \$5,000  
increase in salary at  
the direction of the  
Superintendent*

A review of payroll information for both the FRYSC Coordinator and Assistant Coordinator found that both employees received a \$5,000 increase in salary in July 2013. Auditors asked the Finance Officer whether everyone in the District received a \$5,000 raise. According to the Finance Officer, the Superintendent specifically instructed him to increase both employees' salaries by \$5,000. The Superintendent's directive is unusual and questionable considering the substantial increase in salary benefited his spouse, the Assistant FRYSC Coordinator. In addition, both employees receiving an increase in salary are responsible for managing FRYSC funds, which had recently been used to assist the District in paying for a high school weight room renovation. The only documentation auditors were provided to authorize or approve the \$5,000 increases in salary was a handwritten note from the Superintendent that identified the names of the two employees and the \$5,000 salary increase. No other justification for the increase in salary could be found and there was no evidence that the Board was made aware of or approved the increase in salaries.

## Findings and Recommendations

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**Recommendations** We recommend that the Board request support to document the need for a renovation or other such project prior to incurring significant costs to the District, especially when funds are not readily available. If there is a need for donations or fundraisers to meet a specific objective, a separate activity account should be established with a purpose to collect funds to meet the specific need. Restricted donations should not be used for other purposes even if the intention is to reimburse the amount at a later date.

We also recommend the Board make inquiries regarding the justification and authorization of the \$5,000 salary increase provided to two employees. After fully evaluating this issue, the Board should address the issue and take appropriate action. Further, we recommend the District follow the appropriate process to properly document and approve all salary increases made for any District employee. This documentation should identify the justification for employee salary increases and should be maintained in the records of appropriate Central Office staff.

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**Finding 5:  
Individual  
scholarship  
donation amounts  
are not separately  
accounted for,  
which impairs  
transparency.**

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As previously reported, the District's Central Office managed over 80 activity accounts, including one designated as Scholarship. According to the Finance Director, the Scholarship activity account contained money for just two scholarships, the Robert Morrison Scholarship and the Stephen Crisp Scholarship. Although both scholarships are awarded annually to graduating seniors, the Finance Director was not able to provide an individual accounting or balance for either scholarship and stated that he was not aware of donations for any other scholarship ever being deposited into this activity account.

Auditors reviewed documentation related to the high school activity fund receipts and expenditures for FY 2013 and FY 2014. During this review, auditors also identified at least three other scholarships paid from the high school activity fund: Sophia Newman Scholarship, STLP Veteran Memorial Scholarship, and the Gail McPeck Memorial Scholarship.

In contradiction to information from the Finance Director, funds were deposited into and awards were made from the Scholarship activity account for the Robert Morrison and Sophia Newman Scholarships, not the Stephen Crisp Scholarship. Records for the Scholarship activity account documented a two-year total of \$1,315 in donations, however, \$2,200 in expenditures were made during the same period. The Scholarship activity account balance was sufficient to make these expenditures due to donations received in the same fiscal year as the expenditure or from funds carried forward from a prior fiscal year. In addition, funds were used from the Scholarship activity account for an unrelated purpose, as discussed below.

Unlike the records related to the Sophia Newman Scholarship and the Robert Morrison Scholarship, it is unclear whether donations for the other scholarships were sufficient to pay the amounts awarded. In addition to the Scholarship activity account, payments for scholarships were made from at least three other activity accounts, all of which had purposes established that did not include scholarship. These three activity accounts were Football, Student Deposits, and STLP Vet Memorial. Funds from the Football activity account were used to award four \$1,000 Stephen Crisp scholarships to graduating student-athletes during the two-year period. The Student Deposit activity account and the STLP Vet Memorial activity account were also inappropriately used to fund at least \$500 in scholarship awards.

Per the Redbook, boards are required to ensure that the purpose of a donation is clear and understood by the donor and school staff. Without properly accounting for each scholarship's donations and expenditures in separate activity accounts, including any balance carried forward, it cannot be determined whether sufficient donations were made to continue expenditures for a scholarship. It becomes a questionable practice to continue to award scholarships for amounts exceeding the donations collected for that purpose.

The lack of transparency related to scholarships paid out of the high school activity fund was evident in that the Scholarship activity account was used to pay for at least one expenditure that did not appear to meet the intended purpose. In November 2012, a student athlete from the high school football team received \$1,000 from the District to offset his expenses for participating in an all-star showcase in Orlando, Florida held the following month. While it is unclear whether donations were received by the District to offset all or some of this expense, documentation shows that the money was taken from the Scholarship activity account, which did not receive a donation of \$1,000 to cover the expenditure.

None of the current or former Board members interviewed were aware of the District's payments to assist the student athlete. The former high school Principal/Athletic Director stated he was unaware that the District paid for the trip. Further, the Finance Director indicated that he was not aware of the specifics of this trip or what the rationale was to take the money from the Scholarship activity account, while the Superintendent adamantly denied having any knowledge that the District funded the trip. Yet both the Finance Director and the Superintendent's signatures are on the purchase order approving the request for payment and the Superintendent is listed as both the person requesting the purchase order and principal/department head approval.

## Findings and Recommendations

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In addition to the Board being unaware of this improper expenditure from the Scholarship activity account, the Board was typically not informed of donations being received, recorded, or used by the District. As discussed in Finding 6, the Board has not established a donation policy, nor has it received detailed information from the Central Office or schools to aid it in determining whether scholarship donations received were properly accounted for and used only for their intended purpose. The Superintendent has not developed the administrative procedures necessary to standardize the process to account for restricted scholarship donations. Accounting for each scholarship through a separate activity account with proper supporting documentation would ensure the funds are used for the restricted purpose.

### *Recommendations*

We recommend the District establish a separate school activity account to record donations and expenditures for each specific scholarship, as well as develop proper administrative procedures to allow for a more transparent process to monitor these funds. We recommend the Board develop and implement a policy to ensure the Board is made aware of the receipt or expenditure of restricted scholarship donations. We also recommend the Board require an annual reporting of donation receipts and expenditures. We further recommend donations restricted for scholarships only be used for that purpose.

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### **Finding 6: The District's activity fund procedures violated basic Redbook operating requirements and adversely impacted the funds' transparency and accounting accuracy.**

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In addition to not being managed at the schools, the District's activity fund procedures violated basic Redbook operating requirements and adversely impacted the funds' transparency and accounting accuracy. First, the Board did not begin to approve activity account budgets until the spring of 2014. Except for the monthly financial reports developed at the Central Office, the required Redbook forms were not on file to support and account for the revenue and expenses related to fundraisers, ticket/concession sales, or donations received. Along with the lack of required forms, there were no controls or procedures developed for collecting and submitting cash receipts related to fundraisers or ticket/concession sales. Given that over 80 activity accounts existed during this two-year examination period with at least \$343,000 in fundraisers and ticket/concession sales at the high school and more than \$32,000 in donations, operating controls and procedures are essential to ensure transparency and accuracy. These violations were repeatedly reported in the District's annual independent financial statement audits, yet the District has only taken steps to address the Board's approval of budgets.

While the Redbook addresses the prescribed activity fund controls, procedures, and required forms in detail, the following is a summary of Redbook requirements that relate to the District's lack of compliance.

## Findings and Recommendations

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- **Budgets were not created by each of the activities in order to receive board approval.** Per the Redbook, each club, organization, or activity should develop a tentative budget to be submitted to the school's principal by April 15 to create the Principal's Combining Budget. This budget will then be submitted to the district finance officer, who will then work with the superintendent to submit all school budgets to the local board for approval by the end of May.

Considering there were over 80 activity accounts during this examination period, budgets should have been used to control and manage the activities. While the Board appears to have started to approve budgets in the spring of 2014, the process is inconsistent and incomplete without the schools completing a compilation of all activity budgets for the Central Office to review prior to its presentation to the Board.

A budget review at the school and Central Office is needed prior to Board approval. This control should be used to document each party's understanding as to how funds will be raised and spent and the amount estimated for these activities. Without an established process for documenting and approving budgets, accountability is not promoted and adherence to a budget is difficult to monitor and enforce.

- **Fundraiser approvals and results were not monitored using the required forms or procedures.** Per the Redbook, Fundraiser Approval, Form F-SA-2A, is required to document the board's and principal's approval of the fundraiser and the use of collected funds. All fundraisers require the use of the Fundraiser Worksheet, Form F-SA-2B, to recap the fundraisers profitability. This form should be forwarded to the principal for review and filing within one week of the completion of the fundraising period or event. In general, fundraising expenses should be less than expected revenue and the proceeds must benefit the entire group of students involved, regardless of a student's participation in the fundraising activities.
- **Inventory related to fundraiser activities was not tracked to identify overages or shortages.** Per the Redbook, fundraiser activities such as concessions, bookstores, pencil machines, and other activities involving inventory for sale are required to use the Inventory Control Worksheet, Form F-SA-5. The Inventory Control Worksheet recaps the flow of inventory monthly to identify overages or shortages, but not to measure profits. The person filling out this form cannot be the same person that collects monies and completes the Sales From Concessions/Bookstore/School Store/Pencil Machine Form, Form F-SA-17.

## Findings and Recommendations

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- **Concession sales were not monitored to promote proper cash handling procedures, including any segregation of duties, needed to ensure that all collections are properly deposited.** Per the Redbook, the Sales from Concessions/Bookstore/School Store/Pencil Machine Form, Form F-SA-17, is to be used each time money is collected from these activities and turned in with the money to the school treasurer. The form must be completed for each event and each time money from these activities is collected. There shall be two different individuals involved: one individual to collect and count the monies from sales and a separate individual to complete the Inventory Control Worksheet, F-SA-5. The original form shall be given to the school treasurer with the money and a copy kept with the Inventory Control Worksheet. This form is required to be signed by the individual preparing the form and the school treasurer.

Fundraising/concession revenue at the high school accounted for at least \$211,000 during our two-year examination period, yet there was no formal monitoring of the cash and expenses related to these sales to determine profitability. While the activity sponsors may have tracked information informally, the District did not require this information or any supporting documentation. Procedures related to these activities were not established by the District or the school's SBDM Council. The \$211,000 revenue calculation was based strictly on the description provided on the activity receipt spreadsheet maintained by the District. This total could be significantly higher if the description had been more specific.

The fundraising/concession revenue includes \$3,587 attributed to the sale of "slush puppies" conducted by the former Principal/Athletics Director. Again, this amount was calculated from the activity receipt spreadsheet strictly based on the description provided. According to interviews with various staff, the sale of slush puppies occurred frequently during this examination period with estimates of \$200 per day in revenue. However, if this estimate is correct, then slush puppies were only sold for 18 days during the two-year period. A correlation of revenue and expenses related to the slush puppies was not possible since the slush puppy supplies were purchased in conjunction with other supplies.

- **Ticket sales were not monitored using the required forms or procedures.** Per the Redbook, the Requisition and Report of Ticket Sales, Form F-SA-1, is to be used to report and reconcile the number of tickets sold and the funds collected. Pre-numbered tickets are required for ALL events for which admission is charged, including athletic events, dances, concerts, plays, prom, or season passes. This allows the ticket numbers to be reconciled with the ticket numbers sold. The Requisition and Report of Ticket Sales, Form F-SA-1, compares the amount of cash collected to the number of tickets sold with any overages or shortages identified before the form and money are submitted to the school treasurer on the first business day following the event.

## Findings and Recommendations

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Revenue attributed to gate admission and ticket sales at the high school accounted for \$131,564 during the two-year examination period, yet the required forms were not maintained and no procedures were established to ensure proper cash handling and reconciliations. As with the other activities, ticket sale information may have been tracked informally, but the District did not require this information or any other supporting documentation. This amount was based strictly on the descriptions provided in the activity receipt spreadsheet so the amount could be larger if the description had been more specific.

- **A District donation policy was not established and the Board did not receive donation information to determine if donations were properly accounted for.** Per the Redbook, boards are required to ensure that a donation's purpose for which the funds will be used is clear and understood by the donor and school staff. To delegate this responsibility to the schools, the board can establish a policy allowing schools to maintain their own donations. If donations are allowed to be maintained at the school, the principal or bookkeeper shall produce a listing of donations for submission to the board at year-end using the Donation Acceptance Form, F-SA-18, to document the donation's purpose and any restrictions on the donation received. If the board has approved a policy for the donation to be maintained at the school, cash donations for a specific purpose will be maintained in a separate activity account and expended as indicated by the donor. Tracking this balance as a separate account with proper supporting documentation will reflect that the donor's wishes were met. Unrestricted cash donations to the school for general use will be deposited in a general account for the principal and SBDM Council to decide its use, which must support student activity.

