

**THE DAVID SCHOOL'S ADMINISTRATION OF  
FLOYD COUNTY'S ADULT EDUCATION GRANTS  
FROM THE COUNCIL ON POSTSECONDARY EDUCATION  
AND KENTUCKY ADULT EDUCATION**

**For The Period  
July 1, 2003 Through June 30, 2004**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

July 8, 2005

Reecie Stagnolia, Associate Vice President  
Kentucky Adult Education  
Council on Postsecondary Education  
1024 Capital Center Drive, Suite 250  
Frankfort, KY 40601

Daniel Greene, Executive Director  
The David School, Inc.  
P.O. Box 1  
David, KY 41616

Re: Adult Education Grants

Dear Mr. Stagnolia and Mr. Greene:

This report contains the results of the performance audit of the David School's administration of Floyd County's Adult Education Grant for the fiscal year ending June 30, 2004. The Council on Postsecondary Education and Kentucky Adult Education contracted with us to conduct performance audits of selected local adult education providers. This report represents our findings, recommendations, and the provider's responses.

We conducted this performance audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

We greatly appreciate the courtesies and cooperation extended to our staff during the audit.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts





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KENTUCKY ADULT EDUCATION AS OF JUNE 30, 2004**

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**EXECUTIVE SUMMARY**

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**PURPOSE AND SCOPE**

The Council on Postsecondary Education and Kentucky Adult Education (KYAE) selected the David School (local provider) for a limited scope performance audit of its administration of the Adult Education and Family Literacy Grant for Floyd County. An on-site review was conducted on March 23 through March 24, 2005 to address the following objectives:

- Reconcile student and faculty data electronically submitted to Adult Education with the information retained by the local provider.
- Determine whether the local provider's professional development activities comply with applicable professional development policies and procedures.
- Determine whether local providers' expenditures and costs comply with the terms of their grant agreement and reconcile to invoices submitted.
- Report internal control weaknesses identified during our audit that relate to the audit's objectives.

To accomplish these objectives, the performance audit team reviewed the Policy and Procedure Manual for Kentucky Adult Education, as well as the provider's grant proposal and final agreement with KYAE. During the on-site review, the audit team reviewed the provider's accounting records (trial balance/general ledger), interviewed program administrators regarding internal controls related to the above grants, and tested samples of participant files, personnel files, and expenditure documentation for compliance with applicable requirements. Below is the summary of findings:

**FINDINGS SUMMARY**

<b>FINDING</b>	<b>Disallowed Costs</b>
There were variances in six categories between the KAE-10 Expenditure Reports and the provider's Trial Balance. It is questionable whether the provider was in compliance with the approved budget limitations in these cost categories.	N/A
Two (2) participant files could not be located.	N/A
Two (2) participant files did not document their age.	N/A
Two (2) participant files did not contain an applicable withdrawn statement.	N/A
Three (3) participant files did not contain evidence of an initial formal assessment.	N/A
Two (2) participants did not appear eligible per their initial assessments (score>11.9).	N/A

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Ten (10) participant files did not contain evidence that a goal was set, when applicable.	N/A
Six (6) participant files did not contain evidence to support that goals were met.	N/A
Thirty-one (31) participant files did not agree with the electronic information reported to KYAE.	N/A
Formal timesheets are not maintained by employees to support the hours worked and reported to KYAE.	N/A
Six (6) employee files did not have documentation to support the required level of professional development training.	N/A
Three (3) employee files did not contain adequate documentation of required orientation training.	N/A
Five (5) employees were not included in KYAE's electronic information system.	N/A
Two (2) employee files did not contain adequate documentation of a bachelor's degree.	N/A
Questionable expenditure of \$997.52 was charged to Equipment Costs but appeared to be a routine phone bill.	N/A
Questionable travel expenditure of \$153.60 did not document the reason or the dates of the trip.	N/A
Three expenditures had invoices with dates that were not within the time frame tested (July 1, 2003 through June 30, 2004); resulting in disallowed costs of \$6,153.84.	\$6,153.84
28 of the 29 expenditures tested did not have evidence of approval on the standard invoice used by the provider. It is questionable whether these were allowable costs.	N/A
An annual Inventory Report had not been completed at the time of the audit.	N/A
There were two (2) instances of meal reimbursements not in compliance with the policies established by KYAE. These reimbursements totaled \$239.79, however, due to a lack of documentation, we could not determine the amount that should be disallowed.	N/A
Four (4) significant internal control deficiencies were noted.	N/A
KYAE was not informed in writing of site openings and/or closings.	N/A



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**RESULTS AND RECOMMENDATIONS**

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**FINANCIAL REPORTING AND COMPLIANCE**

**Scope and Methodology**

The KAE-10 Expenditure Reports were compared to the line item budget approved in the final agreement modification. This comparison was used to determine whether the provider's reimbursements complied with the approved budget.

