



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

August 12, 2013

Robert Kiser, Chairman
Letcher County Board of Education
224 Parks Street
Whitesburg, Kentucky 41858

Members of the Board:

The Auditor of Public Accounts (APA) has completed an examination of the Letcher County Board of Education (LCBOE). Our office received concerns related to specific activities and transactions that could indicate possible mismanagement leading to noncompliance with Board policy or state law. This letter summarizes the procedures performed and communicates the results of those procedures.

The APA reviewed certain activities for the period July 1, 2011 through May 13, 2013. The procedures performed include reviewing travel expenditure transactions, and general policies and procedures of the LCBOE. In addition, our review consisted of interviews with various staff and management at the LCBOE and within the school district.

The purpose of this review was not to provide an opinion on financial statements or activities, but to ensure appropriate processes are in place to provide strong oversight of financial activity and to review the specific issues brought to our attention.

Detailed findings and recommendation are attached to this letter to assist all parties involved in improving procedures and internal controls. Overall, these findings indicate the LCBOE did not provide adequate oversight and control over the travel expenditures of the superintendant and deputy superintendant. In addition to the findings, the LCBOE's management responses to the findings are included.

If you have any questions, contact me or Libby Carlin, Assistant Auditor of Public Accounts.

Sincerely,

Adam H. Edelen
Auditor of Public Accounts

c: Tony Sergent, Superintendent



**LETCHER COUNTY BOARD OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

**LETCHER COUNTY BOARD OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

Finding 2013-01: The Letcher County Board Of Education Did Not Review Superintendent's Travel Reimbursement Requests Prior To Payment

During the course of our review of the Letcher County School District (District) we examined 24 travel and expense reimbursement forms submitted by the Superintendent and 25 submitted by the Deputy Superintendent.

The Superintendent's contract specifies that travel related expenses will be reimbursed upon approval by the Letcher County Board of Education (Board). However, we were only able to verify that two of the reimbursements were included with warrants approved by the Board and no indication that the Board, or any member of the Board, had reviewed the actual requests for reimbursement. We noted that the Superintendent's reimbursement requests were signed by an employee of the District's Finance Department, usually the Finance Director. All employees of this office report to the Superintendent.

Testing indicated the Deputy Superintendent received prior supervisory approval for trips, submitted signed reimbursement requests, and that the payments made to the Deputy were included in the warrants submitted to and approved by the Board. However, it does not appear that anyone was ensuring that the Superintendent and her deputy stayed within their travel budget. The total budget for out of district travel for the Superintendent's Office for FYs 2012 and 2013 per the Board approved budget was \$8,046. Actual expenditures for FY12 were \$12,662.93 or \$4,617.06 over the budgeted amount. For FY 13 (through 5-13-2013) the budgeted amount was exceeded by \$3,266.61, six weeks prior to year end.

The District did not follow the Board policies or the Superintendent contract requirements in reimbursing travel payments to the Superintendent, and did not monitor expenditures to ensure travel stayed within the limitations established in the Board approved budget. Failure to follow appropriate approval and monitoring policies increases the risk that individuals could be reimbursed for amounts in excess of those due to them.

Per the Superintendent's contract with the Board:

7. The Superintendent shall attend appropriate professional meetings and conferences at the local, state and national level to include but not to be limited to KASS, KASA, KSBA, NSBA, and KHSAA. The Board shall reimburse the Superintendent for actual expenses incurred in carrying out the Superintendent's professional activities when an itemized statement of travel and expenses is submitted and approved by the Board.
14. The Superintendent shall also be reimbursed for personal expenses incidental to the travel when an itemized statement of travel and expenses is submitted to and approved by the Board.

**LETCHER COUNTY BOARD OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

Finding 2013-01: The Letcher County Board Of Education Did Not Review Superintendent's Travel Reimbursement Requests Prior To Payment (Continued)

Per Board policy 3.125 (Certified Personnel):

“Prior approval for travel required. This approval should be by the SBDM or Superintendent/Designee, whichever is applicable.”

Per Board Policy 04.31:

“Expenditures from any District fund shall be made in accordance with the budgets approved by the Board. All purchases shall require the prior approval of the Superintendent/designee.”

Recommendation

We recommend the Board implement procedures to ensure that the Superintendent and Deputy Superintendent's expense reimbursement forms are reviewed at the Board level. Further, the Board should consider establishing a more defined limit to the amount of travel expenses the Superintendent can incur without preauthorization from the Board, and implement procedures to ensure that budgetary constraints are observed.