Revenue strictly specified as donations accounted for \$32,285 of the high school's collections during our two-year examination period. Donations should have been reviewed by the Board since there was no policy giving this responsibility to the schools, yet there is no documentation to support this review occurred. Without the required forms documenting the donation and the donors' specified uses, auditors were not able to determine whether the donations were accounted for properly. Restricted donations and general donations are required to be managed and accounted for using different methods.

## Findings and Recommendations

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**Recommendations** We recommend that the Board implement operational policies and procedures required by Redbook to manage and monitor activity funds. The adopted policies could give the school's SBDM Council the responsibility to determine the required procedures and allow the schools the ability to monitor and track this information. The procedures adopted should contain proper cash handling requirements to ensure there is a segregation of duties to establish a system of checks and balances. In addition, a donation policy should be developed to ensure the Board is aware of any donations and their uses. If the policy gives the responsibility of reviewing donations to the schools, the Board should require an annual list of donations along with how each was used by the school to be presented to the Board. This policy should also address whether external/booster organizations will be used to operate certain activities to limit the need for school resources. These external/booster organizations should also be required to comply with Redbook regulations.

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**Finding 7: School activity funds were managed at the District Central Office rather than at the schools as required by KDE's Redbook regulations and District policies.**

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The District's Central Office tracked and approved the use of each school's activity fund rather than the schools, which violated KDE's Redbook regulations. These regulations require that activity funds be established to benefit each particular school and be managed, including approving and making payments from these funds, by each school. According to the Superintendent and Finance Officer, however, activity funds for the two schools in the District have always been managed at the District Central Office. Though the District adopted policies that mirror Redbook requirements, staff were not aware of these policies and the policies did not reflect the District's actual practices. Information regarding the balance of over 80 activity accounts was maintained only at the Central Office, with financial reports provided to the principals at the two schools typically one to two months in arrears. While the Central Office tracked the information and performed the needed reconciliations, auditors identified exceptions in accounting for this information. Further, the process followed prevented a system of strong controls providing checks and balances to ensure appropriate use of these funds. Transfers between accounts lacked adequate documentation and were not done transparently so that the schools and sponsors would know to adjust any informal tracking of account activity. This noncompliance with the Redbook and District policy was not reported in the District's independent financial audit even though a significant amount of District General Funds were used to supplement activity accounts instead of supporting the District's instructional needs.

The Redbook assigns the responsibility of managing and approving individual activity accounts to activity sponsors, school treasurers, and a school's principal or designee. According to the Redbook, each school activity fund should have one interest-bearing checking account at a board-approved bank and one school treasurer for all school activity accounts. All activity fund bank account checks require the signatures of the principal or his designee and the school treasurer. Redbook regulations are written based on this process being established at the schools. In addition, the Redbook allows the creation of external activity funds that are to be managed by parents or booster clubs with the Board having limited oversight responsibilities.



## Findings and Recommendations

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The District, however, manages activity funds at the Central Office even though District Policy 4.312 requires each school to be responsible for activity funds. Neither the Superintendent nor the principals at either school were aware of the Board policy related to activity funds, even though it presents the following responsibilities related to their job position:

The Principal, or school councils in SBDM schools, shall be responsible for the manner in which accounts are kept and preserved. Two (2) signatures shall be required on each check drawn against school activity funds, neither of which may be a signature stamp. The two (2) signatures shall be the manual signatures of the Principal/designee and the school treasurer.

Based on interviews with the Superintendent and various staff, the actual District practice was for the coach/sponsor to complete a purchase order for an activity account expense for the school's principal to review and send it to the District's Finance Officer for approval. All checks were to be signed by the District's Finance Officer and Superintendent because the principals had no access to the activity fund banking account or checks. Any receipts collected by the schools were collected by a Central Office staff person who were to schedule, prepare, and deposit the funds in the bank.

According to the Superintendent, the District practices for managing activity funds have not changed since he was employed with the District at least 14 years ago. The District's Finance Officer stated that he has continued the same practices for activity funds used by his predecessor when he began employment in 2009.

Based on interviews, spending concerns at the end of the FY 2013 resulted in the Board requesting the District's Superintendent and Finance Officer sign all purchase orders. Both the Superintendent and Finance Officer stated it was understood by June 2013 that the District could not continue its current level of spending and the coaches and sponsors were told to be frugal and cautious when considering additional purchases. According to the former high school Principal/Athletic Director, this was the first time spending was addressed with him. The Superintendent stated he was not aware of the account deficits because he did not review the monthly financial reports created by the Finance Officer.

Due to the high volume of monthly activity fund expenditures and the allegations received, our examination concentrated on the high school's activity fund. Therefore, the school's activity fund expenditures were reviewed for the period beginning July 1, 2012 through June 30, 2014. Though District approval practices were not compliant with Redbook, Table 8 documents the District's consistency in following their internal approval practices.

**Chapter 2**  
**Findings and Recommendations**

**Table 8: Breakdown of Central Office Approvals of High School Activity Fund Purchase Orders**

| <b>Activity Fund Calculations</b>                                 | <b>FY 2013</b> | <b>FY2014</b> |
|---|----------------|---------------|
| Total Dollar Amount of Purchase Orders                            | \$513,072      | \$357,161     |
| Total Number of Purchase Orders                                   | 1,189          | 903           |
| Dollar Amount Approved by Finance Officer Only                    | \$369,663      | \$26,921      |
| Percent of Total  | 72.05%         | 7.54%         |
| Number Approved by Finance Officer Only                           | 582            | 54            |
| Percent of Total  | 48.95%         | 5.98%         |
| Dollar Amount Approved by Both Finance Officer and Superintendent | \$10,615       | \$322,201     |
| Percent of Total  | 2.07%          | 90.21%        |
| Number Approved by Both Finance Officer and Superintendent        | 16             | 787           |
| Percent of Total  | 1.35%          | 87.15%        |
| Dollar Amount Approved by Superintendent Only                     | \$7,660        | \$5,918       |
| Percent of Total  | 1.49%          | 1.66%         |
| Number Approved by Superintendent Only                            | 12             | 31            |
| Percent of Total  | 1.01%          | 3.43%         |
| Dollar Amount With No Approval                                    | \$94,884       | \$1,951       |
| Percent of Total  | 18.49%         | 0.55%         |
| Number With No Approval   | 553            | 30            |
| Percent of Total  | 46.51%         | 3.32%         |
| Dollar Amount With Missing Documentation                          | \$3,249        | \$169         |
| Percent of Total  | 0.63%          | 0.05%         |
| Number With Missing Documentation                                 | 19             | 1             |
| Percent of Total  | 1.60%          | 0.11%         |

Source: Auditor of Public Accounts based on our review of Activity Fund expenditures provided by the District.

For FY 2013, the Finance Officer signed 49 percent of the purchase orders, which represented 72 percent of expenditures. However, 47 percent of the purchase orders were not signed by either the Finance Officer or the Superintendent. The remaining four percent could either not be located or were signed only by the Superintendent.

**Findings and Recommendations**

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In FY 2014, the Finance Officer and the Superintendent signed 87 percent of the purchase orders totaling 90 percent of the total expenses. However, the Superintendent's signature was typically, if not always, a signature stamp, which is not allowed by KDE's Redbook regulations or the District's policy related to activity funds. The Superintendent signature, therefore, does not meet either the Redbook or District policy requirements related to the approval of activity fund expenditures.

Rather than using an accounting system to maintain the current balances of each activity account, the Central Office staff tracked activity fund information in three separate Excel spreadsheets. One spreadsheet tracks expenditures, another one tracks receipts, and then a monthly financial report is created by the District's Finance Officer with each account's beginning balance, monthly activity in total, and the ending balance. A balance for each fund, therefore, is not known until the expenditures and receipts are entered in the monthly financial report spreadsheet.

Once the checks and deposits are reconciled with the bank, the monthly financial reports are provided to the school principals and SBDM Councils; however, at this point the financial report balances are a month to two months old. The reason given to auditors for this delay involved the reconciliation process in conjunction with the District's General Fund. The schools, therefore, are not aware of the activity account balances unless account/club sponsors perform informal tracking of account activity.

Additionally, any transfers in or out of the activity funds were completed at the Central Office and not at the schools. These transfers lacked complete documentation and were not completed transparently so that the schools and sponsors would know to adjust any informal tracking of account activity.

A monthly total of activity fund expenditures for the elementary and high school is presented at the monthly Board meetings for Board approval. These amounts provide no detail, and the much larger amount spent from the high school activity fund confused and concerned the elementary school principal and SBDM Council.

Based on the questions posed to the District's Finance Officer, the elementary school Principal and SBDM representatives are concerned that the high school is provided much more money than the elementary school, and that the elementary school budget is used to supplement the high school whenever needed. In addition, confusion exists among various parties regarding the school's general fund budget balance and the activity fund budget because timely financial reports are not provided to the SBDM Council, school principals, activity club sponsors or others. While the Finance Officer attempted to respond to questions from various parties, an individual school's lack of control over its activity funds has caused confusion and distrust regarding how these funds are managed at the Central Office.

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The District's annual independent financial statement audits had no findings related to the Central Office managing the activity funds instead of the individual schools. Redbook regulations and District policies require activity funds be audited annually by a certified public accountant. In FY 2012, 2013, and 2014, there were repeated findings related to the activity funds' lack of required fundraiser worksheets and budget approvals, but the issue of Central Office management was not questioned even though it violated the Redbook and a significant amount of District General Funds were needed to supplement the activity accounts. See Finding 1. Without a process of checks and balances in place, only the Central Office was aware of the lack of supporting documentation for certain activity fund payments, the source of funds used to pay activity fund expenditures, and the amount of District General Funds transferred into specific activity accounts to prevent negative balances and support selected school activities.

Activity funds are intended to benefit the schools in which they are established for a specific purpose. The school's principal and SBDM Council should receive the individual activity account budgets and the principal should compile a school activity fund budget to be approved by the Board for oversight purposes, not for funding approval. Activity funds are not part of District funds and the Redbook discourages the use of District funds to supplement activity funds. Though the Finance Officer ultimately approved many of the fund expenditures, he had no direct knowledge of the source of revenue or the need for the requested expenditures.

***Recommendations*** We recommend that the District ensure compliance with KDE's Redbook and the District's adopted policies related to activity funds and their management. The Central Office should only be involved as an oversight authority to ensure that the Board approves the established budgets. As authorized by the Redbook, each school should initiate a bank account to manage the school's desired activity accounts and to determine whether external booster clubs will be used to administer any activity accounts. The District schools must establish the needed controls required of the Redbook regulations related to the management and tracking of activity funds. Transfers between the funds should be documented as required by the Redbook with the complete knowledge of the activity sponsors. Any Board authorized transfers from the General Fund into activity funds should require explicit reporting to the Board for approval to ensure District funds are used to support instructional needs and are not being diverted to pay for extra-curricular activities. Further, the District should consider the establishment of external/booster organization to operate certain programs or activities to reduce the need for school resources.

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## Findings and Recommendations

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**Finding 8: Board members have a limited understanding of school activity funds and lacked information to monitor financial activity.**

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During the period under examination, the information necessary to fully understand school activity funds was not discussed with the Board. Through interviews with current and former Board members, auditors asked each member what their understanding was of the differences between school activity funds and the General Fund. The responses were varied, but it was clear that Board members did not understand their responsibility related to activity funds and had little or no exposure to the Redbook.

One Board member stated that he did not know if he could answer the question, but he felt comfortable with the information he is given, and if he had a financial question, he would just ask the Finance Director. Another Board member indicated that he recently learned about the Redbook at a School Board training session in Louisville. After returning home from the training, he asked the Finance Director about it and was told that the District was in the process of training everyone and they would be in compliance. He admitted not knowing anything else about the Redbook. A third Board member ended the interview with the auditors stating that he felt like the auditors had “taken the air out of his tires” by discussing some of the preliminary concerns regarding activity funds.

The Redbook states that each club, organization, and activity account is to prepare a tentative budget for the next school year and submit it to the principal by April 15. The principal, in turn, should use the individual budgets to prepare a combined budget for submission to the district finance officer by May 15. The district finance officer then works with the superintendent to submit all school budgets to the local board for approval by the end of May.

While Board minutes show that the Board has approved fundraisers and trips by groups associated with school activity accounts, the first documented instance of the Board approving a school activity account budget did not occur until December 16, 2013. The majority of the budgets approved by the Board during the remainder of FY 2014 were related to sports. In addition, the budgets for Drama/Musical and Choral Music were approved.