The KAE-10 Expenditure Reports were then compared to the internally generated financial records maintained by the local provider. This comparison was used to determine whether the local provider's accounting records support the amounts requested for reimbursement on the KAE-10 Expenditure Reports.

**Findings**

CPE and KYAE reimburse providers for reasonable, allowable, and actual costs incurred if costs are specified in the contract. Expenditures for providers shall not exceed the cost category limitations or total as specified in the contract. Written department approval must be obtained before a provider may reallocate funds among the line items.

There were seven (7) variances between the KAE-10 Expenditure Reports and the provider's Trial Balance that are considered questioned costs. In total, the expenditures recorded in the provider's Trial Balance were \$2,176 greater than the expenditures reported on the KAE-10 Expenditure Report. Due to the fact that the bookkeeper was no longer with the program, it was not possible to determine the cause of these differences. The following table illustrates our findings in this area.

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<b>Basic Grant (Adult Education)</b>	<b>KAE-10 Expenditure Report 6/30/04</b>	<b>Provider's Trial Balance 6/30/04</b>	<b>Difference</b>
Administrative Personnel	\$34,732.00	\$33,815.00	\$917.00
Other Administrative Costs			
Operating Costs	14,783.00	14,783.00	0.00
Instructional Personnel	176,551.00	178,624.08	(2,073.08)
Other Instructional Costs	5,500.00	5,500.00	0.00
Equipment Costs			
Development Funds	41,772.00	43,122.62	(1,350.62)
Performance Reward	19,690.00	19,690.00	0.00
Sept. Conference Registration	640.00	0.00	640.00
Professional Development	1,805.37	1,935.96	(130.59)
<b>Corrections</b>			
Administrative Personnel	180.00	180.00	0.00
Other Administrative Costs			
Operating Costs			
Instructional Personnel	2,590.00	768.75	1,821.25
Other Instructional Costs	973.00	973.00	0.00
Equipment Costs			
Development Funds			
Performance Reward			
Sept. Conference Registration			
Professional Development			
<b>Family Literacy</b>			
Administrative Personnel	7,039.00	7,039.00	0.00
Other Administrative Costs	450.00	450.00	0.00
Operating Costs	2,800.00	2,800.00	0.00
Instructional Personnel	29,898.00	31,898.00	(2,000.00)
Other Instructional Costs	7,500.00	7,500.00	0.00
Equipment Costs	2,250.00	2,250.00	0.00
Development Funds			
Performance Reward			
Sept. Conference Registration			
Professional Development			
<b>TOTAL</b>	<b>\$349,153.37</b>	<b>\$351,329.41</b>	<b>(\$2,176.04)</b>

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**Recommendations**

The provider should reconcile the KAE-10 Expenditure Report to the Trial Balance each month. This reconciliation should ensure that reimbursements requests have been expensed and recorded on the Trial Balance. This reconciliation should be conducted within each of the line item categories as well as in aggregate. To change a line item budget, providers should submit a Budget Amendment Request form to KYAE for approval (per the Policy and Procedure Manual for Kentucky Adult Education).

**Provider Response**

In reviewing the trial balance and the KAE-10 Expenditure Reports, we found that the book keeper included extra expenses related to the Adult Education program that were in excess of the amount budgeted by KYAE, causing the actual disbursements to be higher than the amount billed on the Expenditure reports. The school absorbed the extra costs related to program operation. In reviewing the difference in Corrections Instructional Personnel we found the bookkeeper did not code correctly corrections payroll expenses based on instructor time sheets to Instructional Personnel in the Corrections Program. The bookkeeper did not claim the entire fringe on the state leaving the program to absorb additional expense related the corrections program. (see attached Corrections Instructional Personnel) This makes the difference between KAE-10 and Trial balance (\$125.15). The bookkeeper does not have the ability to sign any checks written. Two individuals who do not have access to the bookkeeping system sign checks. Based on the recommendation the program is reconciling the Monthly KAE-10 Expenditure reports with the monthly trial balance.

