

**Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the Martin County School District**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

October 22, 2013

Craig Preece, Board Chair
Martin County School District
P.O. Box 274
Lovely, Kentucky 41231

RE: Findings and Recommendations

Dear Chairman Preece:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Martin County School District (District). This examination identifies eight findings and offers 29 recommendations to strengthen the management and oversight of the District. While thoroughly examined, several concerns expressed to this office regarding the District could not be substantiated through documentation or interviews and did not result in a report finding.

In performing this examination, we requested and examined financial records maintained by the District Central Office staff and others for the period July 1, 2011 through June 30, 2013, unless otherwise noted. Information examined included Board meeting minutes, Board members' and selected staff's travel and expense reimbursements, credit card statements, vendor payments, and the District's contracts with the former and current Superintendents. Our review included discussions and interviews with certain Kentucky Department of Education staff, Board members, various District staff, principals, and the former and current District Superintendents.

Due to the issue addressed in Finding 1 of this report, we are referring this issue to Kentucky Department of Education for further review and consideration.

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,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

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Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Martin County School District

Examination Objectives

During the spring of 2013, the Auditor of Public Accounts (APA) received numerous concerns regarding various activities of the Martin County School District (District). To address the concerns expressed to this office, we requested and examined certain District records for the examination period, including, but not limited to, Board meeting minutes, Board members' and selected staff's travel and expense reimbursements, credit card statements, vendor payments, and the District's contracts with the former and current Superintendents. Our review included discussions and interviews with numerous Board members, District staff, principals, and both the former and current Superintendents. Auditors also held discussions with certain staff at the Kentucky Department of Education (KDE) to assist with the clarification of various subjects and information.

The general examination period was July 1, 2011 through June 30, 2013, unless otherwise stated. Earlier time periods for specific expenditures or activities were included based on additional issues that came to the attention of the auditors during the examination.

The District

The District is the only public school system serving Martin County, a county with a population of 12,929. The District serves approximately 2,100 students enrolled in five schools: three elementary schools, one middle school, and one high school. During the examination period, the middle school student population was located in two schools, but has since been consolidated into a single school due to the closure of the building that formerly held the local high school.

The Central Office is located in the county seat of Inez, Kentucky. At the time of our examination, the Central Office consisted of approximately seventeen positions. In the 2010-2011 school year, the District employed 232 classified personnel and 189 certified personnel, 156 of which were considered full time equivalent teachers. The pupil/teacher ratio was 13.8 students for

every one teacher and in school year 2011-2012 the District spent, on average, \$9,987 per student.

For the year ended June 30, 2012, among major funds, the General Fund had \$16,351,458 in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There was \$16,566,165 in expenditures.

Findings and Recommendations

Finding 1: Former Superintendent assigned his spouse to a position that allowed her to maintain her previous salary and activities, which appears to result in grant noncompliance causing the use of grant funds to be questioned.

At the beginning of the 2009-2010 school year, the former Superintendent assigned his spouse, who was also employed by the District, to the Parent Involvement Coordinator position that was paid from Title I, Part A grant funds. The former Superintendent's spouse was originally hired by the District in 1992 as a classroom teacher with her compensation established by the certified employee salary schedule adopted by the District. Because the employee's pay as Parent Involvement Coordinator was based on this salary schedule and a 240 day contract instead of the classified salary schedule and 185 day contract applicable to the employee who previously held this position, the salary paid to the spouse for this position increased the cost to the District by over \$50,000 annually. The District could not provide documentation that written job expectations for the Parent Involvement Coordinator were increased or changed that would explain the need to increase the salary for this position. Until the 2012-2013 school year, the Parent Involvement Coordinator position was 100 percent funded by Title I, Part A funds; however, though required by the grant, there were no time and effort reports to support and document the activities performed, nor were any job evaluations documented during this time period. Therefore, it appears the activities performed by the former Superintendent's spouse, as the Parent Involvement Coordinator, did not fully comply with the activities specifically associated

with the use of Title I, Part A grant funds. Further, this situation appears to violate the requirements of KRS 160.380(2)(e) to prevent the appearance of nepotism by a superintendent.

Recommendations: While the District has already eliminated the position of Parent Involvement Coordinator for the current school year, we recommend that staff assigned to similar positions be provided with specific, written job expectations and required duties, be required to document the activities performed on a daily basis, and use the school's sign-in logs to support those work activities. Activities for this position should be in compliance with the specific grant program requirements. With the understanding that a higher program administrative salary reduces the funds available for activities at the school level, any future hiring of an employee as a Parent Involvement Coordinator should take into consideration the following:

- the educational and experience requirements needed;
- whether the position requires a 240 day (year round) or 185 day (school year only) schedule;
- whether a classified or certified employee is required; and
- whether a part-time or full-time employee is necessary.

Finding 2: A local scholarship fund administered by the former Superintendent, benefitted two of his children, yet District staff had no or minimal knowledge of the scholarship or recipient selection process.

Externally funded scholarships were awarded to a small number of District students by the former Superintendent, yet staff were either not aware of its existence or only minimally aware, which created a risk of an inconsistent application process and biased selections for scholarship funds. This local scholarship fund was established in 1952 and the original contract establishing the scholarship with the District mandates the specific procedures to be followed to grant scholarships to eligible candidates. Due to the District's lack of knowledge of the scholarship and that five of the last fourteen scholarship recipients during the last four years were relatives of District personnel, the District does not appear to have complied with the scholarship's mandated procedures, nor did the application and selection process appear consistent and impartial.

Recommendations: We recommend that the Board investigate the Tuthill Fund to determine its value and the financial activity of the account. Further, we

recommend the Board work to ensure compliance with all of the relevant terms of the contract that originally established the scholarship. If funds are available to award as scholarship grants, we recommend that the Board ensure that the application process is documented and appropriately advertised along with the names of the members of the selection committee. A description of the Tuthill Fund scholarship, along with application materials, should be included in the local scholarship information provided each January to all high school seniors. Though the selection of the recipients is required to occur after the close of the school year, the District should ensure the transparency of the scholarship, selection process, and its recipients.

Finding 3: Former Superintendent's Board approved contract, had redundant or unclear benefits.

The contract of the former Superintendent contained four contract benefit provisions that were either redundant or lacked clear criteria to allow for Board oversight. While these contract issues were not present in the current Superintendent's contract, *Provision 16* provision in the former Superintendent's contract continues to impact the current Board. This provision stated that "[i]n the event that the contract is terminated, not renewed or not renegotiated, [] shall be reassigned to his previous or comparable position at the Martin County Board of Education central office." Our office did not address or opine on this provision because it is in litigation for the courts to decide its propriety and the resulting personnel action impacting the former Superintendent. *Provision 11* of the contract stated that the Board would pay the expense if the former Superintendent pursued continuing education, but it did not contain clear criteria to allow for Board oversight of the expense or the type of continuing education approved by this contract provision. Between July 2011 and June 2013, a total of \$14,211 in tuition and related expenses was charged by the Superintendent and paid by the District. Both *Provision 9* and *Provision 18* of the former Superintendent's contract provide for the payment of travel inside the District using two different methods. However, the former Superintendent actually only received the \$300 allowance and did not submit any requests for reimbursement for in county travel during the examination period.

Recommendations: We recommend the Board and its attorney ensure that current and future employment contracts properly define all intended benefits. Those benefits should be clearly stated, not redundant in nature, and provide clear criteria as to how the Board will monitor the benefit. If educational benefits are provided, the contract should contain a provision to

address retention requirements and an associated repayment schedule if the employee resigns prior to the employee meeting the required retention period. We further recommend that the Board specifically review and approve any expenses related to the Superintendent, who is an employee of the Board, and not just approve them as part of a Consent Agenda.

Finding 4: The Board did not adhere to statutory requirements related to the evaluation of the former Superintendent.

While District policy requires that an annual summative evaluation be made available to the public upon request, Board meeting minutes do not document that a summative evaluation of the former Superintendent was discussed and adopted in an open meeting. KRS 156.557 stipulates that the “summative evaluation of the superintendent shall be discussed and adopted in an open meeting of the board and reflected in the minutes.” Without documentation of these actions in the Board minutes, it is not known whether the Board complied with the statutory requirements related to the former Superintendent’s evaluation. Furthermore, the former Superintendent’s evaluations for the period of July 2011 through June 2013 were requested by auditors but the December 2010 evaluation was the only evaluation provided.

Recommendations: We recommend the Board not only perform the superintendent’s evaluation annually but also present a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, the Board should comply with District policy and KRS 156.557(6) by ensuring that the written evaluations are performed annually and that the summative evaluation is available to the public upon request.

Finding 5: The District did not have a nepotism policy though there are a number of relatives working in the District.

Auditors were informed of and investigated multiple familial relationships throughout the District. While none were determined to violate District policy or the statutory requirements, except for the issues noted in Finding 1, it was found that a nepotism policy had not been adopted to address the potential or perceived conflicts of interests that exist when relatives work in the same organization. In addition, the District’s Hiring policy only addresses the hiring of relatives of the superintendent. Considering the concerns expressed about this issue currently and in the past, the Board would benefit from developing a comprehensive policy to govern the employment of relatives.