At times, the Board meeting minutes listed the individual school activity account budgets approved, and at other times the minutes recorded only that a Board member would make a motion to approve, for example, “the following budgets for Spring Sports for the 2014 seasons as presented,” but then the sports would not be listed in the minutes.

Also, on occasion, the amount budgeted for an activity account would be recorded in the minutes, but because the actual budgets were not incorporated within the minutes, it was unclear if the amount listed in the minutes represented the entire budget of an individual school activity account, or just the portion of the budget that the Board had agreed to supplement.

When asked about the need for transfers from General Funds to cover the negative balances incurred by some school activity accounts (see Finding 1), the Superintendent stated that the Board had always been aware that certain school activity accounts could not raise enough revenue to meet their needs and that transfers would be necessary. A review of the minutes of Board meetings for the past three fiscal years did not yield a single example of the Board officially voting on the transfer of General Funds to a particular school activity account to cover a negative activity account balance. The Superintendent confirmed that the Board's agreement to transfer funds for this purpose was not documented in the Board meeting minutes.

On the Friday before each regular Board meeting, a Board packet is provided to each Board member. These packets include the minutes from the last Board meeting, whatever information might be available related to items to consider for approval at the upcoming meeting, a message from the Superintendent, and various financial reports. Current and former Board members interviewed all indicated that they would call, and have called, Central Office if they had any questions about particular items in the packet.

While not disclosed in the Board meeting minutes, sometime during FY 2014, the Board and District staff agreed to include, in each month's Board packet, copies of each purchase order paid for both general and activity funds. Several Board members indicated that the information they received prior to this time was very non-specific and generic. While the inclusion of purchase orders in the Board packet has caused some of the Board members to feel more secure about the District's spending, it has caused other Board members concern about recent expenditures. This was primarily due to the fact that, while these purchase orders often named the vendor receiving payment for the expenditure and the total cost of the expenditure, what was actually purchased, or the reasons for the purchases, was not always clear from reviewing only the purchase orders.

Based on the review of purchase orders for the high school activity fund during FY 2013 and FY 2014, supporting documentation such as itemized receipts, descriptions of the activities requiring out-of-district travel, and handwritten explanations on other documents help to further explain the justification for certain expenditures. While the Board members do receive Board packets containing the purchase orders prior to the Board meeting, several Board members interviewed felt this was a quick turnaround for reviewing such information in a thorough manner, especially if the member worked both the Friday before receiving the packet and the Monday of the Board meeting. Also, it appears that the Board is in violation of its own Board Policy, 4.3111, which states that the Board shall designate one or more Board members to review bills before a meeting for items that may need clarification prior to presentation for final approval for payment.

While also not mentioned in the Board meeting minutes, current and former Board members, as well as District staff, confirmed that a copy of the monthly financial report for each school activity fund is included in the Board packet. This was confirmed by a review of a sample of Board packets from the last three fiscal years. For each school activity fund, the monthly financial reports provided financial information under the following column headers:

- Balance Beginning Month;
- Receipts During Month;
- Board This Month;
- Transfer to During Month;
- Disbursed During Month;
- Transfer From During Month;
- Balance End of Month;
- Encumb During Month; and
- Balance – Encumb Month.

At the bottom of each report, the Finance Officer reconciled the bank balance at the close of the month to the actual cash balance by subtracting all outstanding checks. The Finance Officer also listed all outstanding checks by check number and amount.

Though this is beneficial information that could provide Board members the opportunity to question the Finance Officer, the Superintendent confirmed that neither District staff nor the Board ever discussed the financial reports in the Board packets at a Board meeting unless there was a specific question by a Board member. The Superintendent also stated that the Board's discussion of finances during meetings only involved changes in SEEK funding, a formula driven allocation of state provided funds to local school districts, and the preliminary budget.

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While the average length of a Board meeting has increased in recent years, three of the 10 meetings held in FY 2015 lasted less than 30 minutes. The table below shows, by fiscal year, the average time a regular Board meeting lasted, as well as other information.

**Table 9: Meeting Time Lengths by Fiscal Year**

| <b>Fiscal Year</b> | <b>Average Time</b> | <b>Shortest Time</b> | <b>Longest Time</b> | <b>Number of Meetings Lasting Less than 30 Minutes</b> |
|--------------------|---------------------|----------------------|---------------------|--|
| FY 2012            | 40.2                | 17                   | 80                  | 5  |
| FY 2013            | 50.7                | 13                   | 102                 | 2  |
| FY 2014            | 72.9                | 16                   | 140                 | 2  |
| FY 2015*           | 71.5                | 15                   | 161                 | 3  |

\*FY 2015 information is based on the ten meetings occurring through the end of April 2015.  
 Source: Auditor of Public Accounts based on information provided by the District.

An example of how Board members were not provided with sufficient information needed to monitor the use of these and other funds involves the monthly treasurer orders. According to Board meeting minutes, the monthly treasurer orders are always presented in summary form, as shown below, and must be approved by the Board.

**Table 10: Excerpt from Board Meeting Minutes Approving District Monthly Expenditures**

|                       |        |       |   |
|-----------------------|--------|-------|---|
| General:              |        |       |   |
| CK #29886 – Ck #30389 | Amount |       | \$1,313,896.83<br>(includes two payrolls) |
| Activity:             |        |       |   |
| Ck #6733 – Ck #6736   | Amount | ELEM. | \$810.98                                  |
| Ck #8162 – Ck #8170   | Amount | H.S.  | \$18,189.62                               |
| Total:                |        |       | \$1,332,897.43                            |

Source: Auditor of Public Accounts based on information provided by the District.

Board Policy 4.3111 states that the original copy of warrants or “Orders” shall be maintained on file as part of the official Board minutes. However, neither the Board meeting minutes, nor the Board meeting packets reviewed, provide additional information about expenditures that could be tracked in this way. Board members and District staff interviewed confirmed that no financial reports further explaining these “Orders” were provided or requested.

During examinations in other school districts, auditors often observed that Board packets included a detailed listing of invoices or checks that would document all vendors paid during a particular period from a particular account. Without knowledge of what constitutes the over \$1.3 million spent by the District, in this example, a Board member cannot be sure what expenditures he or she is voting to approve in these “Orders.”



## Findings and Recommendations

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In addition, it is concerning that the Superintendent, while admitting that he is ultimately responsible for the District's finances, stated that he is not really that involved with finance, stating, "it's not my forte." He also acknowledged never looking at a MUNIS report during his tenure. MUNIS is a computerized, uniform, standard financial management and reporting system based on a statewide chart of accounts implemented by all Kentucky public school districts. In addition, at least one Board member interviewed admitted that he had not heard of the MUNIS system and numerous current and former school administrators interviewed stated that they had never received a MUNIS report from the Finance Officer, although many had requested one on multiple occasions.

*Recommendations* We recommend the District ensure that all Board members and District staff that are involved with school activity accounts receive Redbook training, as well as access to the current Redbook.

In addition, we recommend the Board and District follow the requirements set forth by Board Policy 4.3111, including the "Orders" of the Treasurer and the review of supporting documentation by Board members prior to the meetings.

We also recommend the Board approve budgets for all school activity accounts on an annual basis, not just for those accounts related to a sports team or activity. The Board minutes should specify both the total budget and the portion of the budget or particular expenditures approved to be paid by the Board with General Funds.

We recommend the Board discuss and approve all General Fund transfers beyond the amounts agreed to during the budgetary process. The amount to be transferred and the school activity account to receive the transfer should be documented in the Board meeting minutes.

We further recommend the Board discuss whether Board packets should be provided by the District to members at an earlier time prior to the Board meeting.

Finally, we recommend the Board have the Finance Officer provide a summary presentation on the financial status of the District at each regular Board meeting.

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## Findings and Recommendations

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**Finding 9: Several staff reported the Superintendent used intimidation tactics so that staff would not question his decisions or discuss his actions.**

Several District administration staff members reported to auditors that the Superintendent used intimidation to deter staff from questioning his practices or decisions. Repeatedly, when auditors asked staff why a practice was not questioned, we were told that “if you ask questions, you’re gone.” The intimidation tactics reported to auditors included threats delivered by the Superintendent through third parties and the Superintendent’s actions during a District administrators meeting, which is further discussed below. Also, staff were not provided with any budget information, which also put staff at a disadvantage. It is not clear why the Superintendent engaged in this reported conduct, but it is clear from auditor interviews with staff that staff did not have the impression that academics was a top priority of the Superintendent. Most staff stated to auditors, however, that the Superintendent was always willing to assist students in attending or participating in non-academic events. This atmosphere was not conducive to the instructional education of students, meeting academic goals, or complying with KDE requirements.

During staff interviews, auditors were consistently told by administrators and activity account sponsors they never saw any District budgets. This was extremely stressful because they were not aware of the amount available to spend for programs or instruction. There were instances when staff were told the budget was overspent and they were not able to question the information since they had not seen a budget and were not aware of how expenditures were being coded at the Central Office. If this concern was documented in the SBDM Council minutes or reached the Superintendent, auditors were told that the Superintendent “cussed” at the staff and threatened to transfer staff out of their administrative position.

Hiring and other employment related issues also reportedly resulted in threats and intimidation to ensure that the Superintendent was able to control the process so that his desired outcome was reached. To avoid duplication with the OEA report issued on May 13, 2015, auditors will not repeat the personnel issues in which the Superintendent was reported to have interfered, except to state that auditors were also informed by staff about the interference that took place and employment fears that allowed questionable practices to continue.

Auditors were told that when the Superintendent did not intimidate staff directly, that sometimes others would tell staff that the Superintendent was talking about cutting their jobs or funding if things did not go as he wanted. These issues ranged from asking staff to make sure others were not discussing certain matters to hiring specific individuals for a position.

## Findings and Recommendations

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Auditors were also told by staff of direct threats made by the Superintendent. One was that the Superintendent told staff that he would “break them.” Reportedly, the Superintendent told staff that he knew former football players that were now lawyers and he would “have their homes” when it was over. When addressing teachers on the first day of the previous school year, it was reported that the Superintendent stated publicly to all employees that they could “suck it up, get on board, or crawl in a hole and die.”

An extreme situation was also reported to have occurred at an administrators’ meeting at the elementary school library. This occurred at the end of August 2013 and was prompted by the elementary school’s decision to lock all the doors to the building except the one to the office. According to the Superintendent’s statements, he was unhappy about the decision because people from the community were upset with this decision. He asked the Director of Pupil Personnel (DPP) to show them his gun and told them that the DPP’s gun was unloaded and then presented his gun. One employee stated he spun the gun on the table, with it pointing at a particular employee and stated that his gun was loaded. According to an employee, he then stated that he always carried a loaded gun. At this point, it was reported that the Superintendent said that he was just making a point that, even with locked doors, anyone could bring a loaded gun into the building. However, certain staff attending the meeting told auditors they felt like it was meant to intimidate them from questioning his authority over the school. When auditors asked the Superintendent about the incident, he denied that his gun was loaded and stated that he was a sworn deputy constable with a license to carry a concealed weapon. He further responded that the Board was aware that the Superintendent was considered a “first responder,” and that he has not carried a gun since a resource officer was hired for the school and is authorized to carry a weapon. KRS 527.070 addresses the unlawful possession of a weapon on school property and any applicable exemptions to this statute.

### *Recommendations*

Though the Superintendent is scheduled to retire on June 30, 2015, we recommend that the Board take steps to address employee concerns related to reported instances of intimidation so that this type of work environment is not permitted to exist moving forward. The Superintendent is hired by the Board and the Board should monitor the Superintendent’s performance and his actions to promote an atmosphere that encourages academics and compliance with education laws. We also recommend the Board establish a process for employees to report issues to the Board anonymously and directly. As recommended in Finding 16, the Board should ensure that the Superintendent is evaluated regularly to avoid the appearance that the Superintendent can act without oversight. Related to carrying a concealed weapon on school property, the Board should address this issue with staff going forward to ensure compliance with KRS 527.070.

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## Findings and Recommendations

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**Finding 10: The Superintendent circumvented Board oversight, used the District credit card for personal expenses, and provided a 32 percent pay raise for an employee.**

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The Superintendent's contract required reimbursement for expenses and did not allow for the use of a credit card to pay for business or personal expenses. By not requesting reimbursements, the Superintendent circumvented Board oversight in that the Board was not made aware of his expenditures. Further, the Superintendent's original four-year contract, effective July 1, 2005, stated that "the Board shall provide the Superintendent with transportation, meals, and lodging required in the performance and travel of his official duties." However, all of the Superintendent's contracts in effect since July 1, 2009, have included the slightly more vague statement that "the Board shall reimburse the Superintendent for reasonable expenses approved by the Board and incurred by the Superintendent in the continuing performance of his duties as Superintendent." In addition, the contract requires the Board to pay all reasonable expenses for the Superintendent's spouse, yet none of the Board members interviewed were aware of this benefit.