Management's Response and Corrective Action Plan

KSBA included in this year's annual update the following recommended additions to policy 03.125:

SUPERINTENDENT'S TRAVEL EXPENSES

Prior to granting approval for payment, the Board shall review itemized reimbursement requests for the Superintendent's travel expenses in an open board meeting.

KSBA also included in this year's annual update the following recommended addition to policies 03.125/03.225:

Without proper documentation, individuals shall not receive reimbursement, and, if it is determined that reimbursement was made based on incomplete or improper documentation, the individual may be required to reimburse the District.

The Letcher County Board of Education had a first reading of the updates to the above policies at the July 22nd Board Meeting. A second reading will take place at the August 26th Board Meeting and the changes will become Board Policy. The Present Superintendent's contract states that "The Board shall pay or reimburse Superintendent for reasonable expenses approved by Board and incurred by Superintendent in the continuing performance of his duties under this agreement, as determined by the Board and according to Board Policy." Our current policy 03.125 allows reimbursement for Actual Lodging with a receipt and Meal Reimbursement of Breakfast - \$7, Lunch - \$8, and Dinner - \$15 without receipt.

**LETCHER COUNTY BOARD OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

Finding 2013-02: The Letcher County Board Of Education Did Not Enforce Requirements For Travel Expenditure Receipts

Based on the results of our examination of the Letcher County School District (District), we identified areas where improved oversight and control is needed. Specifically, reimbursement requests reviewed lacked adequate supporting documentation to support the purpose of travel and how that travel related to the business of operating the school system:

The only documentation provided was a brief, often incomplete, summary of the purpose of the travel (ex. KASA, middle school initiative, etc). We did not find sufficient documentation in any of the 49 travel reimbursement forms reviewed. In some instances the city traveled to or conference/meeting attended was not included in the details. There were no conference or meeting itineraries provided, or other detailed information regarding meetings or conferences/training attended and their relevance to the District. Without this information it is not possible to determine that the related expenditures were necessary or proper expenditures of the District.

More than \$2,800 in reimbursements was also paid to individuals without sufficient supporting documentation. For example, instances were noted in which receipts did not exist, or receipts were not itemized to support the reimbursement of items purchased. During our review we noted reimbursement was paid for 20 items without adequate documentation. A summary of these items include:

Date	Vendor	Issue	Amount	Other Info/Concerns
1/17/2012	Not Included in Receipt	Handwritten receipt	\$ 42.10	
1/17/2012	La Fourcheile	Receipt Not Itemized	51.45	
1/24/2012	Flat Tire Repaired	No Receipt	25.00	
3/13 & 3/15/2012	Parking	No Receipt	80.00	
4/17/2012	Not Printed on Receipt	Staff Dinner Meeting. Receipt not detailed. No explanation of purpose of staff meal or who attended.	44.28	
5/24/12 - 6/14/12	Various & Unknown	No Itemized Receipts	959.45	
6/10/2012	Outback Steakhouse	Receipt Not Itemized	49.95	Paid for food.
6/11/2012	Griffin Gate Resort	Receipt Not Itemized	24.08	
7/8/2012	New Orleans Hilton	Receipt Not Itemized	24.58	
7/8-14/2012	Food	No Receipt	75.41	Total reimbursed for food did not include receipts for this amount.
7/9/2012	Commander's Palace	Receipt Not Itemized	71.48	

**LETCHER COUNTY BOARD OF EDUCATION
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Finding 2013-02: The Letcher County Board Of Education Did Not Enforce Requirements For Travel Expenditure Receipts (Continued)

Date	Vendor	Issue	Amount	Other Info/Concerns
7/14/2012	Gondolier Italian	Receipt Not Itemized	58.26	
8/23/2011	Crowne Plaza Hotel	No Receipt for 1 of 3 Rooms Reimbursed	148.37	
10/3/2012	Not Legible	Receipt Not Itemized	61.00	
10/17/2012	Ramsey's Diner	Receipt Not Itemized	51.90	
10/21/2011	Bubby's BBQ	Receipt Not Itemized	21.82	
10/25/2011	Outback Steakhouse	Receipt Not Itemized	43.85	Includes meals for a coach, etc.
October 2011	Las Penas Mexican	No Itemized Receipt	454.20	Girls' soccer
October 2011	El Azul Grande	No date or detailed info contained in Receipt	494.65	Girls' volleyball
12/4/2012	Parking	No Receipt	29.00	
Total			\$ 2,810.83	

Without adequate documentation to support the purpose of the travel related charges, it is not possible to verify that the travel was related to the duties and responsibilities of the Superintendent or Deputy Superintendent, or verify that the expenditures complied with Board policies, contractual agreements, or state/federal laws and regulations.