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## **PARTICIPANT ELIGIBILITY AND RECORD KEEPING**

### **Scope and Methodology**

A total of 60 participants were selected randomly from the electronic student data sent from KYAE and compared to the documentation maintained in the participant files. We examined the files for the following:

- Proper eligibility documentation.
- Proper assessment testing.
- Evidence to support the achievement of goals/objectives.
- Agreed the establishment and achievement of goals/objectives to the information reported to KYAE.
- Proper separation from the program when applicable.
- Other requirements were tested based upon the applicable program requirements.

The participants tested received services during the period of July 1, 2003 and June 30, 2004.

### **Findings**

Proper file maintenance and accurate data entry is important to support and document the success of a provider in meeting eligibility requirements and goal achievement. CPE and KYAE require that providers administer the initial assessment at orientation, or within a short period thereafter, and shall use the lowest test score in a subject area to determine a learner's entry level and eligibility. Any achievement or completion of goals should be documented. Programs are to maintain assessment forms on file for three years.

The following exceptions were noted:

- Two (2) participant files could not be located.
- Two (2) participant files did not document their age.
- Two (2) participant files did not contain an applicable withdrawn statement.
- Three (3) participant files did not contain evidence of an initial formal assessment.
- Two (2) participants did not appear eligible per their initial assessments (score > 11.9).
- Ten (10) participant files did not contain evidence that a goal was set, when applicable.
- Six (6) participant files did not contain evidence to support that goals were met.
- Thirty-one (31) participant files did not agree with the electronic information reported to KYAE.

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**Recommendations**

We recommend the provider create a checklist for participant files to facilitate a periodic review of the contents to ensure that the required documentation is being maintained. Any achievement of goals/objectives should be documented and maintained. The person entering participant data should require documentation for any data entry performed on a participant and any deficiencies should be reported to the Program Director.

**Provider Response**

The David School Adult Education Program was aware of problems with its student record keeping and asked the state for assistance in the Fall of 2004. After meeting with representatives from KYAE, the program conducted a program self review as requested. Based on the results of this review the KYAE representatives met with our program and began an in-depth Program Improvement Plan in which goals, objectives and actions are implemented and reviewed on a monthly basis by the state. The program has developed new forms and procedures to assist with ensuring the reliability of data and record keeping attached are the forms created and used by the program. On the student registration and student separation forms we have inserted a place for the data entry person to sign verifying that there is backup documentation for student achievement and records. These forms have been continually updated throughout the year to guarantee their accuracy. (Student Registration, Student Test Summary, Student File Checklist, Student Separation.)

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**PAYROLL AND STAFF REQUIREMENTS**

**Scope and Methodology**

A sample of 15 payroll disbursements was judgmentally selected for payroll testing. Personnel files were examined to verify that staff had received the required professional development training hours and had completed an Individual Professional Development Plan if applicable. Timesheets were examined for existence and approval. Personnel files were examined to verify evidence of the instructor's bachelor's degree. A determination was made as to whether the employee was included in the staff listing information reported to KYAE.

**Findings**

CPE and KYAE require that all KAE-funded employees maintain documentation of hours worked. During our testing, we noted that formal timesheets are not maintained by employees to support the hours worked and reported to KYAE.

CPE and KYAE require full-time instructors to obtain eighteen hours of professional development training. There were four (4) employee files that did not have documentation to support the required level of professional development training.

CPE and KYAE require all part-time instructors to obtain six hours of professional development training. There were two (2) employee files that did not have documentation to support the required level of professional development training.

CPE and KYAE require all new instructors and program directors complete required KYAE orientation training within 6 months (instructors: Orientation to Adult Education; Orientation to Instruction and Curriculum) or one year (program directors: Orientation to Adult Education; Orientation to Program Management) of employment. Three (3) employee files did not contain adequate documentation of required orientation training.

CPE and KYAE rely on each provider to update its electronic staff listing to ensure complete and accurate information. We noted five (5) employees that were not included in KYAE's electronic information system.