Recommendations: We recommend that the Board adopt a comprehensive policy to address nepotism involving the employment and supervision of relatives. The policy should reflect all prohibitions relating to the employment and supervision of relatives required in KRS 160.380, not just those of the superintendent. In addition, this policy should address the supervision and other aspects of a relative’s employment to guard against nepotism or even the appearance of a conflict. While it is not intended for the policy to prohibit the hiring of relatives, it should include a provision that family members would not have a direct line of supervision over another family member and that a family member not perform the employee’s evaluations.

Finding 6: One employee submitted a reimbursement request for the entire year instead of monthly, as required.

During the examination period of July 2011 through June 2013, auditors reviewed the reimbursements submitted by Board members, central office employees, and other employees specifically identified in the complaints made to our office. From this review, we found that one District employee submitted a reimbursement request of \$1,047.94 for the entire 2011-2012 school year instead of monthly, as required by policy, and three other reimbursements from other District employees had missing information.

Recommendations: We recommend the District deny reimbursement to a Board member or District employee when the forms are incomplete or not submitted within the timeframe required by policy. While incomplete requests can be corrected and resubmitted timely, an annual reimbursement request would require an extensive review to determine its validity. In addition, expenditure reimbursements for the school year should be submitted and paid timely so that the District’s financial statements will represent the actual expenditures for that fiscal year.

Finding 7: The District did not have a policy related to the use of the Fleet One card and the cardholders are not required to sign a user agreement.

During the examination period of July 2011 through June 2013, the District spent \$18,359 using the Fleet One card, yet the District did not have a specific policy for the use of Fleet One cards and user agreements were not required. Fleet One cards are used by the maintenance employees and school custodians within the District. These employees are authorized to use these Fleet One cards for gas purchases for the District’s vehicles, mowers, and other lawn equipment. The maintenance employees were each assigned a card

to use for the District vehicles as needed. The school custodians use the Fleet One card that the Assistant Superintendent maintains in his office.

Recommendations: We recommend the Board develop a formal policy and/or procedures for the use of the Fleet One cards. The policy and/or procedures should require that a user agreement document must be read and signed before an employee is permitted to use a District Fleet One card. We recommend that the adopted procedures include the supporting documentation specifically required and that the purpose for the purchase is documented. The review and approval procedures required prior to payment should also be included in the written procedures. This policy or procedure should also include a timeframe for employees to turn in receipts for the purchases made with the Fleet One cards and the action that will be taken if the required documentation is not provided.

Finding 8: District Maintenance and Transportation staff do not maintain accurate inventories.

The District's store account purchases were supported by detailed invoices that were recorded thoroughly in the District's information system (MUNIS); however, this information was not being used to develop and maintain an electronic inventory database. Our review of purchases within the Maintenance and Transportation Departments determined that the Purchase Order (PO) was not consistently completed and the purpose for the purchase was periodically omitted. It was also found that work orders were not required to document the inventory used for a project or assignment, but the District had developed a new policy requiring this process for school year 2013-2014. With detailed purchasing information and work order information available regarding the parts and equipment used by the District, it would be beneficial for the District to implement an electronic inventory system to monitor and track the inventory maintained in these departments.

Recommendations: We recommend that the District ensure that POs include the purpose for the purchase as required. In addition, we recommend that the District ensure compliance with the new policy requiring the completion of work orders so that inventory used can be removed timely to maintain an accurate inventory. We further recommend that both the Maintenance Department and the Transportation Department maintain an accurate up-to-date electronic inventory database so that regular inventory checks can be conducted to monitor inventory to reduce unneeded or duplicate purchases and prevent inventory loss due to theft.

Chapter 1

Introduction and Background

Scope and Objectives for Examination

During the spring of 2013, the Auditor of Public Accounts (APA) received numerous concerns regarding various activities of the Martin County School District (District). After careful consideration of these concerns, the APA initiated an examination of the District to address these issues.

The purpose of this examination was not to provide an opinion on financial statements or activities, but to ensure appropriate controls are in place to provide strong oversight of financial activity and to review specific issues brought to the attention of this office. The general examination period was July 1, 2011 through June 30, 2013, unless otherwise stated. Earlier time periods for specific expenditures or activities were included based on additional issues that came to the attention of the auditors during the examination.

To address the concerns expressed to this office, we requested and examined certain District records for the examination period, including, but not limited to, Board meeting minutes, Board members' and selected staff's travel and expense reimbursements, credit card statements, vendor payments, and the District's contracts with the former and current Superintendents. Our review included discussions and interviews with numerous Board members, District staff, principals, and both the former and current Superintendents. Auditors also held discussions with certain staff at the Kentucky Department of Education (KDE) to assist with the clarification of various subjects and information.

After examining the requested documentation and conducting interviews to address the concerns expressed to auditors throughout this examination process, auditors, as presented in this report, developed findings and made recommendations for improving 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 the findings and recommendations is included in this report.

The District

The District is the only public school system serving Martin County, a county with a population of 12,929. The District serves approximately 2,100 students enrolled in five schools: three elementary schools, one middle school, and one high school. During the examination period, the middle school student population was located in two schools, but has since been consolidated into a single school due to the closure of the building that formerly held the local high school.

The Central Office is located in the county seat of Inez, Kentucky. At the time of our examination, the Central Office consisted of approximately seventeen positions. In the 2010-2011 school year, the District employed 232 classified personnel and 189 certified personnel, 156 of which were considered full time equivalent teachers. The pupil/teacher ratio was 13.8 students for every one teacher and in school year 2011-2012 the District spent, on average, \$9,987 per student.

Chapter 1

Introduction and Background

For the year ended June 30, 2012, among major funds, the General Fund had \$16,351,458 in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There was \$16,566,165 in expenditures.

The Superintendent

Per Kentucky Revised Statutes (KRS) 160.370, “[t]he Superintendent shall be the executive agent of the board that appoints him and shall meet with the board, except when his own tenure, salary, or the administration of his office is under consideration. As executive officer of the board, the Superintendent shall see that the laws relating to the schools, the bylaws, rules, and regulations of the Kentucky Board of Education, and the regulations and policies of the district board of education are carried into effect... . He shall be the professional adviser of the board in all matters. He shall prepare, under the direction of the board, all rules, regulations, bylaws, and statements of policy for approval and adoption by the board. He shall have general supervision, subject to the control of the board of education, of the general conduct of the schools, the course of instruction, the discipline of the pupils, and the management of business affairs. He shall be responsible for the hiring and dismissal of all personnel in the district.”

The Board

The Board has general control and management of the public schools in the District. The Board consists of five individuals with one person elected from each of the five divisions of the county. All Board members serve a term of four years. While Board members are not compensated for their term on the Board, Board members do receive, as required by KRS 160.280, a per diem of \$75 per regular or special Board meeting or training session attended, not to exceed \$3,000 per calendar year per member. Members also may be reimbursed for actual and necessary expenses incurred within the District while attending to Board business, not to exceed \$3,000 per calendar year per member.

KRS 160.290 outlines the general powers and duties of the Board. This statute indicates that the Board has general control and management of the public schools in its District. Each Board shall generally exercise all powers prescribed by law in the administration of its public school system, appoint the superintendent of schools, and fix the compensation of employees.

Findings and Recommendations

Finding 1: Former Superintendent assigned his spouse to a position that allowed her to maintain her previous salary and activities, which appears to result in grant noncompliance causing the use of grant funds to be questioned.

At the beginning of the 2009-2010 school year, the former Superintendent assigned his spouse, who was also employed by the District, to the Parent Involvement Coordinator position that was paid from Title I, Part A grant funds. The former Superintendent's spouse was originally hired by the District in 1992 as a classroom teacher with her compensation established by the certified employee salary schedule adopted by the District. Because the employee's pay as Parent Involvement Coordinator was based on this salary schedule and a 240 day contract instead of the classified salary schedule and 185 day contract applicable to the employee who previously held this position, the salary paid to the spouse for this position increased the cost to the District by over \$50,000 annually. The District could not provide documentation that written job expectations for the Parent Involvement Coordinator were increased or changed that would explain the need to increase the salary for this position. Further, it appears the activities performed by the former Superintendent's spouse, as the Parent Involvement Coordinator, did not fully comply with the activities specifically associated with the use of Title I, Part A grant funds.

Prior to this assignment, the employee was working as the District's Even Start Coordinator; however, the federal funding that paid for this position ended after the 2008-2009 school year. It appears the activities conducted by the employee when she was the Even Start Coordinator to a great extent remained the same, as did her salary, after she was assigned to the Parent Involvement Coordinator position, which is funded by a different federal grant program with different purposes and required activities. Until the 2012-2013 school year, the Parent Involvement Coordinator position was 100 percent funded by Title I, Part A funds; however, though required by the grant, there were no time and effort reports to support and document the activities performed, nor were any job evaluations documented during this time period.