Per the Superintendent's contract with the Board:

7. The Superintendent shall attend appropriate professional meetings and conferences at the local, state and national level to include but not to be limited to KASS, KASA, KSBA, NSBA, and KHSAA. The Board shall reimburse the Superintendent for actual expenses incurred in carrying out the Superintendent's professional activities when an itemized statement of travel and expenses is submitted and approved by the Board.

Per School Board Policy Expense Reimbursement--Certified Personnel (3.125):

"Reimbursement allowed for: ...6) Foods and Lodging—Actual Lodging and food costs when traveling out-of-district. Meal reimbursement: B-\$7, L-\$8, and D-\$15. Meals will be reimbursed at this rate without receipt. Receipt required for lodging."

Good internal controls dictate that documentation be maintained to ensure that expenditures including travel are specifically related to the business of overseeing the Letcher County Public Schools.

**LETCHER COUNTY BOARD OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

Finding 2013-02: The Letcher County Board Of Education Did Not Enforce Requirements For Travel Expenditure Receipts (Continued)

Recommendation

We recommend the Board modify its policy to require documentation such as itinerary or conference registration materials be maintained and included with the reimbursement requests. At a minimum, each reimbursement request should include the identity of the organization or agency hosting the conference, training or meeting; copies of registration forms when applicable; and a detailed itinerary of the schedule for trainings and conferences. Documentation for travel to meetings should include the agency and/or persons involved in the meeting and a brief description of the meeting's purpose.

We further recommend the Board not approve reimbursement of expenditures unless itemized receipts are provided to substantiate travel expenditures, in keeping with their existing policy.

Management's Response and Corrective Action Plan

The Present Superintendent requires all employees to submit a detailed Travel Request for approval prior to travel.

Policies 03.125 and 03.225 are included in this year's annual update. Wording (underlined) was recommended to be added as part of the update:

The expense reimbursement process shall require documentation of the funding source/category used to pay expenses for all approved trips.

REIMBURSEMENT FORM

Travel vouchers shall be submitted within one (1) week of the travel. No requests for travel reimbursement will be considered unless filed on the proper form and accompanied by itemized receipts. Receipts shall be required for all expenditures.

Without proper documentation, individuals shall not receive reimbursement, and, if it is determined that reimbursement was made based on incomplete or improper documentation, the individual may be required to reimburse the District.

Policy change proposed for policy 03.125:

Superintendent's Travel Expenses

Prior to granting approval for payment, the Board shall review itemized reimbursement requests for the Superintendent's travel expenses in an open board meeting.

The Letcher County Board of Education had a first reading of the updates to the above policies at the July 22nd Board Meeting. A second reading will take place at the August 26th Board Meeting and the changes will become Board Policy.

Our current procedure 03.125 AP.21 includes the following in the Instructions box area:
2. Appropriate literature re conference should be submitted with form if requested.

LETCHER COUNTY BOARD OF EDUCATION FINDINGS AND RECOMMENDATIONS

Finding 2013-03: The Letcher County Board Of Education Reimbursed Travel Expenditures That Appeared Excessive Or Lacked Adequate Supporting Documentation

During our review of the Superintendent and Deputy Superintendent's travel reimbursements, the auditor noted expenditures that either did not appear reasonable due the nature of the purchase or the documentation supporting the expenditure was not adequate, or both. This included reimbursement for hospitality room items, a "thank you" gift basket, pies purchased for meetings, and meal costs that appeared excessive or included payment of meals for persons other than the claimant.

In one instance, the Board approved a band trip to Washington D.C. for the Presidential Inauguration Parade, which was to be attended by the Superintendent. We noted that the Superintendent's trip to Washington D.C. occurred outside of dates the Board approved for the band's trip to perform in the 2013 inaugural parade. The Board approved the band's trip from January 19, 2013 through January 23, 2013. The superintendent went to Washington D.C. on January 17, 2013 and returned on January 20, 2013, before the parade. She incurred \$1,294.11 in air travel, car rental and meal expenditures. To the Superintendent's credit, the hotel bill was covered by the points accumulated from previous travel.

Other issues noted included reimbursements paid without signed forms or travel expenditures reimbursed without use of the required travel reimbursement form. Two travel approval forms also appeared to have been altered to agree to actual expenditures or not actually completed until after travel when expenses were known. Travel approvals also did not consistently contain all related travel costs such as air travel and hotel expenditures when these were paid by separately from other expenditures, or paid directly by the Board.

For the Purpose of this examination we considered single meals exceeding \$30 to be excessive. The approved subsistence rate is \$15 for dinner.