CPE and KYAE require all instructors hired after July 1, 1998 to have a bachelor's degree. We noted two (2) employee files did not contain adequate documentation of a bachelor's degree.

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**Recommendations**

We recommend the provider create a checklist of items required for inclusion in each employee file to facilitate a periodic review of the contents to ensure that the required documentation is being maintained. In addition, the provider should require a formal timesheet for all employees to support the hours reported to KYAE. The provider should also update KYAE staff information so that it is complete and accurate.

**Provider Response**

Although formal timesheets were not kept on all personnel, leave request forms documenting days employees have missed were and are kept on file. The program has initiated a check sheet for employee files (attached). To ensure all required forms, trainings etc. are kept up-to-date monthly reviews of employee files will be conducted by the business manager. Electronic Timesheets have also been developed and are being implemented to support employee hours of work for the program.

In reviewing professional development documentation, all instructors attended the State Conference held at Marriot Griffin Gate in the fall of 2003 yet not all turned in (or had misplaced) their PD Certificates. New teacher orientation was completed by instructors. Many Instructors have been working in the program for years and had not turned in their certificates from years past. The Program Director did attend Orientation to Program Management in August 2003 yet failed to submit his documentation.

On the note related to employees not listed on the staff listing our records show that it matches. When asked to pull employee files we pulled the box that included all employees not just those funded by Adult Ed. We believe that they reviewed files of individuals who are employees of the school but not funded through the adult Education Grant. All instructors have a bachelor's degree and are submitting backup documentation of this for their employee records.

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**PURCHASING/EXPENDITURE COMPLIANCE**

**Scope and Methodology**

A sample of 29 expenditures, representing 45% of the total purchases, was selected judgmentally from the detailed general ledger. These expenditures were tested for authorization/approval, supporting documentation, proper recording, and that it was an actual expense during the grant period of July 1, 2003 and June 30, 2004.

**Findings**

CPE and KYAE reimburse providers for reasonable, allowable, and actual costs incurred as specified in the contract. During our expenditure testing, the following exceptions were noted:

- \$997.52 was charged to Equipment Cost but the supporting documentation was a routine phone bill. It is questionable whether this is an allowable cost.
- One travel expenditure of \$153.60 did not include documentation of why the trips were necessary or the dates of the trips. It is questionable whether this is an allowable cost.
- Three expenditures tested had invoices with dates that were not within the time frame tested (July 1, 2003 through June 30, 2004); resulting in disallowed costs of \$6,153.84.
- 28 of the 29 expenditures tested did not have evidence of approval on the standard invoice used by the provider. It is questionable whether these were allowable costs.

CPE and KYAE require an annual Inventory Report listing non-consumable items with a useful life greater than one year. At the time of our testing, an inventory report had not been completed.

**Recommendations**

We recommend the provider implement policies and procedures related to purchasing and supporting documentation. These procedures should address the noted deficiencies in this area.

We recommend that an Inventory Report be compiled annually to include purchases of non-consumable items with a useful life greater than one year.



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**Provider Response**

An error was made in the coding of the T-1 line that provides internet access for the program.

Travel reimbursement is for visiting classes and programs. Since the review, travel reimbursement forms have been changed to clearly document the purpose of the travel. Reimbursements will not be made unless documentation is clear, it is approved by the supervisor and allowed by the grant.

In reviewing the invoice dates. Purchase orders were submitted to the office prior to 6/30/04 and checks were written for these purchases on 6/30/04. However, it is believed that the bookkeeper did not submit the purchase orders in a timely fashion causing the invoice date to be after the grant period. In reviewing the records, checks for these invoices cleared and were dated prior to the start of the new fiscal year.

In reviewing the standard invoice and discussing it with the firm who completed an independent audit of the school, the program is developing a new form. The independent auditor stated that the approval of purchases was evident since checks have dual signatures and the bookkeeper who submits the standard invoices and payments is not authorized to sign checks.

Based on the audit recommendations, the program has implemented new policies and procedures related to purchasing materials and supporting documentation. A materials/supply request form that describes procedures related to the purchase of materials has been created and the inventory list has been completed. Also new reimbursement forms have been implemented and required documentation prior to approval and payment. These forms are available for review.

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**PROFESSIONAL DEVELOPMENT REIMBURSEMENT COMPLIANCE**

**Scope and Methodology**

Professional Development expenditures were tested for proper authorization, supporting documentation, and adherence to approved rates and reimbursement policies. A sample of 2 expenditures, representing 20% of the total professional development expenditures, was selected judgmentally from the detailed general ledger.