This situation appears to violate the requirements of KRS 160.380(2)(e) to prevent the appearance of nepotism by a superintendent. Also, the lack of documented job expectations, as well as the actual activities performed by the employee when working as the Parent Involvement Coordinator, results in questioning whether the District's Title I, Part A funding was used in compliance with the grant program.

KRS 160.380(2)(e) contains the statutory requirements related to the spouse, or other relative, of a public school superintendent being employed within the same school district. According to KRS 160.380(2)(e):

Findings and Recommendations

No relative of a superintendent of schools shall be an employee of the school district. However, this shall not apply to a relative who is a classified or certified employee of the school district for at least thirty-six (36) months prior to the superintendent assuming office, or prior to marrying a relative of the superintendent, and who is qualified for the position the employee holds. A superintendent's spouse who has at least eight (8) years of service in school systems may be an employee of the school district. A superintendent's spouse who is employed under this provision shall not hold a position in which the spouse supervises certified or classified employees. A superintendent's spouse may supervise teacher aides and student teachers. However, the superintendent shall not promote a relative who continues employment under an exception of this subsection.

Though this employee was hired by the District as a certified teacher in 1992 and her husband was not appointed as the District Superintendent until July 1, 2005, KRS 160.380(2)(e) states that “the superintendent shall not promote a relative who continues employment under an exception of this subsection.” While the position of Parent Involvement Coordinator may not be considered a promotion, the former Superintendent assigned his spouse to this position at an annual salary of over \$50,000 more than the previous employee’s salary without documenting that the job responsibilities would be more time-consuming, more involved, or require any additional work as justification for the increased salary.

Title I, Part A is a federal grant program that provides financial assistance to Districts and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet state academic standards. Federal funds are allocated to the states using formulas based primarily on census poverty estimates and the cost of education in each state. The states then perform a calculation to determine the allocation of these grant program funds to each school district. Title I, Part A, Section 1118 defines parental involvement as the participation of parents in regular, two-way, and meaningful communication involving student academic learning and other school activities that includes ensuring:

- parents play an integral role in assisting their child's learning;
- parents are encouraged to be actively involved in their child's education at school;
- parents are full partners in their child's education and are included, as appropriate, in decision-making and on advisory committees to assist in the education of their child; and
- the carrying out of other parent involvement activities.

Title I, Part A does require certain parent involvement activities at both the district and school level. Specifically, a written parent involvement policy at both the school and district level must be developed jointly, agreed upon, and distributed to parents of participating children. Similarly, an annual evaluation must be conducted at both the school and district level to determine the effectiveness of the relevant parent involvement policy and parent involvement activities. In addition, all Title I schools must convene an annual meeting to inform parents of their school's participation in Title I, Part A, explain the requirements of the parent involvement statute, the parent's right to be involved, involve parents in the planning, review, and improvement of the Title I program. This involvement includes the joint development of the school-parent compact.

However, Title I, Part A does not require a Parent Involvement Coordinator position, designate the type of position(s) that should conduct the required parent involvement activities, or specify what position should ensure that the activities are conducted. Some districts have met the requirement for parent involvement activities by distributing the tasks required among several positions already employed in the district. Other districts employ individuals specifically classified as the Parent Involvement Coordinator. According to a Program Manager with KDE Audit and Compliance Branch, this position is generally a classified, not certified, position so that a higher salary is not required. The amount paid for administrative salaries reduces the amount of funds available at the school level for Title I, Part A activities.

The Martin County School District approach to meeting the Title I, Part A requirements for parent involvement activities has changed over the years. The individual who held the position of Parent Involvement Coordinator through the 2008-2009 school year was a classified employee who worked a full-time 185 day contract during the school year. She received an annual salary of \$14,665.88 during her last year in this position. At the beginning of the 2009-2010 school year, the former Superintendent assigned his spouse, a certified employee, to this position to work full-time on a year round schedule of 240 days making an average annual salary \$65,146.55 for the four years of employment. For the current school year, the District does not employ a person solely dedicated to perform this function.

When questioned about the need for this increase in salary, as well as, the number of contract days from 185 to 240 for the position, District personnel indicated that the employee assigned had been an Even Start Coordinator, which was a full-time, 240 day contract position with an ending salary of \$64,312.47. When grant funding for the Even Start Coordinator position ended at the close of the 2008-2009 school year, the former Superintendent placed this employee, his spouse, in the position of Parent Involvement Coordinator. According to this employee and the former Superintendent, a provision within the Even Start grant required the continuation of those services so when she took over the position of Parent Involvement Coordinator she was assigned the responsibilities of both programs to sustain earlier efforts and to save money.

However, “[n]either the grant application nor the master agreement required programs to continue Even Start-like service activities beyond the grant cycle,” according to the former Even Start State Coordinator at KDE. In fact, an independent local evaluation performed for the Martin County Even Start (MCES) program during its final year of the grant indicated, in at least two places, that the Even Start services would be discontinued at the end of the fiscal year and that MCES would be closing.

The Even Start grants were funded through Title I, Part B to provide assistance to low-income families for improving the academic achievement of young children and their parents, especially in the area of reading. This activity typically related to ensuring the readiness of children who had not yet entered school. In contrast, Title I, Part A funding was to ensure that school-age children meet the schools’ educational standards. Therefore, while the two programs both involved working with parents, the purpose and target population were different for the two programs’ grant funding sources.

Through interviews with elementary school and central office staff, the auditors determined that the majority of the school level parent involvement activities required by Title I, Part A appear to have been spearheaded by other staff located within the schools. These staff members included the school’s Title I Coordinator, Family Resource & Youth Services Center (FRYSC) employees, and the Guidance Counselor. While the former Parent Involvement Coordinator often attended and assisted at meetings and events held at the five Title I schools, much of the planning and coordination required behind the scenes for such activities to occur, as well as the Title I, Part A school requirements for policy and school-parent compact revisions, annual evaluations, and documentation of activities, were reportedly handled by others.

Based on these same interviews and one with the former Parent Involvement Coordinator, the auditors concluded that the bulk of the employee’s time was spent providing services similar to those she had performed as Even Start Coordinator, despite the fact that funding for the Even Start grant had ended. According to multiple interviews, sign-in logs, and other documentation provided by the District, the former Parent Involvement Coordinator held regular meetings for parents of children under age five at each of the three elementary schools. These meetings included activities for the parent and child to interact together, adult and parenting education for the parents, education for the child, and an opportunity for parents and children outside the school system to become acquainted with their local schools. While usually held in the FRYSC room at each elementary school, it was the former Parent Involvement Coordinator who designed all activities, prepared all materials, and ran all aspects of the meetings.

Chapter 2
Findings and Recommendations

Payroll records document that the former Parent Involvement Coordinator was paid 100 percent from Title I, Part A funds for the first three years and 40 percent for the last year. The following table illustrates the salary paid and the funding source for each of these years.

Table 1: Salary and Funding Source for the District’s Parent Involvement Coordinator

School Year	Annual Salary	Funding Source
2009-2010	\$65,192.47	Title I – 100 percent
2010-2011	\$64,896.00	Title I – 100 percent
2011-2012	\$65,129.52	Title I – 100 percent
2012-2013	\$65,368.22	Title I – 40 percent General – 60 percent

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

The Title I, Part A plans/budgets submitted to KDE report the amount set aside by the District for the category of Parent Involvement, which could be used for salaries, supplies, or travel. The following table illustrates the most recent five years of budget information submitted to KDE for this category.

Table 2: Amounts Set Aside by District for Parent Involvement

School Year	Amount from Title I, Part A	Description of District Set A-Asides
2008-2009	\$32,133	Parent Involvement Coordinator (1 FTE) salary, fringe, supplies, materials, travel.
2009-2010	\$88,657	Parent Involvement Coordinator (1 FTE) salary, fringe, supplies, materials, travel.
2010-2011	\$87,000	Parent Involvement Coordinator (1 FTE) salary, fringe, supplies, materials, travel. Time is spent at schools 100% working with schools on Parent Involvement initiatives.
2011-2012	\$101,692	Parent Involvement Coordinator (1 FTE) salary, fringe, supplies, materials, travel. Time is spent at schools 100% working with schools on Parent Involvement initiatives with additional 1% of grant allocated for school use.
2012-2013	\$48,626	Parent Involvement Coordinator (1 FTE) salary, fringe (\$33,115). Time spent in schools is 40% Title I funded (60% GF funded) working with schools on various parent involvement activities and programs. Additional 1% of grant allocated for school activities.

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

Note: For the 2008-2009 school year, the salary paid to the Parent Involvement Coordinator was for the classified employee who was paid \$14,665.88 based on the 185 day contract.

Findings and Recommendations

Despite the contradiction between the employee's activities and the funding source of her salary, the District was unable to provide written job expectations and no other documentation that required, encouraged, discouraged, or even disallowed such a revised approach to the Parent Involvement Coordinator position. In addition, the former Parent Involvement Coordinator appeared to have received only one evaluation during her four years in that position and it was completed during the 2012-2013 school year by the current Title I District Administrator.