*District paid Superintendent expenses without Board knowledge or prior approval*

During the course of the examination, current and former Board members repeatedly stated that the Superintendent never submitted a request for reimbursement. Auditors asked whether it seemed unusual that the Superintendent never incurred an expense for mileage, per diem, lodging, and other items expected to be reimbursed by the District in the nearly ten years since becoming Superintendent. Nearly all Board members immediately said no, that the current Superintendent pays for his own meals and does not request mileage reimbursement at all because the Superintendent says that the Board pays him enough already.

The Finance Officer confirmed, as did a review of the Vendor FY Summary reports for FY 2012, FY 2013, and FY 2014, that the Superintendent did not receive a reimbursement from the General Fund during the examination period. A review of the detailed purchase order listing for activity funds confirmed that he also did not receive a reimbursement from an activity fund.

While the Superintendent did not request reimbursement for his travel, this did not mean that the Superintendent always paid his own expenses. Because the Superintendent did not request reimbursement for expenses, as required by his contract, a false perception existed that the District did not pay for expenses or other items for the Superintendent. Instead, the Superintendent had certain expenses paid directly with District credit cards. Most often, the Superintendent's lodging expenses and airline tickets were purchased using the District's credit card, while gas purchases using the District's gasoline credit card eliminated the need to request reimbursement for mileage. Because gasoline credit card purchases are not tracked by individual, it is impossible to determine the amount the Superintendent benefited from using the District's gasoline credit card. See Finding 11 for a full discussion of issues observed concerning procedures, documentation, and spending practices related to the District's gasoline credit card.

**Findings and Recommendations**

The Board did not have sufficient information to monitor or question the Superintendent’s expenses or purchases paid for by the District. Copies of monthly statements for any of the credit cards currently in use by District staff were not provided to the Board for informational or review purposes during the examination period. This situation, in addition to the Board not receiving a detailed invoice or check listing identifying all vendors paid during a particular period, demonstrates the Board was not aware of credit card expenditures. Such purchases became more transparent during FY 2014 when District Staff started to provide copies of all purchase orders paid during the month to the Board members in Board member packets.

Auditors reviewed the credit card statements and accompanying purchase orders for all purchases made using the District’s credit card during FY 2013 and FY 2014. The most significant issue noted regarding the District’s credit card was the Superintendent and others using the credit card to pay the travel costs for questionable or unnecessary out-of-state trips with no approval, some of which appear to be personal in nature. Certain trips were paid from the General Fund, while other travel costs were paid from the two activity accounts. Tables 11 through 15 exhibit, by destination, those travel costs paid by the District’s credit card that benefited the Superintendent.

**Table 11: Expenditures Related to the National Schools Safety Conference**

| <b>Time Period</b> | <b>Expenditure Description</b>  | <b>Cost</b> | <b>Source of Funds</b> |
|--------------------|---|-------------|------------------------|
| July 23-27, 2012   | Allegiant Air (Orlando, FL) transportation costs for Superintendent, spouse, and two additional family members to attend 2012 Conference; <i>District was repaid \$461 (transportation cost of the two additional family members)</i> | \$920       | General Fund           |
| July 23-27, 2012   | Westin Swan & Dolphin at Walt Disney World Resort (Orlando, FL) accommodations for Superintendent, spouse, and two additional family members during Conference (deposit)  | \$415       | General Fund           |
| July 23-27, 2012   | Westin Swan & Dolphin at Walt Disney World Resort (Orlando, FL) accommodations for Superintendent, spouse, and two additional family members during Conference  | \$192       | General Fund           |

Source: Auditor of Public Accounts based on information provided by the District.

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**Table 12: Expenditures Related to the National Conference on Bullying**

| <b>Time Period</b> | <b>Expenditure Description</b>  | <b>Cost</b> | <b>Source of Funds</b> |
|--------------------|---|-------------|------------------------|
| Feb 26-Mar 1, 2013 | Allegiant Air (Orlando, FL) transportation costs for Superintendent to attend 2013 Conference; <i>No detailed supporting documentation was available for review</i> | \$569       | General Fund           |
| Feb 26-Mar 1, 2013 | Rosen Centre (Orlando FL) accommodations for Superintendent during Conference   | \$948       | General Fund           |
| Feb 26-28, 2014    | Allegiant Air (Orlando, FL) transportation costs for Superintendent and spouse to attend 2014 Conference)   | \$453       | General Fund           |
| Feb 26-28, 2014    | Double Tree Hotel (Orlando FL) accommodations for Superintendent and Spouse during Conference   | \$645       | General Fund           |

Source: Auditor of Public Accounts based on information provided by the District.

**Table 13: Expenditures Related to the Annual Senior Trip\***

| <b>Year of Trip</b> | <b>Expenditure Description</b>   | <b>Cost</b> | <b>Source of Funds</b>       |
|---------------------|--|-------------|------------------------------|
| 2013                | Disney's Art of Animation Resort at Walt Disney World (Orlando, FL) accommodations for Superintendent, spouse, one additional family member, and one juvenile guest during Senior Trip (deposit) | \$295       | General Fund                 |
| 2013                | Disney's Art of Animation Resort at Walt Disney World (Orlando, FL) accommodations for Superintendent, spouse, one additional family member, and one juvenile guest during Senior Trip           | \$1,268     | General Fund                 |
| 2013                | Delta (Orlando, FL) transportation costs for Superintendent to chaperone Senior Trip   | \$410       | Senior Trip Activity Account |
| 2013                | Delta (Orlando, FL) transportation costs for Superintendent's spouse to chaperone Senior Trip  | \$410       | Senior Trip Activity Account |
| 2013                | Delta (Orlando, FL) transportation costs for Superintendent's family member; <i>District was repaid \$410</i>  | \$410       | Senior Trip Activity Account |
| 2013                | Delta (Orlando, FL) transportation costs for Superintendent's juvenile guest; <i>District was repaid \$410</i>   | \$410       | Senior Trip Activity Account |

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**Table 13: Expenditures Related to the Annual Senior Trip\* (Continued)**

| <b>Year of Trip</b> | <b>Expenditure Description</b>   | <b>Cost</b> | <b>Source of Funds</b> |
|---------------------|--|-------------|------------------------|
| 2014                | Allegiant Air (Orlando, FL) transportation costs for Superintendent to chaperone Senior Trip and transportation costs for spouse and four additional family members; <i>District was repaid \$1059.46 (transportation costs for the spouse and the four additional family members)</i> | \$1,253     | General Fund           |
| 2014                | Disney's Art of Animation Resort at Walt Disney World (Orlando, FL) accommodations for Superintendent and five family members during Senior Trip (deposit)   | \$361       | General Fund           |
| 2014                | Disney's Art of Animation Resort at Walt Disney World (Orlando, FL) accommodations for Superintendent and five family members during Senior Trip   | \$1,913     | General Fund           |

\*Students stay in Cocoa Beach, FL, not Orlando, FL.

Source: Auditor of Public Accounts based on information provided by the District.

**Table 14: Expenditures Related to Other Conferences and Meetings**

| <b>Time Period</b> | <b>Expenditure Description</b>  | <b>Cost</b> | <b>Source of Funds</b> |
|--------------------|---|-------------|------------------------|
| Feb 13-15, 2014    | Music Rd Inn (Pigeon Forge, TN) accommodations for Superintendent during the Joint Kentucky School Plant Management Association/ Tennessee School Plant Management Association annual training                              | \$269       | General Fund           |
| Mar 18-21, 2014    | Hyatt Regency (Lexington, KY) accommodations for Superintendent during the KEDC Board of Directors Meeting (same time period as 2014 KHSAA Boys Sweet 16 Tournament) \$601.86; food at hotel \$140.93; bottled water \$4.00 | \$747       | General Fund           |

Source: Auditor of Public Accounts based on information provided by the District.

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**Table 15: Expenditures Related to KHSAA or All “A” Sport Championships\***

| <b>Calendar Year</b> | <b>Sport</b>       | <b>Expenditure Description</b>  | <b>Cost</b> | <b>Source of Funds</b> |
|----------------------|--------------------|---|-------------|------------------------|
| 2013                 | All “A” Basketball | Embassy Suites (Lexington, KY) accommodations for the Superintendent during the tournament \$401; internet at hotel \$10; local telephone call at hotel \$.50 | \$412       | General Fund           |
| 2013                 | Girls Basketball   | Holiday Inn (Bowling Green, KY) accommodations for Superintendent during the tournament \$212; food at hotel \$129; bottled water \$6                         | \$347       | General Fund           |
| 2013                 | Football           | WKU Athletics (Bowling Green, KY) tickets for Superintendent to attend the championships  | \$207       | General Fund           |
| 2013                 | Football           | Holiday Inn (Bowling Green, KY) accommodations for Superintendent during the championships  | \$132       | General Fund           |

\*Fairview High School teams were not participating in any of these events.  
 Source: Auditor of Public Accounts based on information provided by the District.

As noted in Table 11, 12, and 13, airline tickets for the Superintendent, up to five family members, and one guest were purchased using the District’s credit card. While \$1,281 in General Funds and \$1,059 from the Senior Trip activity account were initially used to pay for these credit card expenses, the Superintendent repaid these amounts in a timely manner. Board Policy 4.31 states that personal purchases on District/school credit cards are prohibited and unauthorized charges made by employees to District/school credit cards may result in disciplinary action.

*Superintendent continues to incur travel costs despite his imminent retirement*

After the Superintendent announced, in January 2015, his expected retirement, he continued to incur travel and conference costs though his employment was scheduled to end upon conclusion of the fiscal year. In February 2015, the Superintendent attended the 2015 National Conference on Bullying held in Orlando, Florida. In doing so, he incurred expenses of \$425 for registration, \$339 for accommodations for two nights, and \$366 for airline tickets for himself and his spouse.

In March 2015, the Superintendent attended the 2015 KHSAA Boys Sweet Sixteen Basketball Tournament in Lexington. According to the District purchase order approving the trip, accommodations for the Superintendent’s three nights cost \$636, valet parking fees totaled \$40, and charges for food and drink were \$65. The District also paid for at least three basketball coaches to stay in three other rooms for four nights each during this same time period for an additional \$2,542. In addition, ten sets of tickets to the tournament were purchased for a total of \$1,250; however, there were no names associated with the tickets, so we could not independently confirm who used the tickets, including the Superintendent.



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In April 2015, the Superintendent and his family once again stayed in Orlando, Florida instead of Cocoa Beach with the students and other chaperones that were on the Senior Trip. He incurred \$1,242 for his three night accommodations at Disney World, but, according to the Finance Director, paid for his own airfare.

*Superintendent's spouse's expenses were paid when traveling with Superintendent*

As is evident by the descriptions of many of the transactions mentioned thus far, the Superintendent's spouse often accompanies him on trips and also has her expenses paid with the District credit card. The last four Superintendent contracts, which have been effective since July 1, 2009, states,

“Should the Superintendent's spouse be employed by the Board, his spouse shall be granted paid leave, up to a maximum of five (5) days per fiscal year to accompany the Superintendent to educational or professional meetings. Further, the Board shall pay all reasonable expenses allowed by law and Board policy for the spouse's expenses. These days for the spouse shall not accumulate from fiscal year to fiscal year.”

The Superintendent's spouse served as the District's Assistant Coordinator for the Family Resources and Youth Services Center throughout the examination period. Despite this clause being included in the Superintendent's contract since 2009, none of the current or former Board members interviewed remembered it being part of the contract or ever discussing this benefit being included in the Superintendent's contract. Because the Board was unaware of this clause in the contracts, it is questionable whether the Board was aware of the Superintendent's contract terms or monitored these terms for compliance and reasonableness.

*Superintendent had ultimate control over the two school activity funds*

During FY 2013, the District's practice was for the Finance Director to approve activity fund POs. In FY 2014, the Board requested that both the Finance Director and Superintendent approve all POs. Related to District funds, the Superintendent and Finance Officer are also required to approve all purchases.

It appeared that establishing a control to have the top finance staff member and top administrator review and approve all expenditures was a sound process to ensure that all expenditures are reasonable, necessary, and related to the business of the District. In practice, however, the Superintendent and the Finance Officer continued to sign off on purchase orders for unnecessary expenditures submitted by the sponsors of school activity accounts that were operating with a deficit. Finding 1 discusses the deficits created in certain school activity accounts and the extraordinary measures taken by District staff to ensure the accounts ended the fiscal year with a positive or zero balance.