Date	Vendor	Issue	Amount	Other Info/Concerns
8/24/2011	The Cheesecake Factory	Not Reasonable/ Excessive	\$ 36.89	1 Person-1 Meal
9/21/2011	Bellini's	Not Reasonable/ Excessive	74.66	1 Person-1 Meal
10/13/2011	Adelia's Bakery & Café	Not Reasonable/ Excessive	16.91	Pies purchased for meeting
10/18/2011	Not included in receipt	Not Reasonable/ Excessive	54.04	Items purchased for "Hospitality Room". Receipt not detailed; can't identify items purchased
10/20/2011	Food City	Not Reasonable/ Excessive	17.35	Items purchased for "Hospitality Room" - bread and pecan pie.
5/18/2012	Dollar General	Not Reasonable/ Excessive	2.45	Reimbursement included what appear to be personal items--Aquafina and a Coke

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2013-03: The Letcher County Board Of Education Reimbursed Travel Expenditures That Appeared Excessive Or Lacked Adequate Supporting Documentation (Continued)

Date	Vendor	Issue	Amount	Other Info/Concerns
7/8/2012	Cheap Air	Did not complete Travel Reimbursement Form	302.10	Used "Vendor" Form/ Approved travel request did not include air travel cost
7/8-14/2012	Various - New Orleans Trip	Did not complete Travel Reimbursement Form	1,611.10	Used "Vendor" Form
7/8-14/2012	Cheap Air	Did not complete Travel Reimbursement Form	758.20	Used "Vendor" Form
7/10/2012	Mullate's	Not Reasonable/ Excessive	62.50	Did not use Travel Reimbursement Form. Paid for claimant plus one other meal
7/11/2012	Café Adelaide	Not Reasonable/ Excessive	39.62	1 Person-1 Meal
7/12/2012	Red Fish Grill	Not Reasonable/ Excessive	70.26	2 Meals without explanation
8/19/2012	Carrabba's	Documentation not sufficient	51.30	3 in party - Reimbursed without explanation
9/9/2012	Windy Corner Market	Documentation not sufficient	40.66	2 Meals- No explanation
9/18/2012	Merrick Inn	Not Reasonable/ Excessive	38.36	1 Person-1 Meal
9/19/2012	Malone's	Not Reasonable/ Excessive	36.79	1 Person-1 Meal
9/25/2012	Pine Mountain Grill	Documentation not sufficient	18.83	Rotary meeting - reimbursed for Guests
10/2/2012	Lynn's Paradise Café	Documentation not sufficient	66.25	Paid for staff meals--3 total
10/4/2012	John E's	Documentation not sufficient	134.09	Paid for Louisville Voc staff and Letcher staff
10/8/2012	Outback Steakhouse	Documentation not sufficient	156.26	7 Meals paid for staff
11/30/2012	Windy Corner Market	Not Reasonable/ Excessive	49.03	Included meal for Board member & their daughters

**LETCHER COUNTY BOARD OF EDUCATION
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2013-03: The Letcher County Board Of Education Reimbursed Travel Expenditures That Appeared Excessive Or Lacked Adequate Supporting Documentation (Continued)

Date	Vendor	Issue	Amount	Other Info/Concerns
12/1/2012	Griffin Gate Resort	Not Reasonable/ Excessive	60.35	1 Person-1 Meal
1/18/2013	Oceanaire	Not Reasonable/ Excessive	95.92	Appears to be lunch for 2
1/20/2013	Sequoia	Not Reasonable/ Excessive	115.34	3 for brunch
Total			\$ 3,909.26	

Ineffective internal controls and lax enforcement of policies and procedures related to travel, lodging, and meals resulted in insufficient documentation and questionable expenditures. Poor enforcement of policies related to outside business travel has been permitted, resulting in unnecessary spending which may limit available funding for necessary projects and other services for the school district.

Supporting documentation must adequately explain and justify reimbursement of travel related expenditures. Without detailed documentation of the purpose for travel related transactions it cannot be determined whether certain purchases or expenditures were allowable or meets the established criteria for furthering the educational objectives.

KRS 160.290 states, “the Board has control and management of all school funds and public school property and may use its funds and property to promote public education.”

Additionally, Letcher County School Board policy 3.125 (7) specifies that the reimbursement form is required of certified employees to obtain reimbursement for travel expenditures. The intent is that these authorities apply to all personnel including the superintendent and assistant superintendent.

Board policy also requires receipts for reimbursement of actual food costs when traveling. Good internal controls dictate that itemized receipts, detailing what was purchased, when and where the purchase was made, are also required to document and support reimbursement. This level of documentation ensures that reimbursement is made only for reasonable expenses that are related to the operation of the school system. This also helps the school system and its employees to avoid a situation where there is an appearance that they have received a special benefit.