Besides a single annual reimbursement request discussed in Finding 6, the only written documentation of the work performed by the former Parent Involvement Coordinator was an extended calendar she submitted to her supervisor each month. The District required all employees contracted to work longer than the standard 185 day school year schedule to submit such calendars on a monthly basis. While the extended calendars document which days are noncontract days, leave days, and work days, the calendars do not detail the type of work performed each day.

In conclusion, for each of the past four years, the District has used Title I, Part A funds to pay a certified employee with an extended 240 day contract to perform services as Parent Involvement Coordinator at a salary over \$50,000 higher than her predecessor. This resulted in well over \$200,000 in additional salary paid during a four-year period for a Parent Involvement Coordinator that could have been used to benefit the District's students. While the activities performed had the potential to benefit the District, the use of Title 1, Part A funds may have been misused and not in compliance with the intended use of the grant funds because the activities focused on parents with children who were not of school age rather than parent involvement activities for children attending Title 1 schools.

Recommendations

While the District has already eliminated the position of Parent Involvement Coordinator for the current school year, we recommend that staff assigned to similar positions be provided with specific, written job expectations and required duties, be required to document the activities performed on a daily basis, and use the school's sign-in logs to support those work activities. Activities for this position should be in compliance with the specific grant program requirements. With the understanding that a higher program administrative salary reduces the funds available for activities at the school level, any future hiring of an employee as a Parent Involvement Coordinator should take into consideration the following:

- the educational and experience requirements needed;
 - whether the position requires a 240 day (year round) or 185 day (school year only) schedule;
 - whether a classified or certified employee is required; and
 - whether a part-time or full-time employee is necessary.
-

Findings and Recommendations

Finding 2: A local scholarship fund administered by the former Superintendent, benefitted two of his children, yet District staff had no or minimal knowledge of the scholarship or recipient selection process.

Externally funded scholarships were awarded to a small number of District students by the former Superintendent, yet staff were either not aware of its existence or only minimally aware, which created a risk of an inconsistent application process and biased selections for scholarship funds. This local scholarship fund was established in 1952 and the original contract establishing the scholarship with the District mandates the specific procedures to be followed to grant scholarships to eligible candidates. Due to the District’s lack of knowledge of the scholarship and that five of the last fourteen scholarship recipients during the last four years were relatives of District personnel, the District does not appear to have complied with the scholarship’s mandated procedures, nor did the application and selection process appear consistent and impartial.

In 1952, Mr. Edward Tuthill established *The Tuthill-Martin County, Educational Fund* (Tuthill Fund), a scholarship fund for the “assistance of worthy, needy young men and women of Martin county Kentucky, in securing an education.” See Exhibit 1 for documentation establishing the scholarship fund. Mr. Tuthill transferred a total of 552 shares of stock in eight different publicly traded companies to the Board of Education, with the idea that the income derived from these securities be used for this purpose. These securities were to remain separate from the District’s public funds and the District Treasurer was to be the Treasurer of the Tuthill Fund keeping a full and complete record of the financial activity.

Through a review of expenditures, auditors discovered this scholarship. The current District Treasurer was not able to provide any information related to the application or selection process associated with the scholarship fund; however, she was able to provide a copy of the 1952 contract. In addition, the Treasurer provided the following information regarding the number of scholarships awarded during the past four school years and the amount of each scholarship.

Table 3: Annual Number and Amount of Scholarships Awarded from the Tuthill Fund for the Previous Four School Years

School Year	Number of Scholarships	Amount of Scholarship	Total Amount Awarded
2009-2010	4	\$500	\$2,000
2010-2011	6	\$500	\$3,000
2011-2012	1	\$500	\$500
2012-2013	3	\$750	\$2,250
4 Year Totals	14 Scholarships		\$7,750

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

According to the contract establishing the scholarship, an eligible scholarship applicant must be a Martin County resident for at least the past twelve months, a graduate from an accredited high school in Kentucky, and in need of assistance. In order to receive the money, selected applicants must be registered and in attendance at a postsecondary institution. If a scholarship recipient desires additional aid for the next college year, “such person shall apply again in the same manner and form as applying for the original grant.”

The “manner and form” for applying, as outlined in the contract, states that eligible persons must create and submit written applications by June 30th of each year that detail their name, age, residence, name of high school, and a statement that “said applicant proposes to attend some Educational Institution in the state of Kentucky of College or Junior College rank and is in need of assistance.” These “applications” are then submitted to the Superintendent, who along with two other individuals specified by name in the contract and their successors, are to serve as a committee who will select the recipient(s) at a meeting to be held during the month of July. This committee is responsible for determining who receives a scholarship, how many scholarships will be provided, the amount of each scholarship, and when such payment will be made. The contract specifies that the successors of the named individuals are required to be disinterested citizens and residents of Martin County that are not Board members or employees of the District.

None of the four individuals interviewed about the Tuthill Fund knew who, if anyone, was presently serving on the selection committee. The impartiality of the committee is of concern because recent recipients of the Tuthill Fund include the nephew of the Treasurer’s spouse, the child of a former Principal, and two children of the former Superintendent, one of whom received the scholarship twice. Though these recipients may have been deserving, the lack of knowledge about the scholarship and the lack of transparency in the application and selection process make the process questionable as to its fairness and whether the true intent of the contract is being upheld by the District. In addition, despite the June 30 application deadline and the requirement for the selection meeting to occur in July, the District issued checks during the month of June for two scholarships in 2011 and all three scholarships awarded in 2013, which is a definite breach in contract terms.

According to the Sheldon Clark High School Guidance Counselor, the Guidance Counselor’s Office has traditionally compiled a folder with information concerning the local scholarship opportunities and distributed this folder in January to each high school senior. All seniors were required to document that they received the folder and all applications for these local scholarships were due on the same day. The Guidance Counselor delivered the submitted applications to the scholarship sponsors. The sponsors then selected their scholarship recipient instead of involving District staff.

Findings and Recommendations

While the Tuthill Fund is a local scholarship, the Sheldon Clark High School Guidance Counselor, now in her sixth year, had never heard of the scholarship and any information concerning the scholarship has not been included in the folder, therefore, District students were unaware of the opportunity to apply for the Tuthill scholarship. According to the Guidance Counselor, a retired staff person mentioned this scholarship as another potential source of scholarship funding and indicated that the application process was handled by the Board of Education. When the Guidance Counselor approached the former Superintendent’s Office about the matter, she was told by the former Superintendent’s Secretary that the Tuthill Fund was not available. The Guidance Counselor took that to mean that the funding source no longer existed. However, Table 3 clearly documents that three individuals received a total of \$2,250 in June 2013. Two of the recipients were the former Superintendent’s children.

Despite the awarding of scholarship money, the District could not provide any applications or documentation of how the selections were made. Likewise, neither the current Superintendent, who came on board on July 1, 2013, nor the current Board Chair, who became a Board member in January 2011, was aware of the existence of the Tuthill Fund. Neither official had any knowledge that the District had securities/proceeds at the local bank related to the Tuthill Fund or whether the opportunity for students to apply for the Tuthill Fund had ever been publicly advertised.

Recommendations

We recommend that the Board investigate the Tuthill Fund to determine its value and the financial activity of the account. Further, we recommend the Board work to ensure compliance with all of the relevant terms of the contract that originally established the scholarship. If funds are available to award as scholarship grants, we recommend that the Board ensure that the application process is documented and appropriately advertised along with the names of the members of the selection committee. A description of the Tuthill Fund scholarship, along with application materials, should be included in the local scholarship information provided each January to all high school seniors. Though the selection of the recipients is required to occur after the close of the school year, the District should ensure the transparency of the scholarship, selection process, and its recipients.

Finding 3: Former Superintendent’s Board approved contract, had redundant or unclear benefits.

The contract of the former Superintendent contained four contract benefit provisions that were either redundant or lacked clear criteria to allow for Board oversight. While these contract issues were not present in the current Superintendent’s contract, one provision in the former Superintendent’s contract continues to impact the current Board.

Provision 16 of the former Superintendent’s contract stated that “[i]n the event that the contract is terminated, not renewed or not renegotiated, [] shall be reassigned to his previous or comparable position at the Martin County Board of Education central office.” This provision apparently took effect when the Board voted at its regularly scheduled January 8, 2013 meeting not to renew the contract with its former Superintendent. As a result of this vote, the contract expired on June 30, 2013. Instead of returning to a position at the Central Office, the former Superintendent was placed in the position of special education teacher at an elementary school, which is a position similar to how he started his career, but had left when hired as a principal approximately 16 years ago. This personnel action involving *Provision 16* in the former Superintendent’s contract is in litigation due to a lawsuit filed by the former Superintendent. Given that the courts will decide the propriety of this contract provision and the resulting personnel action impacting the former Superintendent, auditors have not addressed or opined on this specific contract provision.