**Findings and Recommendations**

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In addition, the lack of external booster clubs in the District, during the examination period, meant that the Superintendent had ultimate control over the use of revenue raised by the two schools. The following lists provide a few examples of activity account expenditures approved by the Superintendent, even though the accounts were operating with a deficit.

Expenditures from the Football Activity Account:

- 2012 Georgia High School Football Championships - \$310 for tickets and \$596 for two rooms, two night accommodations in Atlanta, Georgia for unspecified attendees.
- 2013 American Football Coaches Association Conference - \$1,412 for two rooms, three night accommodations in Nashville, Tennessee for unspecified attendees.
- 2013 Out-of-State Football Coaches Clinic - \$508 for three rooms, two night accommodations in Cary, North Carolina for unspecified attendees.

From the Boys Basketball Activity Account:

- 2013 KHSAA Boys Sweet 16 Basketball Tournament - \$2,283.16 for three rooms, four night accommodations in Lexington, Kentucky for unspecified attendees when the Fairview Team was not participating in the tournament.

From the Student Deposit Activity Account:

- 2013 Senior Trip - \$2,088 for five District employees serving as trip chaperones to fly to Orlando one day prior to the arrival of the students, who traveled by bus, and return one day after the departure of the students, incurring two extra nights in hotel charges for five rooms per night.

From the Senior Class Trip Activity Account:

- 2014 Senior Trip - \$2,304 for four District employees serving as trip chaperones to fly to Florida one day ahead of the students and return one day after the departure of the students, as well as \$1,059 for a last minute ticket for another District employee to provide assistance to one of the four District employees already going on the trip. This action caused the District to incur the cost of two extra nights in hotel charges for two rooms per night.

The Board only receives summary financial information and not detailed, transactional information. Board members were not aware of the final costs associated with these trips and could not take preemptive measures to curtail these costs or adjust Board policies to make these expenditures more transparent.

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## Chapter 2

# Findings and Recommendations

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### *Personnel matters*

The Finance Officer position at a public school district can be held by either a certified or classified employee. Certified employees have their pay schedule approved by the Board and are required to have a certification for their position, while classified employees do not. KRS 161.011(5) requires local districts, with certain exceptions, to enter into written contracts with classified employees.

The District's Finance Officer is a classified employee. It was noted during the examination, and also by the CPA firm that conducted the District's FY 2014 financial statement audit, that the Finance Officer did not have a signed employment contract, despite the requirement in KRS 161.011(5). It also reported that a new contract was not executed when the pay rate for the Finance Officer was changed.

### *The Finance Officer received a 32 percent increase in pay as directed by the Superintendent*

In November 2013, the Superintendent informed the Payroll Officer by letter that she should change the Finance Officer's annual compensation. This change in the Finance Officer's salary resulted in a 32 percent increase in his annual gross pay raising the amount from \$66,457 to \$87,903. While not required to have Board approval for this change, a 32 percent increase in salary is a significant change that reasonably should have been disclosed to the Board. No mention of the action was recorded in the Board meeting minutes nor was the current Board Chair aware of the salary change.

At the November 25, 2014 Board meeting, the Board approved the hiring of an individual as construction manager for the Fairview Independent Schools to oversee the renovation project at the high school. After the meeting, the Superintendent executed a contract between the Board and the individual, with the individual to perform as "Quality Control Manger for the construction at the high school...until the project is completed." In return for these duties, the individual will be paid \$1,000 per month.

Neither the Board meeting minutes or the contract provide defined duties or expectations regarding the individual's job as construction manager or the Board's responsibilities as employer. Monitoring this contract will be difficult due to the lack of details regarding its execution.

### ***Recommendations***

We recommend that the Board's attorney review the Superintendent's proposed contract prior to being approved by the Board to ensure the contract clearly represents the salary, benefits, and other terms and conditions associated with the Superintendent's employment. All terms and conditions of the contract should be clearly stated, not be redundant in nature, and provide clear criteria as to how the Board will monitor the contract's terms and conditions, including benefits. The Board should ensure current and future employment contracts properly define all intended benefits and that the Board require sufficient reporting to monitor the benefits of the contract.

We recommend that the Board pre-approve all out-of-state travel for District employees and Board members, including travel for professional development. Budgeted or known travel costs for the trip should be specifically pre-approved by the Board in a public meeting. To ensure compliance and transparency, the Board should receive and review a detailed report of the actual out-of-state travel and reimbursement expenses incurred as well.

We recommend that the full Board, Board Chair, or a designated Board committee review the Superintendent's credit card purchases to ensure the transactions are reasonable in amount, necessary, and properly supported by receipts or other appropriate documentation. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent.

We recommend that all reimbursement requests made and credit card charges incurred by the Superintendent be provided to the full Board, Board Chair, or a designated Board committee. The Board should require the District's Finance Officer to conduct an initial review of the Superintendent's reimbursement request or credit card expenditure and submit any concerns or issues to the Board before approval for payment is made. The full Board, Board Chair, or a designated Board committee should review and document the approval or other action taken regarding the Superintendent's requests for reimbursement and ensure the transactions are reasonable, necessary, and compliant with the contract.

We recommend the District consistently follow Board Policy 4.31 that states personal purchases on District/school credit cards are prohibited and unauthorized charges made by employees to District/school credit cards may result in disciplinary action. We also recommend the District establish a specific credit card policy to require supporting documentation for credit card expenditures. This supporting documentation should include a business purpose, the name of individuals involved in the purchase, as well as a detailed invoice or other appropriate documentation. This policy should also contain a statement that credit card purchases not supported by detailed, itemized receipts must be repaid by the employee within a reasonable period.

Related to conferences and training, we recommend a District policy require the Superintendent and other District staff to provide specific supporting documentation for all requested reimbursements. This documentation should include the identity of the organization or agency sponsoring the event, a brief description of the business purpose, and an original itinerary, agenda, or registration materials related to the event. The District should maintain a list of employees attending the training. To be eligible to attend conferences and trainings, the employee should be a full-time district employee and not an interim employee whose training may not be as beneficial to the district. Due to limited budgets, the District should consider sending a limited number of employees to conferences or training and encourage the development of effective in-house training that will extend the benefit of this external training to other staff.

**Findings and Recommendations**

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We further recommend that significant increases in classified employee salaries be disclosed to the Board and an employee’s contract be modified to document any updated or new terms of an employee’s contract. Finally, service contracts should provide detailed responsibilities and duties to ensure work is properly performed and monitored.

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**Finding 11: Over a two-year period, the District paid almost \$37,000 for unleaded gasoline with no supporting documentation.**

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The examination of the District’s gasoline credit card statements found a total of \$36,908 was paid by the District for unleaded gasoline with no existing supporting documentation for the charges. This amount accounts for 88 percent of all unleaded gasoline charges made on the District’s primary gasoline account. These expenses cannot be connected to an employee, specific trip, event, or other District activity. The other unleaded gasoline expenses were only supported by store receipts with an employee’s name or a general District vehicle description. The amount of gasoline purchased for inappropriate or personal benefit cannot be determined due to the lack of documentation. When traveling for business purposes, the District allowed gasoline purchased to be used in personal vehicles. The District had not implemented controls to ensure gasoline was only used for a business purpose.

District policies require gasoline purchases to be substantiated by receipts but that is the only written requirement. District Policy 3.125 for certified employees, and Policy 3.225 for classified employees, allows employees to incur the cost of gasoline and oil for District vehicles while engaged in job-related travel when substantiated with a receipt.

According to the District’s Transportation Director, the District uses this credit card account to purchase gasoline for its eight school buses and four other District vehicles. The buses and one of the district vehicles use diesel fuel, while three other District vehicles use unleaded gasoline. Of these vehicles that used unleaded gasoline, one was a van for the transportation of children as needed and the other two were for various maintenance responsibilities. These vehicles are clearly marked with the District’s name and emblem.

The Transportation Director informed auditors that he maintains the multiple gasoline credit cards and only provides the card to school bus drivers or other authorized employees for travel outside of the District. When gasoline is purchased at local stations associated with the District’s gasoline credit card company, actual credit cards are not needed because station staff know to charge the expense to the District’s account. According to a local station manager, employees have been trained to charge the account if the vehicle has the District emblem even if the person is not driving a District bus.

According to the Superintendent and former high school Principal/Athletic Director, this card was available for their use as well. The former Principal/Athletic Director said the card was available to others as needed because he was instructed by the Superintendent to encourage the purchase of gasoline on the credit account to prevent the need for a mileage reimbursement request. This included purchasing gasoline for personal vehicles because the Superintendent considered this a less expensive method to pay for job-related travel versus actual mileage rates. This statement is supported by the fact that very few mileage reimbursement requests were submitted by staff during our review period. We were also informed that, prior to our examination, the Superintendent turned in his card and the former Principal/Athletic Director's card was destroyed.

Our review of the District's primary gasoline credit card statements from July 2012 through June 2014 revealed that the District spent over \$105,000 for fuel, with 60 percent, or \$63,685, of the purchases for diesel fuel. Knowing the credit card was used by the District to fuel the school buses, it was expected that the majority of the expenditures would be for diesel fuel; however, auditors did not expect to find over \$42,000, or 40 percent, of the entire fuel charges were for unleaded fuel. Of this amount, there were no receipts at all for \$36,908 of unleaded fuel purchases. Table 16 provides the District's purchases on this credit card account, along with a breakdown of the fuel types and the amount of unleaded fuel with no receipts or other supporting documentation. While not all diesel fuel purchases had supporting documentation and could be questionable, large purchases of diesel for school buses was expected so it was not considered as high a risk to be used for inappropriate or personal benefit.

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**Table 16: Breakdown of the District’s Gasoline Credit Account Expenditures**

| <b>Month/Year</b> | <b>Total Diesel Charges</b> | <b>Total Unleaded Charges</b> | <b>Unleaded Charges Not Documented</b> |
|-------------------|-----------------------------|-------------------------------|--|
| July 2012         | \$527                       | \$1,682                       | \$1,682                                |
| August 2012       | \$267                       | \$1,717                       | \$1,551                                |
| September 2012    | \$2,420                     | \$2,336                       | \$2,236                                |
| October 2012      | \$3,662                     | \$3,105                       | \$2,331                                |
| November 2012     | \$3,808                     | \$2,553                       | \$1,996                                |
| December 2012     | \$4,159                     | \$2,649                       | \$2,392                                |
| January 2013      | \$2,234                     | \$2,098                       | \$1,953                                |
| February 2013     | \$2,817                     | \$1,893                       | \$1,503                                |
| March 2013        | \$1,461                     | \$884                         | \$822                                  |
| April 2013        | \$4,449                     | \$1,776                       | \$1,562                                |
| May 2013          | \$3,375                     | \$1,903                       | \$1,349                                |
| June 2013         | \$3,313                     | \$2,054                       | \$2,011                                |
| July 2013         | \$964                       | \$1,595                       | \$1,506                                |
| August 2013       | \$715                       | \$1,851                       | \$1,838                                |
| September 2013    | \$2,756                     | \$1,794                       | \$1,663                                |
| October 2013      | \$3,537                     | \$2,508                       | \$2,016                                |
| November 2013     | \$3,489                     | \$1,656                       | \$1,494                                |
| December 2013     | \$2,846                     | \$1,478                       | \$966                                  |
| January 2014      | \$2,639                     | \$1,071                       | \$960                                  |
| February 2014     | \$1,514                     | \$1,000                       | \$798                                  |
| March 2014        | \$2,506                     | \$1,089                       | \$1,089                                |
| April 2014        | \$2,892                     | \$770                         | \$736                                  |
| May 2014          | \$3,929                     | \$1,428                       | \$1,292                                |
| July              | \$3,406                     | \$1,162                       | \$1,162                                |
| <b>Totals</b>     | <b>\$63,685</b>             | <b>\$42,052</b>               | <b>\$36,908</b>                        |

Source: Auditor of Public Accounts based on credit card statements provided by the District.

Management of the gasoline credit account is also complicated due to the Superintendent supervising the maintenance staff and his authorization for two District vehicles to be taken home by maintenance staff members. The authorization was not formally documented or allowed by District policy. One of these vehicles is a 1999 diesel truck and the other is a 2009 Dodge Ram that uses unleaded gasoline. These employees have the benefit of a vehicle and access to gasoline at the local stations. The use of these vehicles is not tracked or accounted for by the District’s Finance Officer to determine the employees’ tax implications.