Good internal controls dictate that travel approvals should include all related costs known at the time of travel. Unexpected expenditures or those in excess of the estimate should be explained within the reimbursement request or denied. Good internal controls also dictate that all travel, lodging, and meals be for necessary activities for the school district employees, be accompanied by itemized receipts for all purchases, and be properly approved. Furthermore, good internal controls dictate when determining discretionary purchases such as meals, the Board should consider its primary purpose of promoting public education.

LETCHER COUNTY BOARD OF EDUCATION FINDINGS AND RECOMMENDATIONS

Finding 2013-03: The Letcher County Board Of Education Reimbursed Travel Expenditures That Appeared Excessive Or Lacked Adequate Supporting Documentation (Continued)

Recommendation

We recommend the Board enforce its policy to use the Travel Reimbursement Form for all employee travel related expenditures. Prior approval for trips should include all expenditures related to each employees travel: hotel, meals, incidentals, mileage or airline tickets. Even when these expenditures will be paid collectively for a group of employees, this identifies the expected travel costs per person and then would be a rational basis for reimbursement of approved expenses. Significant changes to cost estimates should be documented and explained when reimbursed and the approval document should never be altered to agree to actual expenditures.

The Board should end the practice of one employee paying for multiple meals during travel or require sufficient documentation of those meals provided in these instances. Also, approval of travel reimbursement should never occur before or until the employee has actually signed the reimbursement form and provided documentation and explanations as needed.

We further recommend that the Board consider changes to the meal reimbursement policy. As noted herein, we identified several meals that appear excessive. We suggest that the Board consider adoption of the Kentucky State Government's reimbursement policies including reimbursement for meals at the "subsistence" rate during specified travel times. Employees would still be free to pay for more expensive meals when they choose, but the Board's cost would be limited and more predictable.

Management's Response and Corrective Action Plan

We currently have the following already in policies 03.125/03.225:

The rate for food reimbursement shall be the same as the state rate.

The only person that was allowed to claim more than the daily subsistence rate was the former Superintendent (because of the clause in her contract which allowed her to claim personal travel expenses). The present Superintendent follows policy 03.125 for food reimbursement. The signed travel reimbursement form with receipts for lodging and travel is required for all employees asking for reimbursement.

The practice of one employee paying for multiple meals is not allowed by the present Superintendent. Each employee pays for their own expenses and turns in a travel reimbursement form with appropriate receipts and documentation.

Significant changes to cost estimates will be documented and an explanation will be required before reimbursement. The approval document not be altered to agree to actual expenditures.

Requirement for itemized receipts was recommended to be added in this year's annual update. It will be policy after the second reading at the August 26th Board Meeting.

LETCHER COUNTY BOARD OF EDUCATION FINDINGS AND RECOMMENDATIONS

Finding 2013-04: The Letcher County Board of Education Approved Financial Transactions Without Documenting Discussion Or Review Of The Transactions

Our review of the minutes of meetings of the Letcher County Board of Education (Board) indicates that the Board was lenient with respect to its responsibility to authorize expenditures. We noted that Board members received financial reports and accounts payable listing prior to meetings. As documented in the meeting minutes, these items were routinely approved without any detailed discussion or questions presented regarding the items to be paid. There was no indication that supporting documentation for payment of expenditures was reviewed by any Board member, or that expenditures were questioned by Board members.

KRS 160.290(1) states, "Each board of education shall have general control and management of the public schools." The accounts payable listing should include travel reimbursements and payment of other travel related expenditures. As detailed in Findings 2013-01 through 2013-03 in this report, we found excessive spending, reimbursements made without adequate documentation and reimbursement for questionable expenditures. The lack of any documented review by the Board has likely contributed to an expectation that reimbursements would not be questioned and has likely encouraged or at least not deterred reimbursements of inappropriate expenditures.

Recommendation

We recommend the Board:

- Ensure supporting documentation for expenditures, including travel related expenditures, are reviewed in addition to the payables list provided.
- Questions and explanations of expenditures reviewed at Board meetings should be documented in the meeting minutes.

Management's Response and Corrective Action Plan

Policy 04.3111 is in the annual update and includes the following:

The Board shall designate one (1) or more Board members to review bills before a meeting for items that may need clarification prior to presentation for final approval for payment.

The Letcher County Board of Education had a first reading of the updates to the above policy at the July 22nd Board Meeting. A second reading will take place at the August 26th Board Meeting and the changes will become Board Policy. The Board Members have already discussed this and are working on the review process.