Provision 11 of the contract stated that the Board would pay the expense if the former Superintendent pursued continuing education, but it did not contain clear criteria to allow for Board oversight of the expense or the type of continuing education approved by this contract provision. The provision, written in vague language, stated that the “Superintendent is encouraged to further his formal education at recognized colleges and universities without loss of pay or vacation, at the expense of the Board.” The lack of specificity in this provision limited the Board’s oversight of the former Superintendent in the following areas:

1. No limitations or requirements were developed regarding the type of further education expected by this provision. The phrase “further his formal education at recognized colleges and universities” would have allowed the former Superintendent to work towards any undergraduate or graduate degree, including those unrelated to education, such as a MBA, JD, MD, etc. The contract provision would also allow for any college courses to be taken, including those not necessarily applicable to a specific degree.
2. No procedures or limitations were established regarding how the cost of the education should be paid, how the cost would be reviewed or approved, or whether there were limits on the amount that would be paid to further the former Superintendent’s education. The phrase “at the expense of the Board” is the only guidance provided related to cost.
3. No expectations as to the former Superintendent’s performance were defined to ensure that the Board only paid for classes that were successfully completed. The provision would not prevent the Board from being responsible for paying the tuition for a class that the former Superintendent failed to successfully complete.

4. No provision to address how the Board would protect this educational investment, such as requiring the former Superintendent to remain in the employment of the District for a period of time, at the discretion of the Board, after the completion of a course or repay the Board for the value of the education provided if the former Superintendent resigned.

According to the former Superintendent, this provision was used to continue pursuing his doctorate in education throughout his tenure and he paid each term's tuition directly with the District credit card. Between July 2011 and June 2013, a total of \$14,211 in tuition and related expenses was charged by the former Superintendent and paid by the District.

While the former Superintendent indicated that he discussed his educational progress and expenditures during the Superintendent Matters portion of the Consent Agenda at relevant Board meetings, such an approach may provide insufficient detail and not provide the Board with a clear understanding of the cost and other aspects of the continuing education. Only the total amount owed to the credit card vendor is listed within the Treasurer's Orders and Warrants, which was also presented to the Board solely on the Consent Agenda. Therefore, unless specifically requested to move this information from the Consent Agenda to a meeting agenda item, the Board would likely not discuss this item in public. Further, the Board may not be aware of specific information related to this benefit, such as the amount of the expenditure, the type and purpose of the education, who is providing the education, and whether the course work was successfully completed. Though it is our understanding that the former Superintendent will be eligible to receive his doctorate in education in December 2013, the lack of oversight provided by the Board could have resulted in the District continually funding tuition for classes that were not related to education and/or were not successfully completed.

Both *Provision 9* and *Provision 18* of the former Superintendent's contract provide for the payment of travel inside the District using two different methods. *Provision 9*, in part, states that the "Board shall reimburse the Superintendent at the maximum rate allowed by law for the use of the Superintendent's personal vehicle for business purposes, both **inside** (emphasis added) and outside the district." Likewise, *Provision 18* provides that the "Superintendent shall be paid the allowance of three hundred dollars (\$300) per month for **in county** (emphasis added) travel." While these two provisions are redundant, in that they would have allowed the former Superintendent to receive both mileage reimbursement and an allowance of \$300, the former Superintendent actually only received the \$300 allowance and did not submit any requests for reimbursement for in county travel during the examination period.

Findings and Recommendations

Recommendations We recommend the Board and its attorney ensure that current and future employment contracts properly define all intended benefits. Those benefits should be clearly stated, not redundant in nature, and provide clear criteria as to how the Board will monitor the benefit. If educational benefits are provided, the contract should contain a provision to address retention requirements and an associated repayment schedule if the employee resigns prior to the employee meeting the required retention period. We further recommend that the Board specifically review and approve any expenses related to the Superintendent, who is an employee of the Board, and not just approve them as part of a Consent Agenda.

Finding 4: The Board did not adhere to statutory requirements related to the evaluation of the former Superintendent.

While District policy requires that an annual summative evaluation be made available to the public upon request, Board meeting minutes do not document that a summative evaluation of the former Superintendent was discussed and adopted in an open meeting. KRS 156.557 stipulates that the “summative evaluation of the superintendent shall be discussed and adopted in an open meeting of the board and reflected in the minutes.” Without documentation of these actions in the Board minutes, it is not known whether the Board complied with the statutory requirements related to the former Superintendent’s evaluation. Furthermore, the former Superintendent’s evaluations for the period of July 2011 through June 2013 were requested by auditors but the December 2010 evaluation was the only evaluation provided.

While the former Superintendent’s employment contract includes a provision that the Board shall annually provide the former Superintendent with an evaluation, it is District policy 02.14 that provides more specific requirements. This policy requires that the “Superintendent shall be evaluated annually in writing by the Board in January using the established evaluation instrument, and the summative evaluation shall be made available to the public on request.” However, the only written evaluation provided to our auditors upon request was the evaluation from December 2010.

Through a review of Board meeting minutes for the past three school years, it is documented each December that the Board discussed an evaluation of the former Superintendent in closed session. The meeting minutes document that after returning from a closed session, that a motion was made and passed to approve the former Superintendent’s evaluation. There is no other documented information that a summative evaluation was discussed and adopted in an open meeting as required by KRS 156.557 during our examination period.

KRS 156.557(6) was amended effective June 25, 2013. While the changes do not affect our examination period, the current requirements related to superintendent’s evaluations are as follows:

- (a) Each superintendent shall be evaluated according to a policy and procedures developed by the local board of education and approved by the department.

Findings and Recommendations

- (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.

Recommendations

We recommend the Board not only perform the superintendent’s evaluation annually but also present a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, the Board should comply with District policy and KRS 156.557(6) by ensuring that the written evaluations are performed annually and that the summative evaluation is available to the public upon request.

Finding 5: The District did not have a nepotism policy though there are a number of relatives working in the District.

Auditors were informed of and investigated multiple familial relationships throughout the District. While none were determined to violate District policy or the statutory requirements, except for the issues noted in Finding 1, it was found that a nepotism policy had not been adopted to address the potential or perceived conflicts of interests that exist when relatives work in the same organization. In addition, the District’s Hiring policy only addresses the hiring of relatives of the superintendent. Considering the concerns expressed about this issue currently and in the past, the Board would benefit from developing a comprehensive policy to govern the employment of relatives.

According to the District’s Hiring policy, the Relationships’ section states that a “relative of the Superintendent shall not be employed except as provided by KRS 160.380.” A relative is defined as father, mother, brother, sister, husband, wife, son, daughter, aunt, uncle, son-in-law, and daughter-in-law within KRS 160.380. However, KRS 160.380 also discusses prohibitions in employing relatives of school principals.

The District did not have a policy to address employees supervising or evaluating a relative. Considering that this is a small community and multiple family members are and will likely be employed within the District, a policy should be adopted to address the supervision and other aspects of a relative’s employment to guard against nepotism or even the appearance of a conflict.

Findings and Recommendations

According to a memorandum issued to the District’s former Superintendent on June 15, 2010, nepotism within the District was investigated previously by Kentucky’s Office of Education Accountability (OEA) due to allegations received by that office. This OEA memorandum reported findings of fact, conclusions, and resolutions by OEA. The allegation related to nepotism was that the former Superintendent had several relatives employed in the district that did not meet the nepotism exemptions in KRS 160.380. While 10 employees were alleged to be employed in violation of the anti-nepotism statute, OEA concluded that “[a]ll district personnel alleged to have been in violation of KRS 160.380 are legally employed.”

While the Superintendent discussed within the OEA memorandum is no longer the District Superintendent, he is still employed as a teacher within the District. In addition, the former Superintendent’s wife is also employed as a teacher at a different school within the District. These employees, as well as others, continue to have relatives that may be in positions of management within the District with the authority to potentially impact the employees’ evaluations or other aspects of their employment. However, the District has no policy related to the supervision of relatives.

Recommendations

We recommend that the Board adopt a comprehensive policy to address nepotism involving the employment and supervision of relatives. The policy should reflect all prohibitions relating to the employment and supervision of relatives required in KRS 160.380, not just those of the superintendent. In addition, this policy should address the supervision and other aspects of a relative’s employment to guard against nepotism or even the appearance of a conflict. While it is not intended for the policy to prohibit the hiring of relatives, it should include a provision that family members would not have a direct line of supervision over another family member and that a family member not perform the employee’s evaluations.

Finding 6: One employee submitted a reimbursement request for the entire year instead of monthly, as required.

During the examination period of July 2011 through June 2013, auditors reviewed the reimbursements submitted by Board members, central office employees, and other employees specifically identified in the complaints made to our office. From this review, we found that one District employee submitted a reimbursement request for the entire year instead of monthly, as required by policy, and three other reimbursements from other District employees had missing information.