The take home assignment of vehicles is prohibited by District Policy 3.1321 for certified employees, and prohibited by Policy 3.2321 for classified employees. These policies do not permit the use of vehicles outside of work or for any non-job-related purpose. When asked about these policies, the Transportation Director stated that he was unaware of any Board-approved policies related to vehicles.

## Findings and Recommendations

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It is not possible to determine, therefore, if the gasoline purchased was for a business-related purpose of the District or whether the expense should be paid by a school activity fund. Due to the lack of consistent and transparent procedures, the purchase of gasoline could have been used for non-job related travel in District vehicles and personal vehicles. A District employee did not need to possess a credit card to purchase gasoline at the local stations and, if needed, the Superintendent and former high school Principal/Athletic Director had a gasoline credit card. No processes or controls were established to deter or detect the purchase of gasoline for an inappropriate or personal benefit. Strong controls and processes over the purchase and use of gasoline must be implemented if the District continues to use the gasoline credit account.

### *Recommendations*

We recommend that the District initiate controls and processes to minimize the risk of abuse in the purchase of unleaded gasoline and to ensure the purchase and use of all types of fuel is only for appropriate business purposes of the District. Gasoline should only be purchased for District vehicles and receipts should be required in addition to documenting the purchasing employee's name, the business purpose for the purchase, the vehicle license plate number, and an odometer reading at the time of purchase. This documentation should be consistently reviewed and any gaps or undocumented purchases addressed in a timely manner.

In addition, we recommend the credit account not be used to purchase gasoline for personal vehicles. Instead, a request for mileage reimbursement should be used when personal vehicles are driven for business related purposes. A mileage reimbursement request form should be developed that requires the name of the person, the date and time travel, the business purpose, and travel destination. We further recommend that this form be fully complete and then reviewed by an appropriate staff person prior to payment. The mileage reimbursement request is a transparent method that documents the activity as well as the business purpose of the travel. Any mileage reimbursement requests made by the Superintendent should be reviewed and approved by the Board or a designated member of the Board prior to payment. Having a subordinate employee approve a request for payment from the Superintendent is not effective or reasonable.

Considering the size and requirements of the District, the need for three maintenance vehicles should be reviewed for reasonableness. Further, the District should comply with its policies and not allow the take-home assignment of District vehicles. The District should determine the taxable benefit provided to staff if the assignment of District vehicles continues.

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## Findings and Recommendations

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**Finding 12: The District had not established a formal process to hire students for the summer work program.**

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According to a Board member who grew up in the District, the District has, for over 40 years, operated a summer work program that employed students to provide general labor for maintenance projects on school grounds. However, the Central Office staff was unable to provide evidence of a formal application, eligibility criteria, or a documented selection process ever existing. Also, all current and former Board members interviewed stated they had no involvement in the selection process and were unaware of the criteria for eligibility.

Without a formal application process, written eligibility criteria, and a documented selection process in place, the District's summer work program is at risk of being both inconsistent and biased. In fact, the majority of those selected to work during the last three fiscal years were either athletes or children of District employees, or both.

In an interview with the Maintenance Director, he indicated that the funding to pay the summer workers came from the Maintenance budget and that the District usually employed three to six student workers per summer. The Maintenance Director and his staff supervise the summer workers, approve their timesheets, and submit any purchase orders related to the needs of the program to the Central Office. He stated that students were paid to paint, sand, and clean school facilities and grounds. The students were not allowed to mow or operate certain equipment.

The lack of criteria related to the District-managed summer work program has not only prevented the program from being operated in a transparent manner, but has also put it at risk of producing a biased selection of participants. A review of students hired for the program during the last three fiscal years shows that of the 17 individuals identified as summer workers for one or more of the last three summers, 13 were athletes and at least five of those 13 were children of District employees.

Table 17 identifies students with the names replaced with numbers, hired as summer workers followed by the amount of money earned during each fiscal year.

## Findings and Recommendations

Table 17: Summer Workers, Connections, and Payments Received by Fiscal Year

| Participant   | Athlete and/or Child of District Employee | FY 2011-12     | FY 2012-13     | FY 2013-14      |
|---------------|---|----------------|----------------|-----------------|
| Student #1    | Child of Employee                         | \$1,510        | \$448          | N/A             |
| Student #2    | Former Athlete and Child of Employee      | \$2,304        | \$2,408        | \$3,155         |
| Student #3    | Athlete and Child of Employee             | \$1,196        | \$312          | N/A             |
| Student #4    | Athlete and Child of Employee             | \$368          | \$448          | N/A             |
| Student #5    | Athlete and Child of Former Employee      | \$1,000        | \$572          | N/A             |
| Student #6    | Athlete and Child of Employee             | N/A            | \$280          | \$494           |
| Student #7    | Athlete and Child of Employee             | N/A            | \$504          | \$1,071         |
| Student #8    | Athlete                                   | N/A            | \$1,008        | \$1,674         |
| Student #9    | N/A                                       | N/A            | N/A            | N/A             |
| Student #10   | Athlete                                   | N/A            | \$560          | \$511           |
| Student #11   | Athlete                                   | N/A            | \$1,064        | \$1,234         |
| Student #12   | Athlete and Child of Employee             | N/A            | N/A            | \$800           |
| Student #13   | Athlete and Child of Employee             | N/A            | N/A            | \$878           |
| Student #14   | Athlete                                   | N/A            | N/A            | \$716           |
| Student #15   | Athlete                                   | N/A            | N/A            | \$675           |
| Student #16   | Athlete and Child of Employee             | N/A            | N/A            | N/A             |
| Student #17   | Athlete                                   | N/A            | N/A            | \$756           |
| <b>Totals</b> |   | <b>\$6,378</b> | <b>\$7,604</b> | <b>\$11,964</b> |

Source: Auditor of Public Accounts, based on information provided by the District and available on the KHSAA website.

Auditors received multiple answers regarding who selected the students hired by the summer work program at the District. The Finance Director indicated that, per the Superintendent, students were selected based upon recommendations by the Maintenance Staff and School Principals. However, when we spoke to the Maintenance Director and the former high school Principal, they both stated that they were not involved in the selection process. The Maintenance Director indicated that he thought the Superintendent made the selection based on income-level, while the former high school Principal stated that he thought the Superintendent's spouse, who also served as the Assistant Director of FRYSC, solicited students who might be interested in participating and possibly made an announcement at the school about the program.

While the auditors acknowledge that athletes and children of District employees could meet need-based eligibility criteria, if there were any such criteria established for the program, there is assuredly a larger pool of similarly eligible applicants among the general student population. Whatever it may be, the current approach to the evaluation and selection process and its outcome give the impression of favoritism by seemingly selecting students from within the same sub-population each year.

## Findings and Recommendations

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**Recommendations** The Board should develop a policy to establish the purpose of the summer work program for students, provide guidance to District staff as to how the program should be advertised to the whole student population, what requirements should be met in selecting a student to participate, and the payment method/rates to be used.

The District should consider the guidance provided by the Board when creating formalized procedures that document the application process, eligibility criteria, and the selection process. The District should also formalize in a procedure how the students will be supervised by District staff and how they will report their time worked.

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**Finding 13: The Superintendent allowed the former high school Principal to assume a dual role as Athletic Director causing a conflict of interest that weakened the management controls related to the high school's activity fund.**

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A principal and an athletic director are two distinct employment positions that could have conflicting interests, yet the District Superintendent allowed the same employee, now former employee, to assume both positions starting in 2009. As a principal, the employee's primary objective should have been to maximize the amount of funds for classroom education instead of for sports and non-instructional activities. According to the Superintendent, he thought the former employee could handle both roles without any problem, but the management controls over the activity fund provided by the segregation of duties involving multiple staff members were eliminated. In addition, the appointment of the former Principal/Athletic Director's nephew as head football coach also caused a conflict because an employee is supervising a relative. In addition, the former Principal/Athletic Director sold "slush puppies" at the high school and there were no mechanisms in place to determine if the total cash collected was actually deposited into the proper activity fund. Though there were large deficits in activity funds that had to be supplemented by District funds that should have been spent on classroom instruction, the Superintendent allowed this conflictive situation to continue until the school received sanctions from KHSAA. After the sanctions, the former Principal/Athletic Director resigned from both positions.

After the former Principal/Athletic Director assumed this dual role, he appointed his nephew as head football coach, which further weakened the system of checks and balances for activity funds. The process related to approving purchase orders was that the coach/sponsor submits a purchase order to their supervisor or the Principal. In this situation, the football coach would have submitted a purchase order to the Athletic Director who was also the school Principal. Because of the dual role and the familial connection, the coach only had to submit the purchase order to one person, his uncle. Also, from our review of purchase orders, we found the former Principal/Athletics Director was more likely to be the requestor of purchase orders than the head football coach during the period of our examination. Table 18 illustrates the number and amount of purchase orders that originated with the former Principal/Athletic Director, as compared to the head football coach.

**Findings and Recommendations**

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**Table 18: Breakdown of Purchase Order Requests by Position**

| <b>Requester According to Purchase Order</b> | <b>Number of Purchase Orders</b> | <b>Dollar Amount of Purchase Orders</b> |
|--|----------------------------------|---|
| Former Principal/Athletic Director           | 418                              | \$220,628                               |
| Head Football Coach                          | 68                               | \$75,831                                |

Source: Auditor of Public Accounts based on our review of Activity Fund expenditures provided by the District.

During our examination, there were several allegations that the former Principal/Athletic Director was not depositing all of the cash collected from the sale of “slush puppies” at the high school. Slush puppies were sold as a fundraiser for Athletics and the Senior Class Trip activity funds. Based strictly on the description provided on the activity fund receipt spreadsheet, the amount deposited from the sale of slush puppies was \$3,587. According to interviews with various staff, this was a very popular fundraiser with sales estimated to be \$200 per day. If this estimate is correct, then to reach the \$3,587 amount, slush puppies would have had to have been sold for only 18 days during the two-year period; yet auditors were told it occurred frequently during our review period. A record of the number of days they were sold was not maintained. A correlation of revenue and expenses related to the slush puppies was not possible because the slush puppy supplies were purchased in conjunction with other supplies.

The former high school Principal/Athletic Director appeared to spend as desired using the activity fund money without any impediment or control procedures. The sports and entertainment activities were allowed to incur large amounts of expenses with the additional money being taken from the District General Fund to prevent a negative balance in the activity funds at the end of the fiscal year. According to the Superintendent, “finance is not my forte,” so he has relied on the former and current Finance Officer “that they were not going to put us in the hole.” However, the Superintendent should have ensured that each school’s principal was reviewing and managing the activity funds properly, as required by Redbook regulations.

***Recommendations***

Since the current high school Principal is not serving in a dual role as the Athletic Director, we recommend that the District develop procedures to consistently implement the Board policy that activity funds be managed at the school level. The Principal or designee should review all of the purchase orders requested by the activity account coach/sponsor. We further recommend the procedures contain safeguards for an authorized person to review and approve an activity account purchase order requested by the Principal.

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**Findings and Recommendations**

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**Finding 14:  
Sporting goods  
contract was  
entered into  
without Board  
knowledge.**

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Despite statutory language that states a board has general control and management of all school funds, the high school Principal/former Athletic Director and the Superintendent entered into a brand-specific sporting goods contract without the knowledge or approval of the Board. The District, however, did not use the vendor from the contract as the sole source for athletic apparel and equipment.

KRS 160.290 outlines the general powers and duties of the Board and indicates that the Board has general control and management of the public schools in the District, as well as control and management of all school funds and all public school property of its district and may use its funds and property to promote public education. In addition, KRS 160.160(1) states that each board of education may make contracts.

A review of the Board minutes for the period of FY 2012, FY 2013, and FY 2014 show the Board approving contracts with architects, auditors, uniform services, payment systems, construction managers, food service, health providers, and Resource Officers, but does not show the Board approving or being made aware of the brand-specific sporting goods contract entered into by the high school Principal/former Athletic Director and the Superintendent some time prior to the contract period of July 1, 2012 through June 30, 2015.

According to the vendor associated with this contract, all purchases for this contract were made through either the District’s brand-specific online account or through a single vendor store location over 200 miles away in Campbellsville, Kentucky. Essentially, the contract required the District to wear brand-specific sporting goods such as shoes, uniforms, tee shirts in exchange for a signing bonus and discounts on their purchases at the vendor store location. The contract did not require a certain amount to be spent each year or require that new uniforms for all sports be purchased during the contract period. In fact, the actual terms and conditions of the contract resembled more of an incentive program than a purchasing contract.

