



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

August 27, 2013

Kenney Gulley, Board Chair
Montgomery County School District
640 Woodford Drive
Mount Sterling, Kentucky 40353

RE: Findings and Recommendations

Dear Chairman Gulley:

As you are aware, this office received numerous concerns regarding certain financial transactions and activity of the Montgomery County School District (District). We have completed our examination of these matters and would like to present to you, as Board Chair, our findings and recommendations.

To address the concerns expressed to this office, we requested and examined certain District records for the examination period of July 1, 2010 through May 30, 2013, including, but not limited to, Board meeting minutes, Board member and Central Office staff travel and expense reimbursements, credit card statements, vendor payments, District Superintendents' contracts, and Board attorney contracts and payments. We also conducted interviews with current and former Board members, various current and former Central Office staff, and the District's CPA. It should be noted that auditors made several attempts to formally conduct a verbal interview with the Superintendent; however, he declined those requests and only responded to written questions and provided only written responses. To ensure the timely completion of the examination, auditors had to proceed with the examination with limited input from the Superintendent.

After examining the requested documentation and conducting interviews to address the concerns expressed to auditors throughout this examination process, auditors developed the following findings and made recommendations to strengthen controls and processes. Several concerns expressed to auditors could not be substantiated through documentation or interviews and did not result in a finding. Our findings and recommendations resulting from this examination are presented below:

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M/F/D



Finding 1: Superintendent expense reimbursements were not reviewed and approved by the Board though required by contract.

Through interviews and the examination of travel and expense reimbursements made to District Board members and Central Office staff for the examination period of July 1, 2010 through May 30, 2013, auditors found reimbursement requests submitted by the current and former District superintendents were not reviewed by the Board. Instead, expense reimbursement requests submitted by each superintendent during the examination period were submitted to Central Office personnel for processing, with only the total of the requested reimbursement listed as a line item on the monthly accounts payable report provided to Board members for approval during regularly scheduled Board meetings. During interviews, current and former Board members stated that they had not asked to review the detailed reimbursement requests submitted by the Superintendent.

The current Superintendent's contract indicates that expenses will be reimbursed to the Superintendent upon submitting an itemized statement to the Board. Specifically, the Superintendent's contract in 3.f. *Expenses* states, "[t]he Superintendent shall also be reimbursed for actual personal expenses incidental to the travel when an itemized statement of travel and expense is submitted to an (sic) approved by the Board." In 3.g. *Professional Meetings* the contract also states, "[t]he Board shall reimburse the Superintendent for actual expenses incurred in carrying out the Superintendent's professional activities when an authorized statement is submitted to an (sic) approved by the Board." While Board members were unable to clarify the meaning of "an authorized statement" the description provided by the Superintendent for this term was a travel expense form submitted for reimbursement of travel expenses.

Auditors found no significant issues pertaining to the reimbursement requests submitted by each superintendent. However, the review of the Superintendent's requests for reimbursements should follow the process required in the Superintendent's contract. The District's current process not only violates the current contract requirements but also creates a conflict for the District staff who report directly to the Superintendent and are solely responsible for any detailed review of the Superintendent's reimbursements.

Recommendations

We recommend the Board, Board Chair, or a designated Board committee, consistently review and approve the travel and expense reimbursement requests of the Superintendent, as required by the Superintendent's contract, when the authorized statement is submitted to the Board. This should not be the responsibility of the staff reporting directly to the Superintendent but should be performed by the Board who is responsible for hiring and overseeing the performance and activities of the Superintendent. The Board should review the detail, including invoices and other supporting documentation, of reimbursement requests to ensure that the request is appropriate and adequately supported.

Finding 2: Detailed Board Attorney billings are not routinely reviewed and approved by the Board.

While Board members approved the payment of attorney billings as an accounts payable item listed on the consent decree during monthly Board meetings, the billing statements containing details of the work performed by the Board attorneys are submitted to and maintained only by the Superintendent and are not examined by the Board, Board Chair, or Board committee. Concerning District Board attorneys' billings, the Superintendent stated "[o]ur practice is to forward only the cover or summary sheet of the invoices to our accounts payable department to protect confidential and privileged information." By following this process, the Superintendent is the only District representative to routinely examine the details of attorney billings. While the Superintendent is the chief officer of the District, the contracts for attorney services clearly document that the attorneys are engaged by the Board, and, as such, the Board should be aware of the services which the Board attorneys are providing.