Findings and Recommendations

Board members and District employees can request reimbursement for job related travel within the District and approved travel outside the District and state. The District follows the state's reimbursement rate for mileage. According to District policy related to food reimbursement, "[f]or authorized trips that result in an employee having to stay overnight, the employee shall be entitled to \$20 for return travel days and \$30 for each day spent outside the District." Other expenses, such as parking, lodging, and gasoline, must be substantiated by a receipt. For Board members, the policies state that spousal and personal entertainment expenses will not be reimbursed. For District employees, the policy states that the "individual employee shall pay for expenditures of a personal nature, such as telephone calls, movies, alcoholic beverages and similar expenses."

Related to processing the reimbursement forms, the policy requires the following:

No request for travel reimbursement will be considered unless filed on the proper form and accompanied by the proper itemized receipts. Reimbursement requests must be submitted within one (1) week from the date the expense was incurred. 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.

For the 2011-2012 school year, there were 63 reimbursement requests submitted by five Board members that totaled \$1,757.30. In the 2012-2013 school year, there were seven Board members with a cumulative 100 reimbursement requests that totaled \$1,410.95. In general, Board members received reimbursement from the District for their mileage to and from board meetings and to attend a Kentucky School Board conference each year. The reimbursements reviewed by auditors were detailed and documented that a sufficient review was performed before the reimbursements were made.

For central office employees, there were 11 employees that submitted 64 reimbursement requests that totaled \$13,006.95 in the 2011-2012 school year. Of those requests, only one lacked a detailed business purpose. For the 2012-2013 school year, there were 12 central office employees that submitted 78 reimbursement requests that totaled \$13,549.59. Of those requests, one form was incomplete as to where the employee was traveling and another form did not have an approval signature before payment.

Of the District employees identified in the complaints received by this office, one employee, whose position requires travel between the different schools, was reimbursed for a single annual mileage request of \$1,047.94 for the entire 2011-2012 school year that was not submitted until the fall of the following school year.

Findings and Recommendations

A reimbursement request was not made by this employee during the 2011-2012 school year until an external investigation questioned the employee's activities and pointed out that no reimbursement requests had been submitted. The employee's stated reason as to why reimbursement requests for mileage were not made prior to the investigation was that the employee considers travel costs as part of the salary for this position and that classroom teachers do not receive reimbursement for traveling to work. However, the employee's supervisor stated that a mileage request was done by others in similar positions and that this employee should do one as well. However, this employee did not submit a reimbursement request for the 2012-2013 school year though the employee worked in the same position that required travel to different schools.

Because the timing of this reimbursement request clearly violated the District's reimbursement policy, auditors attempted to review the validity of the travel by corroborating it with a specific elementary school's sign in/out sheets. The mileage reimbursement form claimed the employee traveled to the elementary school 31 days during the 2011-2012 school year, yet the sign in/out documentation only supported visits for 19 of the 31 days or 61 percent of the time. Auditors also noted that three of the travel days claimed were actually during the District's spring break, when sign in/out sheets would likely not have been used since the school was closed. In addition, there were five visits on the school's sign in/out sheets that were not reflected on the employee's reimbursement requests.

According to the employee, the District did not have a strict sign-in policy for employees, only visitors. Therefore, the validity of the mileage requested is questionable based on the available documentation.

Recommendations

We recommend the District deny reimbursement to a Board member or District employee when the forms are incomplete or not submitted within the timeframe required by policy. While incomplete requests can be corrected and resubmitted timely, an annual reimbursement request would require an extensive review to determine its validity. In addition, expenditure reimbursements for the school year should be submitted and paid timely so that the District's financial statements will represent the actual expenditures for that fiscal year.

Finding 7: The District did not have a policy related to the use of the Fleet One card and the cardholders are not required to sign a user agreement.

During the examination period of July 2011 through June 2013, the District spent \$18,359 using the Fleet One card, yet the District did not have a specific policy for the use of Fleet One cards and user agreements were not required. Fleet One cards are used by the maintenance employees and school custodians within the District. These employees are authorized to use these Fleet One cards for gas purchases for the District's vehicles, mowers, and other lawn equipment. The maintenance employees were each assigned a card to use for the District vehicles as needed. The school custodians use the Fleet One card that the Assistant Superintendent maintains in his office.

Findings and Recommendations

According to the Assistant Superintendent, all employees who use the Fleet One cards are told verbally the proper use of the cards and to complete a log sheet on a monthly basis, in addition to turning in their gas receipts. It is an unwritten practice that the receipts and log sheets are to be turned into the central office staff monthly. If the District finance staff does not have the supporting documentation, the staff requests receipts and log sheets from the maintenance employees and school custodians. The finance staff then reconciles the receipts and the log sheets to the purchases listed on the Fleet One monthly statements.

For the examination period, the auditors reviewed a monthly statement of the Fleet One card purchases from each quarter. This review included the documentation attached to the statements, such as activity logs, invoices, purchase orders, receipts, and log sheets. We found 12 of the 32 log sheets selected for review were missing and the monthly purchase orders did not consistently contain adequate information to support the reason for purchases or the Assistant Superintendent’s approval. However, the purchases were supported by receipts and the pattern and amount of purchases did not indicate that the Fleet One cards were used in a questionable manner.

Recommendations

We recommend the Board develop a formal policy and/or procedures for the use of the Fleet One cards. The policy and/or procedures should require that a user agreement document must be read and signed before an employee is permitted to use a District Fleet One card. We recommend that the adopted procedures include the supporting documentation specifically required and that the purpose for the purchase is documented. The review and approval procedures required prior to payment should also be included in the written procedures. This policy or procedure should also include a timeframe for employees to turn in receipts for the purchases made with the Fleet One cards and the action that will be taken if the required documentation is not provided.

Finding 8: District Maintenance and Transportation staff do not maintain accurate inventories.

The District’s store account purchases were supported by detailed invoices that were recorded thoroughly in the District’s information system (MUNIS); however, this information was not being used to develop and maintain an electronic inventory database. Our review of purchases within the Maintenance and Transportation Departments determined that the Purchase Order (PO) was not consistently completed and the purpose for the purchase was periodically omitted. It was also found that work orders were not required to document the inventory used for a project or assignment, but the District had developed a new policy requiring this process for school year 2013-2014. With detailed purchasing information and work order information available regarding the parts and equipment used by the District, it would be beneficial for the District to implement an electronic inventory system to monitor and track the inventory maintained in these departments.

Findings and Recommendations

The District named certain transportation and maintenance employees as authorized users of store accounts at three local vendors: Advanced Auto Parts; Evans Hardware; and Lowe’s. District policy requires that the employee submit a copy of the PO, along with a detailed and signed receipt, to the Central Office as soon as possible and prior to the arrival of the billing statement from the store. The table below illustrates the amount of expenditures for the most recent two fiscal years at the three local vendors.

Table 4: Store Accounts Used by District’s Maintenance and Transportation Departments

Store	2011-2012 Expenditures	2012-2013 Expenditures
Advanced Auto Parts	\$2,199.95	\$3,419.50
Evans Hardware	\$26,909.13	\$56,677.24
Lowe’s Companies, Inc.	\$338.61	\$1,062.26

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

To determine compliance with District policy, the auditors reviewed four monthly statements from each fiscal year, or 33 percent, of the statements issued by the District’s largest store account vendor Evans Hardware. Auditors found that the vendor’s invoices were extremely detailed, included the electronically captured signature of the buyer, and referenced the PO number presented at the time of purchase. However, the POs provided limited information as to the purpose of the purchase. In addition, the District financial staff appeared to fully use the invoice description field in MUNIS to include items purchased, the shipping location noted, and the date of purchase, prior to issuing checks for Board approval.

While detailed purchasing information was maintained, along with the detail provided by this vendor on their invoices, the District did not have a system to track the items purchased by these two departments. Interviews with both the Director of Maintenance and Director of Transportation indicated that an accurate and up-to-date inventory system was not used by either department during the examination period. Both departments were working with non-electronic inventory listings that had not been fully updated in several years.

Findings and Recommendations

In addition, the District did not require transportation or maintenance employees to submit work orders as documentation to support their projects/assignments' cost and the inventory items used. Without proper documentation of the inventory items used, an up-to-date inventory listing could not be maintained. However, during the course of this examination, District staff instituted a new policy, effective for the 2013-2014 school year, requiring work orders be completed and submitted by employees to their respective directors via email or fax. The new form requires the documentation of such information as: location; date and time of order, arrival, and departure; quantity, name, and amount of materials used; description of work; listing of miscellaneous charges; listing of labor charges; and a listing of employees on the job.

A regular inventory check would strengthen the controls over tracking the usage of inventory and identify loss of inventory providing an opportunity to examine the loss in a timely manner. In addition, the lack of an up-to-date inventory system may assist in creating waste by allowing for items to be purchased that were already available in the departments' respective storerooms.

Recommendations

We recommend that the District ensure that POs include the purpose for the purchase as required. In addition, we recommend that the District ensure compliance with the new policy requiring the completion of work orders so that inventory used can be removed timely to maintain an accurate inventory. We further recommend that both the Maintenance Department and the Transportation Department maintain an accurate up-to-date electronic inventory database so that regular inventory checks can be conducted to monitor inventory to reduce unneeded or duplicate purchases and prevent inventory loss due to theft.