Table 19 lists, by school activity account, the amount spent with the vendor’s store during the two fiscal years examined.

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**Findings and Recommendations**

**Table 19: Total Amounts Paid to Contracted Vendor by High School Activity Account**

| School Activity Account | FY 2012-13      | FY 2013-14      |
|-------------------------|-----------------|-----------------|
| Athletics               | \$5,162         | \$3,412         |
| Band A                  | \$1,350         | \$1,074         |
| Baseball                | \$3,405         | \$1,368         |
| Boys Basketball         | \$12,101        | \$6,364         |
| Boys Basketball MS      | \$2,367         | \$0             |
| Boys Golf               | \$970           | \$0             |
| Football                | \$31,102        | \$32,856        |
| Football MS             | \$2,956         | \$0             |
| Girls Basketball        | \$11,766        | \$7,164         |
| Tennis                  | \$50            | \$2,566         |
| Track                   | \$1,367         | \$2,389         |
| <b>Total</b>            | <b>\$72,596</b> | <b>\$57,193</b> |

Source: Auditor of Public Accounts based on information provided by the District.

During the same two year period, the District purchased athletic apparel and equipment from other vendors as well. The District even purchased the same brand-specific sporting goods apparel and equipment from other vendors, located both locally and outside the area. Table 20 below shows the amount spent with seven similar vendors during the same time period.

**Table 20: Total Amounts Paid to Similar Sporting Goods Vendors from High School Activity Funds**

| Other Vendors | FY 2012-13      | FY 2013-14      |
|---------------|-----------------|-----------------|
| Vendor A      | \$7,138         | \$3,457         |
| Vendor B      | \$7,141         | \$700           |
| Vendor C      | \$31,841        | \$23,809        |
| Vendor D      | \$5,071         | \$4,915         |
| Vendor E      | \$3,512         | \$3,059         |
| Vendor F      | \$7,232         | \$13,078        |
| Vendor G      | \$7,655         | \$2,816         |
| <b>Total</b>  | <b>\$69,590</b> | <b>\$51,834</b> |

Source: Auditor of Public Accounts, based on information provided by the District.

***Recommendations***

We recommend that all contracts and incentive programs be brought before the Board for review and approval. The District Finance Officer should ensure all contracts are approved by the Board prior to making payments to the vendor.

**Findings and Recommendations**

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**Finding 15: The Board did not consistently perform Superintendent evaluations required by state statutes, District policy, and the Superintendent's contract.**

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Despite multiple criteria citing the requirement for an annual evaluation of the Superintendent, as well as statements by several current and former Board members that evaluations of the Superintendent were completed multiple times during their tenure, auditors were provided documentation and could confirm the completion of only one evaluation during the approximate 46 month period of July 1, 2011 through April 27, 2015. In responding to the APA's request for documentation of evaluations performed, a District employee commented that, "our Board apparently does not have a history of conducting formal written evaluations."

Section 10 of the Superintendent's last four employment contracts required an annual evaluation. These requirements, in effect since July 1, 2009, state,

The Board shall evaluate and assess in writing the performance of the Superintendent at least once each year during the term of his contract and this evaluation and assessment shall be reasonably related to his duties as Superintendent and the objectives of the Board. Each evaluation shall be conducted without the Superintendent in closed, executive session. The Board shall use an evaluation form and after each evaluation has been completed and signed by the Board, the Board shall meet in closed session with the Superintendent to discuss his evaluation, at which time the Superintendent shall be given a copy of his evaluation. The evaluation form and procedures used each year shall be that form and those procedures that are adopted by the Board and which are approved by the Kentucky Department of Education and any such amended forms and procedures are hereby adopted and incorporated by reference as though stated in full.

This language was also repeated in Board Policy 2.14, last amended in July 26, 2010. This policy stated that,

The Board and Superintendent shall develop procedures and forms for the evaluation of the Superintendent in compliance with applicable statutes and regulations. This policy and related procedures must be approved by the Kentucky Department of Education. The Superintendent shall be evaluated annually in writing by the Board, and the summative evaluation shall be made available to the public on request. The evaluation criteria and evaluation process to be used shall be explained to and discussed with the Superintendent no later than the end of the first month of reporting for employment for each fiscal year. Any preliminary discussions relating to the evaluation of the Superintendent by the Board or between the Board and the Superintendent prior to the summative evaluation shall be conducted in closed session. The summative evaluations of the Superintendent shall be discussed and adopted in an open meeting of the Board and reflected in the minutes.

Auditors interviewed six of the eight Board members active during the approximate 46 month period of July 1, 2011 through April 27, 2015. Two of the Board members joined the Board in January 2015, so they could not speak to the evaluation process. The remaining four current and former Board members interviewed offered different perspectives on both the evaluation process and the frequency of the evaluations.

One of the Board members interviewed indicated he thought there had been only one evaluation during the Superintendent's tenure and that it had occurred in December 2013. According to this Board member, the evaluation was completed on an individual basis outside of a Board meeting and was not discussed with the Superintendent.

A second Board member indicated evaluations were done yearly, but was not sure at what time of year they were performed. He also stated that the Board discussed the evaluation in a closed meeting without the Superintendent and that the results were not formally discussed with the Superintendent.

A third Board member stated evaluations were done every year, although the Board did not act in a closed Board meeting to perform the evaluations, and that he remembered completing an individual evaluation for 2012, 2013, and 2014.

The fourth Board member stated evaluations were done at both mid-year and end-of-year and that the Board members would perform their own evaluation anonymously. According to this Board member, a District staff member would then incorporate all five members' evaluations into "a general consensus." He also stated that the evaluations were not discussed formally with the Superintendent.



Despite the longstanding requirement for an evaluation and the memories of some Board members, the District could provide evidence of only one “set” of four individual evaluations being completed during the period of July 1, 2011 through March 17, 2015. These individual evaluations were completed by four different board members. Two were dated March 25, 2013, one was dated May 29, 2013, and one was not dated. District staff found no summative or “general consensus” evaluation for this set of evaluations. The Finance Director, who was a former Board member, indicated that these evaluations were prepared as a result of “a strong request” by OEA.

Though no directions appear anywhere on these individual evaluations, all four follow a similar format with 50 statements about the Superintendent, which are broken into six categories: Relationship with the Board, Community Relationships, Staff and Personnel Relationships, Educational Leadership, Business and Finance, and Personal Qualities. It appears that the evaluator is required to score their agreement with each statement based on a scale of 1 to 5, but without the directions or an explanation, the reader cannot be assured as to whether a score of 5 means strongly agrees or strongly disagrees.

While all four evaluations used the same template and exhibited an index number in the upper right hand corner that follows the format similar to that of Board policies, the Finance Director was unable to locate a copy of the template in the Policy Manual. Further, he confirmed that the Board and Superintendent have taken no action to develop any formal procedures and forms for the evaluation of the Superintendent and that there is no written description of the evaluation process, nor is there any documentation of the evaluation criteria ever being explained to or discussed with the Superintendent during the approximate 45-month period of July 1, 2011 through March 17, 2015.

A review of Board minutes for the period July 1, 2010 through April 27, 2015, showed only one mention of an evaluation of the Superintendent. The minutes for the March 25, 2013 regular Board meeting showed the Board approved, without discussion, a final summative evaluation of the Superintendent on a 4-0 vote, with one Board member abstaining from the vote. Consequently, the abstaining Board member was the Board member whose individual evaluation is dated May 29, 2013, nearly two months after this vote.

Both the Superintendent’s contract and Board policy required preliminary discussions to be conducted in closed session without the Superintendent. In addition, the contract states the Board should go into closed session with the Superintendent to discuss his evaluation, at which time the Superintendent shall be given a copy of his evaluation. However, while Board minutes for the period July 1, 2011 through April 27, 2015 showed the Board going into closed session to discuss personnel matters a total of seventeen times, the Board did not go into closed session during the meeting in which they approved a final summative evaluation for the Superintendent. In fact, the Board had not been in closed session for nearly fourteen months prior to this meeting.

**Findings and Recommendations**

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The issue of superintendent evaluations by Kentucky school districts and whether those evaluations may be discussed or performed in open or closed session of the local school boards was considered by the Office of the Kentucky Attorney General (OAG) in 2008 and again in 2009. After the 2009 OAG decision, 09-OMD-115, an appeal was made to the Jefferson Circuit Court in 2009. In each of these decisions, the OAG and the Jefferson Circuit Court agreed that the open meetings laws should be narrowly construed, and as such, agreed that the evaluations of the superintendent in those situations did not meet the criteria to allow an exception to the open meetings law. Based on these decisions, it appears that the board's discussion of its evaluations of its superintendent should be performed in an open meeting.

Following these decisions, the Kentucky Legislature, in 2010 and again in 2013, revised KRS 156.557 by adding specific language to address the issue of superintendent evaluations and open meetings. Currently, KRS 156.557(6) states:

- (a) Each superintendent shall be evaluated according to a policy and procedures developed by the local board of education and approved by the department.
- (b) The summative evaluation of the superintendent shall be in writing, discussed and adopted in an open meeting of the board and reflected in the minutes, and made available to the public upon request.
- (c) Any preliminary discussions relating to the evaluation of the superintendent by the board or between the board and the superintendent prior to the summative evaluation shall be conducted in closed session.

Considering the revised language in KRS 156.557, the Board had not only an obligation to conduct an evaluation of the former Superintendent by its own policy and contract terms, but also by state law.

***Recommendations***

We recommend the Board ensure it complies with KRS 156.557 and Board Policy 2.14. This will require the Board to not only perform the Superintendent's evaluation annually, but also present, discuss, and adopt a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, the Board should ensure that written evaluations are performed annually and that the summative evaluation is available to the public upon request in accordance with KRS 165.557(6).

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## Findings and Recommendations

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**Finding 16: The District paid the local educational cooperative \$1,050 for Principal Network training not attended by the high school Principal.**

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Based on attendance records with the local educational cooperative, the District paid a total of \$1,050 for principal training that the District high school Principal did not attend in FY 2013, FY 2014, and FY 2015. The local educational cooperative provided Principal Network training in two meetings in FY 2013 for a total cost of \$250 per registrant. In FY 2014 and 2015, the Principal Network training was held in four meetings for a total cost in each fiscal year of \$400 per registrant. While the high school Principal registered for the training and his name was printed on the class sign in-sheet, there was no signature verifying his attendance. Employees should attend training paid for by the District or a refund should be requested unless extraordinary circumstances exist prohibiting the employee from attending the training.

Employee training is an expense to the District that should not be wasted considering this money could be used effectively elsewhere in the District. A superintendent has the ultimate responsibility to ensure staff attend training and are in compliance with training requirements. According to an OEA report issued on May 13, 2015, the employee currently assigned to monitor professional development has no administrative certificates. Therefore, the concern exists that monitoring professional development training is not given the priority needed to ensure District staff attend scheduled training and comply with training requirements.

***Recommendations***

We recommend the District implement procedures to monitor the required professional development of each District staff position and assign this responsibility to specific staff at each school. We also recommend that the Board develop a policy that failing to attend training paid by the District must be reimbursed by the employee, unless documented exceptional circumstances prevent the employee from attending the scheduled training.