**Findings**

CPE and KYAE require that all meal reimbursements not exceed the per diem amounts established by the Commonwealth of Kentucky. Our test of two (2) professional development expenditures revealed that reimbursement was being requested for actual meal cost rather than the per diem amounts stated in the policies and procedures manual. The total meal costs reimbursed was \$239.79. Due to a lack of documentation, we could not determine the amount that should be disallowed. The only documentation presented was a credit card statement that did not provide evidence as to how many or who were the recipients of these meals.

**Recommendations**

We recommend the provider review and comply with the policies established by KYAE concerning meal reimbursements.

**Provider Response**

The program has reviewed the current policies established by KYAE related to meal reimbursements and has sent out a memo to staff related to this issue as well as the bookkeeping office in order to be in compliance. In addition, new reimbursement forms must be submitted along with receipts clearly documenting professional development expenditures prior to payment.

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**INTERNAL CONTROLS RELATING TO GRANT**

**Scope and Methodology**

The David Schools' fiscal administrator was given an Internal Control Questionnaire regarding the controls in place for cash disbursements, bank reconciliations, revenue, expenditures, and payroll. The questionnaire was completed by the fiscal administrator and reviewed for any significant control deficiencies.

**Findings**

According to the Internal Control Questionnaire completed by the provider, the following significant internal control deficiencies were noted:

- Checks are prepared by employees who also approve invoices.
- Signing of blank checks is not forbidden.
- Bank reconciliations are not conducted by someone other than an employee who participates in the receipt and/or disbursement of cash.
- Formal attendance records are not maintained.

While the provider answered affirmatively as to other significant controls being in place, it is questionable whether these controls were being effectively implemented considering the exceptions noted in other areas.

**Recommendations**

We recommend the provider implement policies and procedures to supplement the policies and procedures prescribed by CPE/KYAE. These procedures should be designed to correct the noted deficiencies in these areas and the other reported exception areas.

**Provider Response**

- Checks are prepared by employees who also approve invoices. Invoices are approved by supervisors and the bookkeeper is informed, the bookkeeper then prepares the check. However the bookkeeper does not have authorization to sign the actual check and thus means that it was approved a second time when the check was signed by two authorized individuals. All checks written by the school must have two signatures neither of which may be or is the bookkeeper.
- Signing of Blank checks is not prohibited. Blank checks are not signed completely blank. If a teacher has been authorized to pickup materials at Wal-Mart and they have an approved list of what to get along with a signed check

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- written to Wal-Mart. They must return the receipt by the next day to ensure the appropriate materials had been purchased. After reviewing this process the program has been setting up charge accounts with the individual business so that this process is eliminated.
- Bank reconciliations are not conducted by someone other than an employee who participates in the receipt and/or disbursement of cash. The development officer documents receipts and disbursements are approved by two other directors authorized to sign checks. The bookkeeper enters the authorized transactions and completes the bank reconciliations but does not have authorization to disperse cash.
  - Formal attendance records are not maintained. As stated earlier, employee leave request forms are kept on file documenting days missed. A new Electronic Timesheet has been created for employees to submit prior to payroll to track attendance and use of sick, personal and vacation days.

The David School is a relatively small community based organization. The above sited exceptions have been addressed and policies and procedures have been implemented to prevent the noted exceptions from reoccurring. The school has a financial statement audit done annually by an independent auditing firm. We have reviewed the exceptions and the recommendations made in this report with the auditing firm and are implementing more effective internal controls.

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**MISCELLANEOUS FINDINGS**

**Findings**

The original grant proposal listed 11 sites that would be operational during the grant period. One of these 11 sites, Morehead State University-Prestonsburg Campus, had been closed and another site, McDowell Family Resource Center, had been opened. This information was not reported to KYAE.

**Recommendations**

We recommend that any site openings and/or closings are reported to KYAE in writing within ten (10) days of the event to ensure that KYAE is aware of the provider's operation sites.

**Provider Response**

The program, after completing the program self review with KYAE, implemented using the KYAE Personnel Update Worksheet on a monthly basis when class locations and instructional personnel changes are made and submitting these to KYAE with other required monthly reports.