EXHIBIT

CONTRACT.

THIS AGREEMENT; made and entered into this _____ day of _____ A.D. 1952, by and between, Edward Tuthill, of Salina, Kansas, party of the first part and the Board of Education of Martin county, Kentucky, party of the second part,

WITNESSETH:-

That Whereas: It is the desire of the first party to establish a fund for the assistance of worthy, needy young men and women of Martin, county Kentucky, in securing an education, and

Whereas; It is the desire of the second party that this assistance be secured for the use and benefit of worthy, needy young men and women of Martin county, Kentucky and their further desire and purpose to cooperate fully in setting up and operation of said fund;

NOW THEREFORE: in consideration of the premises and the terms and conditions hereinafter set out and the further consideration that the first party has assigned, conveyed, set over and transferred certain valuable securities unto the second party, to be delivered unto the second party, simultaneously with the execution of this contract by both parties hereto.

Said securities are described as follows, to wit:-

- (1) 10 shares of Stratton Terstegge Terstegge Co, certificate # 340
- (2) 100 " " Kentucky Rock Asphalt Co, " # 3218
- (3) 100 " " Northern States Power Co, " # TCCI790
- (4) 12 " " W. Va Water Service Co, " # CB10730
- (5) 10 " " General Foods Corporation, " # NC76269
- (6) 70 " " Atlanta Gas Light Co, " # NC034,
- (7) 50 " " Twin Coach Company, " # NO19831,
- (8) 100 " " Kentucky Rock Asphalt Co, " # 3217,
- (9) 100 " " Shakleton Piano Company, " # 343,

The parties hereto have agreed as follows.

- 1. The name of the said Fund shall be "The Tuthill-Martin County, Educational Fund"
- 2. The first party may in his discretion and if he so desires and others may contribute make further contributions/ to said fund and such contributions made

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and, or other persons

hereafter by first party/shall be deemed part hereof and subject to the same terms and conditions as herein set out.

3. It is agreed that all securities and monies derived therefrom and belonging to this fund shall be held as a separate entity and shall in no event be intermingled with the public or other funds held by second party and that all securities shall be kept in a safety deposit box at the Inez Deposit Bank and all monies accruing to or belonging to this fund shall be kept in a separate account in the Inez Deposit Bank.
4. It is agreed that the treasurer of the Martin County Board of Education and his successors in office shall be the treasurer of the Tuthill-Martin county Educational Fund and that he shall execute a surety bond with some good bonding company, sufficient to cover the assets of said fund, and second party agrees to pay all premiums on said bond and keep same in full force and effect at all times. The second party agrees at pay any and all expense incurred in the administration of the fund and that no part thereof shall be paid out of said fund also to furnish and keep a full and complete record and account of the receipts and expenditures from said fund and that the same shall at all times be open for the inspection of any interested party; that the second party shall render an annual accounting of said fund, which accounting shall contain an inventory of all securities and assets of said fund. Said accounting shall be filed in the office of the county court clerk of Martin county, Kentucky on or before the 1st day of June each year hereafter. All checks on said fund shall be drawn by the Treasurer and countersigned by the county superintendant of schools, and their successors in office.
5. It is agreed by the parties hereto and the following named persons are hereby appointed as a Committee to select the persons to whom aid is to be granted hereunder and determine the amount of such grants and the time when they shall be paid. Said Committee shall be composed of the following named persons.

page 3.

(a) The County Superintendant of Schools of Martin, County and his successors in office.

(b) Earle Cassady and his successors herein,

(c) Frank M. Crum and his successors herein,

The members of said Committee shall serve without compensation. The said Earle Cassady and Frank M. Crum may serve as members of said Committee at their pleasure and either of them may by written instrument appoint their respective successors in office and their said successors shall be disinterested citizens and resident of Martin county, Kentucky and not a member of the county Board of Education nor an employee thereof and said successors shall serve without compensation

6. It is agreed by the parties hereto that the following condition and provisions shall determine the eligibility of any and all persons to apply for and receive grants from said fund.

(a) No person shall be eligible to apply for or receive grants from said fund unless said person is an actual, bona-fide resident of Martin county, Kentucky and has had an actual, continuous residence in said county and state for a period of at least twelve months next preceding the 30th day of June in the year in which such application is made and said person and persons shall have graduated from some accredited High School in Kentucky and no grant shall be paid to any person until such person shall have been selected and appointed by the Committee to receive such grant and until such person so selected and appointed shall have been registered in and in actual attendance in some Educational Institution in the state of Kentucky of Junior College or College rank.

7. It is agreed that any person who is eligible hereunder to make application for a grant from said fund shall make such application by filing with the Superintendant of schools of Martin County a written application for such grant on or before the 30th day of June in the year in which such application is made and such application shall state the name, age and residence of applicant and the

Page 4. that said applicant has had an actual, continuous residence in the state of Kentucky for a period of not less than one year next before the date of such application and shall give the name of the High School from which applicant has graduated and that said applicant proposes to attend some Educational Institution in the state of Kentucky of College or Junior College rank and is in need of assistance. It shall be the duty of the County Superintendent of Schools to endorse on said application the date when the same was delivered to him and keep same on file.

8. It shall be the duty of the Committee appointed herein to select persons to receive grants to meet sometime each year in the month of July to consider applications for aid and said meeting shall be at the office of the Board of Education of Martin county, Kentucky. It is agreed that the county Superintendent of Schools shall give at least 10 days notice, which must be written to the other members of the Committee, of said meeting of the time and place of said meeting, also such notice shall be given to all applicants for aid. Said applicants for aid shall appear before the said Committee at the time and place. If a quorum of said Committee is present either in person or by verified proxy the Committee shall proceed to consider said applications and may in their discretion require such evidence as they deem necessary to make their choice of the person or persons to whom aid from the fund is to be granted and determine the amount of such aid and each member of said Committee shall have but one vote. The Committee may in its discretion select from such applicants as are eligible hereunder one or more persons to receive aid from the fund and determine if possible the amount to be granted to each selectee and the time when such payment shall be made, taking into consideration the amount of funds available, provided however that no grant hereunder shall be made for a period longer than the college year and if any selectee should cease attending school or otherwise become ineligible during the college year, the grant to such person shall cease

page 5. when such person withdraws from school or otherwise becomes ineligible. If at the end of any college year any person to whom a grant has been previously made, desires additional aid for the next college year, such person shall apply again in the same manner and form as applying for an original grant.

9. It is understood and agreed that no expenditures shall be made from the corpus of the fund on any account, but that all expenditures shall be made from the income from said fund.

10. It is agreed by the parties hereto that this agreement shall be recorded in the office of the county court clerk of Martin County, Kentucky, together with the resolution of the Board of Education of Martin County, authorising and directing its execution and acknowledgment by the Chairman and Secretary of the said Board of Education, at the expense of the second party.

In testimony whereof: the parties hereto have hereunto subscribed their names, the first party in person and the second party by Brown Allen, Chairman of the Board of Education for Martin County, Kentucky, and Emmons Preece, Secretary of said Board, pursuant to a resolution of the Board approving this agreement and directing them to execute and acknowledge the same for and on behalf of said Board of Education, this the 5 day of April 1952.

Edward Tuthill x

THE BOARD OF EDUCATION OF
MARTIN COUNTY, KENTUCKY.

By Brown Allen
Chairman,

Emmons Preece
Secretary,

STATE OF ~~KANSAS~~ MISSOURI
COUNTY OF JACKSON SS:

Be it remembered that on this 14th day of April A.D. 1952, before me, a Notary Public, duly commissioned in and for the county and state aforesaid, personally came Edward Tuthill, who is personally known to me to be the same person who executed the foregoing instrument of writing, and the said Edward Tuthill duly acknowledged the execution of the same.

In witness whereof, I have hereunto set my hand and affixed my official seal at Kansas City, Mo. ~~Kansas~~ the day and year last above written. My commission expires on the ___ day of ___ 19___
Francis Brewer
(seal here)

STATE OF KENTUCKY.

MARTIN COUNTY, SCT.:

I, Dennis Spaulley the undersigned Notary Public in and for the county and state aforesaid, do hereby certify that the foregoing instrument was produced to me in said county by Brown Allen Chairman of the Board of Education of Martin County, Kentucky and Simmons Preece, Secretary of said Board, and acknowledged and delivered by them and each of them to be their act and deed as Chairman and Secretary of said Board and the act and deed of said Board as authorized by a resolution of the said Board.

In testimony whereof, witness my signature this 5 day of April 1952.