**EXHIBIT**



**Listing of Elementary and High School Activity Funds**

**Exhibit 1**

| <b>Activity Account</b> | <b>Purpose of Account</b>        | <b>Typical Revenues</b>                             | <b>Typical Expenditures</b>        | <b>Are these funds:<br/>Student-Generated,<br/>Staff-Generated, or<br/>Parent-Generated?</b> |
|-------------------------|----------------------------------|---|------------------------------------|--|
| Archery                 | Track Sport Finances             | Internal Transfer & Board Funds                     | Entry Fees, Equipment, Meals       | Staff  |
| Coke ACT                | Receive Coke Machine Commissions | Coke Sales Commissions                              | School Discretionary               | Staff  |
| Coke STAFF              | Receive Coke Machine Commissions | Coke Sales Commissions                              | School Discretionary               | Staff  |
| FUND                    | N/A                              | N/A   | N/A                                | N/A  |
| ELEM Academic Team      | Track Team Finances              | Fund Raisers  | Entry Fees, Meals                  | Staff & Students   |
| ELEM Basketball         | Track Sport Finances             | Gates   | Officials, Equipment               | Staff & Public   |
| ELEM Books-State        | N/A                              | N/A   | N/A                                | N/A  |
| ELEM Flower Fund        | Internal Holding Fund            | Staff Donations                                     | Flowers for Benevolence            | Staff  |
| ELEM General            | Receive & Spend Discretionary \$ | Various School Fees                                 | Discretionary Schhol Expenditures  | Staff & Students   |
| ELEM Grants             | Track Grant Donations            | Grant Receipts                                      | Allowable Grant Expenditures       | Staff  |
| ELEM Library            | Track Library Finances           | Book Fairs  | Books                              | Students & Parents   |
| ELEM School Pictures    | Track Picture Finances           | Picture Commissions                                 | Discretionary Schhol Expenditures  | Students & Parents   |
| ELEM School Store       | N/A                              | N/A   | N/A                                | N/A  |
| ELEM Yearbook           | Track Yearbook Finances          | Yearbook Sales, Ad Sales                            | Yearbook Publication Expenses      | Students & Parents   |
| Fifth Gr Banquet        | Fund 5th Grade Banquet           | Fund Raisers  | Banquet Expenses                   | Staff & Students   |
| FRYSC                   | Track FRYSC Finances             | Donations   | Expendtures to help less fortunate | Staff & Public   |
| PTO                     | Track PTO Finances               | Donations   | PTO Related Expenditures           | Staff & Public   |
| School Patrol           | School Patrol Trip to DC         | Donations   | DC Trip Expenditures               | Staff & Public   |
| Sixth Gr. Banquet       | N/A                              | I think the Deposit was meant for 5th Grade Banquet |                                    | N/A  |
| Student Deposit         | Track Student Deposit Finances   | Student Fees  | Discretionary Schhol Expenditures  | Students & Parents   |

# Listing of Elementary and High School Activity Funds

Exhibit 1

| Activity Account   | Purpose of Account               | Typical Revenues                     | Typical Expenditures                   | Are these funds:<br>Student-Generated,<br>Staff-Generated, or<br>Parent-Generated? |
|--------------------|----------------------------------|--------------------------------------|--|--|
| Academic           | Track Team Finances              | Fund Raisers                         | Meet Fees, Meals                       | Staff & Students   |
| Academic MS        | Track Team Finances              | Fund Raisers                         | Meet Fees, Meals                       | Staff & Students   |
| Annual             | Track Annual Finances            | Ad Sales, Annual Sales               | Yearbook Publication Expenses          | Students & Parents   |
| Athletic Ads       | All Athletics Fund               | Athletics Related Income             | Athletics Related Expenditures         | Staff  |
| Athletic Boosters  | All Athletics Fund               | Athletics Related Income             | Athletics Related Expenditures         | Staff  |
| Athletic Misc      | All Athletics Fund               | Athletics Related Income             | Athletics Related Expenditures         | Staff  |
| Athletic Revolving | All Athletics Fund               | Athletics Related Income             | Athletics Related Expenditures         | Staff  |
| Athletics          | All Athletics Fund               | Athletics Related Income             | Athletics Related Expenditures         | Staff  |
| Band A             | Track Band Finances              | Board Support, Fund Raisers          | Band Instruments & Other Expenses      | Staff  |
| Band B             | N/A                              | N/A                                  | N/A                                    | N/A  |
| Band U             | N/A                              | N/A                                  | N/A                                    | N/A  |
| Baseball           | Track Team Finances              | Gates, Board, Fundraisers            | Officials, Equipment, Meals            | Staff & Students   |
| Baseball MS        | Track Team Finances              | Gates, Board, Fundraisers            | Officials, Equipment, Meals            | Staff & Students   |
| Bowling            | Track Team Finances              | Board Support, Fund Raisers          | Bowling Alley Fees, Entry Fees         | Staff & Students   |
| Boys Basketball    | Track Team Finances              | Gates, Board, Fundraisers            | Officials, Equipment, Meals, Uniforms  | Staff & Students   |
| Boys Basketball MS | Track Team Finances              | Gates, Board, Fundraisers            | Officials, Equipment, Meals, Uniforms  | Staff & Students   |
| Boys Golf          | Track Team Finances              | Board, Fund Raisers, Donations       | Entry Fees, Equipment, Meals           | Staff & Students   |
| Cheerleaders ACT   | Track Cheerleaders Finances      | Fund Raisers, Participation Fees     | Camp Fees, Uniforms, Meals             | Staff & Students   |
| Cheerleaders VAR   | Track Cheerleaders Finances      | Fund Raisers, Board, Part. Fees      | Camp Fees, Uniforms, Meals             | Staff & Students   |
| Cheerleaders MS    | Track Cheerleaders Finances      | Fund Raisers, Participation Fees     | Camp Fees, Uniforms, Meals             | Staff & Students   |
| Chorus             | Track Choral Finances            | Board                                | Music, Equipment, All-State Chorus     | Staff  |
| Chorus ACT         | Track Choral Finances            | Board                                | Music, Equipment, All-State Chorus     | Staff  |
| Coke HS            | Receive Coke Machine Commissions | Coke Sales Commissions               | Discretionary Schhol Expenditures      | Staff  |
| Cross Country      | Track Team Finances              | Meet Fees, Fundraisers, Board        | Meet Fees, Travel, Uniforms            | Staff & Students   |
| Drama              | Track Drama Finances             | Performance Admissions, Fundraisers  | Script Costs, Costumes, Sets           | Staff & Students   |
| FBLA               | Track Club Finances              | Dues, Fundraisers                    | Club Expenses                          | Staff & Students   |
| FCA                | Track Club Finances              | Dues                                 | Club Expenses, (Marginally Active)     | Students   |
| FEA                | Track Club Finances              | Dues                                 | Club Expenses, (Marginally Active)     | Students   |
| Football           | Treak Team Finances              | Gates, Board, Fundraisers, Donations | Officials, Equipment, Uniforms, Travel | Staff & Public   |
| Football MS        | Track Team Finances              | Gates, Board                         | Officials, Equipment                   | Staff & Public   |
| Forensics          | Track Finances                   | Board, Fund Raisers                  | Scientific Equipment                   | Staff & Students   |
| Girls Basketball   | Track Team Finances              | Gates, Board, Fund Raisers           | Officials, Equipment, Meals            | Staff & Public   |
| Girls Golf         | Track Team Finances              | Board, Fund Raisers, Donations       | Entry Fees, Equipment, Meals           | Staff & Students   |
| Girls STEM         | Track Finances                   | Fund Raisers                         | Scientific Equipment (Became Inactive) | Staff & Students   |
| Golf MS            | Track Team Finances              | Board, Fund Raisers, Donations       | Entry Fees, Equipment, Meals           | Staff & Students   |
| HS Books-State     | Provide Books for Students       | Sales                                | Merchandise                            | Staff & Students   |
| HS Bookstore       | Provide Items for Students       | Sales                                | Merchandise                            | Staff & Students   |



**Listing of Elementary and High School Activity Funds**

**Exhibit 1**

| <b>Activity Account</b> | <b>Purpose of Account</b>            | <b>Typical Revenues</b>                | <b>Typical Expenditures</b>                      | <b>Are these funds:<br/>Student-Generated,<br/>Staff-Generated, or<br/>Parent-Generated?</b> |
|-------------------------|--------------------------------------|--|--|--|
| HS General              | Receive & Spend Discretionary \$     | Various School Fees                    | Discretionary Schhol Expenditures                | Staff & Students   |
| HS Grants               | Track Grant Donations                | Grant Receipts                         | Allowable Grant Expenditures                     | Staff  |
| HS Library              | Track Library Finances               | Library Grant Receipts                 | Books & Other Library Related Items              | Staff  |
| HS School Pictures      | Track Picture Finances               | Picture Commissions                    | Discretionary Schhol Expenditures                | Students & Parents   |
| Honor Society           | Track Club Finances                  | Dues                                   | Club Related Expenditures                        | Students   |
| Honor Society MS        | N/A                                  | N/A                                    | N/A  | N/A  |
| Journalism              | Track Club Finances                  | Dues                                   | Dues (New Club Doesn't Appear to have taken off) | Students   |
| Junior Class            | Track Class Finances                 | Fund Raisers                           | Prom Related Expenditures                        | Staff & Students   |
| Key Club                | Track Club Finances                  | Dues, Fundraisers                      | Club Related Expenditures                        | Staff & Students   |
| Leo Club                | Track Club Finances                  | Dues - Became Key Club                 | Club Related Expenditures                        | Staff & Students   |
| Middle School Special   | N/A                                  | N/A                                    | N/A  | N/A  |
| Poetry Outloud          | N/A                                  | N/A                                    | N/A  | N/A  |
| Senior Class            | Track Class Finances                 | Fund Raisers                           | Class Expenditures, Granduation                  | Staff & Students   |
| Senior Class Special    | Track Sr. Trip Expenses              | Fund Raisers, Board                    | Sr Trip Expenses                                 | Staff & Students   |
| Senior Class Trip       | Track Sr. Trip Expenses              | Fund Raisers, Board                    | Sr.Trip Expenses                                 | Staff & Students   |
| Scholarship Fund        | Track Scholarships                   | Donations                              | Scholarships                                     | Staff & Public   |
| Softball                | Track Team Finances                  | Gates, Board, Fund Raisers             | Officials, Equipment, Meals                      | Staff & Public   |
| Spanish Club            | Track Club Finances                  | Dues, Fundraisers                      | Club Expenses                                    | Staff & Students   |
| Special Education       | Hold Misc Funds for Special Students | Misc Revenue                           | Misc Expenses                                    | Staff  |
| Spirit Club             | N/A                                  | N/A                                    | N/A  | N/A  |
| STLP                    | Track Expenses                       | Fund Raisers, Dormant in 13-14         | Misc Expenses, Dormant in 13-14                  | Staff & Students   |
| STLP Vet Memorial       | Raise Money for Veteran Memorial     | Donations, Fund Raisers                | Memorial Expenses                                | Staff & Students   |
| Student Council         | N/A                                  | N/A                                    | N/A  | N/A  |
| Student Deposit         | Track Student Deposit Finances       | Student Fees                           | Discretionary Schhol Expenditures                | Students & Parents   |
| Tennis                  | Track Team Finances                  | Board, Fund Raisers                    | Entry Fees, Equipment, Meals, Uniforms           | Staff & Students   |
| Track                   | Track Team Finances                  | Board, Fund Raisers                    | Entry Fees, Uniforms, Meals, Travel              | Staff & Students   |
| Video Yearbook          | Track Video Yearbook Finances        | Ad Sales, Product Sales, Dormant 13-14 | Digital Medial, Digital Equipment                | Students & Parents   |
| Volleyball              | Track Team Finances                  | Gates, Fund Raisers, Board             | Officials, Uniforms, Meals                       | Staff & Public   |



**FAIRVIEW INDEPENDENT SCHOOL DISTRICT RESPONSE**



# Fairview Independent Schools

2201 MAIN STREET (WESTWOOD)

PHONE 606 / 324-3877 FAX 606 / 324-0666

ASHLAND, KENTUCKY 41102-3237

**BILLY MUSICK** - *Superintendent*  
**BRANT CREECH** - *Director of Pupil Personnel*  
**CYNTHIA WHITT** - *Child Nutrition Director*  
**ERNIE SHARP** - *Finance*  
**KRISTEN SORRELL** - *Director of Special Education*

**BOARD OF EDUCATION:**  
**RICK TACKETT**  
**JEFFREY PRESTON**, *Chairman*  
**DOUG CAMPBELL**  
**RODNEY SPARKS**

June 22, 2015

Honorable Adam H. Edelen  
Auditor of Public Accounts  
209 St. Clair Street  
Frankfort, Kentucky 40601

RE: Draft report of Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Fairview Independent School District.

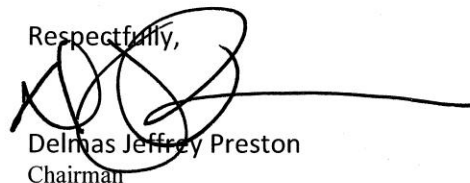
Dear Mr. Edelen,

As Chairman of the Board of Education of the Fairview Independent School District, please accept this response to your recent draft report concerning our school district.

I have received the draft in its entirety. I have read it and do fully understand each and every finding and recommendation stated therein. I appreciate the compassion and concern your office has for the importance of using public funds in the education of our children. I'm sure that upon public release of the full report, the staff of Fairview Schools as well as the people of the community of Westwood, Kentucky will be eager to see our school use the recommendations stated and to move forward for the benefit of our students.

I would also like to express my appreciation to Mr. Brian Lykins, Ms. Jettie Sparks, and Ms. Julie Skeeters for their professionalism during this examination.

Respectfully,



Delmas Jeffrey Preston  
Chairman

"An Equal Education and Equal Employment Institution"