My commission expires the 14 day of January 1954

Dennis Spaulley
Notary Public for Martin County
Kentucky,

MARTIN COUNTY SCHOOL DISTRICT BOARD RESPONSE



MARTIN COUNTY BOARD OF EDUCATION

P.O. Box 366 • Inez, Kentucky 41224
Phone (606) 298-3572 • Fax (606) 298-4427

Steven C. Meadows ~ Superintendent
Craig Preece ~ Chairperson
Roger Harless ~ Vice Chairperson

Kathleen Price ~ Board Member
Donetta Harless ~ Board Member
Gary Ball ~ Board Member

To: Adam Edelen
Auditor of Public Accounts
209 St Clair Street
Frankfort KY 40601

From: Craig Preece, Board Chair
Martin County School District

Date: October 16, 2013

Mr. Edelen,

When first notified that your office would be conducting an examination of certain administrative activities in our district, the thought of yet another negative blow to the integrity of Martin County Schools was not a pleasant one. However, it was quickly welcomed as an additional strategy to help us correct course in several areas of district operations. Our Board is committed to student achievement and we are united in keeping this the top priority of our district.

I think it is important to know that over the past year, this board has determined to bring about needed change in how we operate as a public school system--most notably, a change in the office of superintendent. Your report has affirmed the actions taken to date and has also revealed questionable activities previously unknown to this Board. And, although several of the concerns reported to your office could not be substantiated, the report did result in eight (8) findings requiring a response. As well, in responding to the findings, our board appreciates the recommendations provided to us as we strive to ensure public trust is restored, public funds are appropriately managed, and the children of Martin County Schools receive a high quality education.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "C. Preece".

Craig Preece

Finding 1: Former Superintendent assigned his spouse to a position that allowed her to maintain her previous salary and activities, which appears to result in grant noncompliance causing the use of grant funds to be questioned.

Recommendations: While the District has already eliminated the position of Parent Involvement Coordinator for the current school year, we recommend that staff assigned to similar positions be provided with specific, written job expectations and required duties, be required to document the activities performed on a daily basis, and use the school's sign-in logs to support those work activities. Activities for this position should be in compliance with the specific grant program requirements. With the understanding that a higher program administrative salary reduces the funds available for activities at the school level, any future hiring of an employee as a Parent Involvement Coordinator should take into consideration the following:

- the educational and experience requirements needed;
- whether the position requires a 240 day (year round) or 185 day (school year only) schedule;
- whether a classified or certified employee is required; and
- Whether a part-time or full-time employee is necessary.

District Response: The superintendent will implement and report to the Board an immediate review of all district positions to ensure compliance in accordance with existing board policy, 03.133, CERTIFIED PERSONNEL, Duties: (excerpt)

JOB DESCRIPTION

Prior to the authorization of any personnel position in the District budget, the Superintendent, collaborating with other District authorities with personnel assignment responsibilities, shall develop, for Board approval, a job description which establishes all essential functions of the position. The description shall encompass supervision responsibilities, completion of records and reports, and achievement of professional goals identified to enhance student achievement and help the school and/or District meet goals established by statute and/or Board policy. Certified personnel shall also be held responsible for cooperation with students, professional associates, parents, staff, and community groups.

Further, as indicated in the audit report, this finding is being reported by your office to the Department of Education for further review. Upon receiving additional recommendations or directives from KDE, the Board will, at that time, take appropriate and corrective action(s).

Finding 2: A local scholarship fund administered by the former Superintendent, benefitted two of his children, yet District staff had no or minimal knowledge of the scholarship or recipient selection process.

Recommendations: We recommend that the Board investigate the Tuthill Fund to determine its value and the financial activity of the account. Further, we recommend the Board work to ensure compliance with all of the relevant terms of the contract that originally established the scholarship. If funds are available to award as scholarship grants, we recommend that the Board ensure that the application process is documented and appropriately advertised along with the names of the members of the selection committee. A description of the Tuthill Fund scholarship, along with application materials, should be included in the local scholarship information provided each January to all high school seniors. Though the selection of the recipients is required to occur after the close of the school year, the District should ensure the transparency of the scholarship, selection process, and its recipients.

District Response: The superintendent will initiate and report to the Board on all available scholarship opportunities to include an investigation of the Tuthill Fund to determine its value and the financial activity of the account. The contract establishing the scholarship will be reviewed by legal counsel to ensure fidelity to the original intent. Further, all available scholarships and respective eligibility criteria, will, at a minimum, be posted on the district's web site, in the high school guidance counselor's office, local public library, and in local media outlets no later than January of each school year. The Board will consider adopting appropriate policies to ensure transparency and compliance to all scholarship opportunities.

Further, the Board will investigate through legal advice and counsel, reimbursement of those scholarship funds disbursed in violation of the original contract.

Finding 3: Former Superintendent's Board approved contract, had redundant or unclear benefits.

Recommendations: We recommend the Board and its attorney ensure that current and future employment contracts properly define all intended benefits. Those benefits should be clearly stated, not redundant in nature, and provide clear criteria as to how the Board will monitor the benefit. If educational benefits are provided, the contract should contain a provision to address retention requirements and an associated repayment schedule if the employee resigns prior to the employee meeting the required retention period. We further recommend that the Board specifically review and approve any expenses related to the Superintendent, who is an employee of the Board, and not just approve them as part of a Consent Agenda.

District Response: The contract of the current superintendent meets and/or exceeds recommendations. The Board will immediately comply and in accordance with existing policy 03.125, (excerpt)

Expense Reimbursement

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.

Further, and effective immediately, superintendent expense reimbursement will occupy a separate agenda line item for board review, discussion, and action.

Finding 4: The Board did not adhere to statutory requirements related to the evaluation of the former Superintendent.

Recommendations: We recommend the Board not only perform the superintendent's evaluation annually but also present a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, the Board should comply with District policy and KRS 156.557(6) by ensuring that the written evaluations are performed annually and that the summative evaluation is available to the public upon request.

District Response: The Board will comply with and in accordance to existing policy, ADMINISTRATION, 02.14 (excerpt) Evaluation

PROCESS

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 evaluation of the Superintendent shall be discussed and adopted in an open meeting of the Board and reflected in the minutes.

Finding 5: The District did not have a nepotism policy though there are a number of relatives working in the District.

Recommendations: We recommend that the Board adopt a comprehensive policy to address nepotism involving the employment and supervision of relatives. The policy should reflect all prohibitions relating to the employment and supervision of relatives required in KRS 160.380, not just those of the superintendent. In addition, this policy should address the supervision and other aspects of a relative's employment to guard against nepotism or even the appearance of a conflict. While it is not intended for the policy to prohibit the hiring of relatives, it should

include a provision that family members would not have a direct line of supervision over another family member and that a family member not perform the employee's evaluations.

District Response: The superintendent will initiate and report to the Board policy considerations for adoption from the KSBA to ensure compliance with KRS 160.380 and recommended inclusions.

Finding 6: One employee submitted a reimbursement request for the entire year instead of monthly, as required.

Recommendations: We recommend the District deny reimbursement to a Board member or District employee when the forms are incomplete or not submitted within the timeframe required by policy. While incomplete requests can be corrected and resubmitted timely, an annual reimbursement request would require an extensive review to determine its validity. In addition, expenditure reimbursements for the school year should be submitted and paid timely so that the District's financial statements will represent the actual expenditures for that fiscal year.

District Response: The Board will immediately comply and in accordance with existing policy 03.125,(excerpt) PERSONNEL, 03.125 Expense Reimbursement

REIMBURSEMENT FORMS

No request for travel reimbursement will be considered unless filed on the proper form and accompanied by itemized receipts. Reimbursement requests must be submitted within one (1) week from the date the expense was incurred.

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.

Finding 7: The District did not have a policy related to the use of the Fleet One card and the cardholders are not required to sign a user agreement.

Recommendations: We recommend the Board develop a formal policy and/or procedures for the use of the Fleet One cards. The policy and/or procedures should require that a user agreement document must be read and signed before an employee is permitted to use a District Fleet One card. We recommend that the adopted procedures include the supporting documentation specifically required and that the purpose for the purchase is documented. The review and approval procedures required prior to payment should also be included in the written procedures. This policy or procedure should also include a timeframe for employees to turn in receipts for the purchases made with the Fleet One cards and the action that will be taken if the required documentation is not provided.

District Response: The superintendent will initiate and report to the Board policy and procedure considerations for adoption from the KSBA to ensure compliance with KRS 160.380 and recommended inclusions.

Further, all District Fleet One cards have been collected and internal procedures to record and monitor use has been immediately implemented.

Finding 8: District Maintenance and Transportation staff do not maintain accurate inventories.

Recommendations: We recommend that the District ensure that POs include the purpose for the purchase as required. In addition, we recommend that the District ensure compliance with the new policy requiring the completion of work orders so that inventory used can be removed timely to maintain an accurate inventory. We further recommend that both the Maintenance Department and the Transportation Department maintain an accurate up-to-date electronic inventory database so that regular inventory checks can be conducted to monitor inventory to reduce unneeded or duplicate purchases and prevent inventory loss due to theft.

District Response: The superintendent will initiate and report to the Board policy and procedure considerations for adoption from the KSBA to ensure compliance with existing board policy, FISCAL MANAGEMENT, 04.7, Inventories. Further, an immediate inspection of all Maintenance and Transportation inventory has been directed to record and monitor resource activities.