In discussing this issue with current and former Board members, most believed that they would be provided with detailed statements if they made a request to the District to review the records; however, until recently Board members had not made such requests. According to one Board member who recently made such a request, the Superintendent did not provide the Board member with the information stating that the details associated with the billing statements were related to personnel matters. Upon auditor's request, the Board Chair and Assistant Board Chair requested and reviewed unredacted Board attorney billing statements and indicated to auditors that all attorney activity recorded within the billings related to District business.

While legal strategy and details relating to personnel matters may not be issues in which the Board should be involved, Kentucky Revised Statute (KRS) 160.290 states that a Board "shall have control and management of all school funds." The oversight process established by the Board must include routine monitoring of the superintendent's use of funds. As such, it is reasonable to expect that Board members should be routinely provided documentation with sufficient detail to assure that the work performed and being paid for by the District is a legitimate expenditure of the District and not work performed to address a matter unrelated to the District.

Recommendations

We recommend the Board, Board Chair, or a designated Board committee, routinely review detailed attorney billing statements prior to the Board approving payment of the invoice. If the Board Chair or a designated Board committee is tasked with review of the attorney billing statements, then a communication of the outcome of the review should be presented by the reviewer(s) to the full Board, and documented in the meeting minutes, prior to taking action to approve the related payment. This will allow each Board member to be aware of the billings general content prior to payment.

Finding 3: The Superintendent's work schedule and leave days are not reported, approved, and monitored by the Board.

Though the Board is responsible for overseeing the work and performance of the Superintendent, the Board does not have a process in place to identify the specific days the Superintendent is to perform work duties. Further, no formal process exists by which the Board is to be informed of leave days taken by the Superintendent.

During the examination, auditors reviewed the employment contracts for both the current and former District Superintendents and found each contract required the Superintendents' services for 240 days per year. Given the average year has approximately 260 regular work-days, approximately 20 days remain in the year as non-contract days for the Superintendents. However, the Board did not specify or request the Superintendents to schedule non-contract days and to submit a schedule to the Board at the beginning of the year. Had a calendar of work-days been specified, the Board would have had a clear understanding of the contract days the Superintendent is scheduled to work.

Certified personnel on contract with the Board for a period exceeding the minimum school term are required, per District policy, to establish an individual calendar documenting the employees' intended work-days, as well as those days the employees would like to be considered as "NC/Non-paid" days. Calendars are to be approved by the principal, if applicable, and submitted to the Superintendent. Regarding the process followed by the Superintendent for his own work calendar, he stated,

I, like others, develop an anticipated plan for the completion of a work calendar. Since, as district superintendent, I supervise and monitor administrator work days, including my own, I feel quite capable of monitoring the days worked, especially due to the fact that I have access to every administrator's electronic work calendar. Furthermore, I maintain a detailed calendar of my own work days, including non-contract days, personal days, sick days, etc. My secretary assists me in the monitoring and completion of this document as well as verifies it with the appointments on my calendar.

While the Superintendent states that he maintains a detailed work calendar, there is no process for the detailed calendar to be presented to the Board for approval.

In addition, auditors found the Board has not established a formal process by which leave taken by the District's Superintendent is reported to the Board. District records indicate that the two Superintendents, during the examination period, took leave and completed forms to report leave taken to payroll staff to adjust leave balances accordingly; however, this leave was not formally and consistently reported to the Board.

According to the current Superintendent, Board members are aware of his work and personal schedule as he often notifies them regarding his personal time. While many current and former Board members agreed that they were notified by both Superintendents during the examination period of their work schedules, Board members noted that the process was not formal and often was done verbally. While documentation provided by the current Superintendent's Executive Assistant, in the form of memos to Board members, identifies certain meetings that the Superintendent and others plan to attend, the process followed by the Superintendent is not consistent with the reporting of professional leave by all other District personnel.

As part of the standard Board agenda, Board members are presented with a list of District personnel taking professional leave. The report includes each District employee's name, dates of leave to be taken, location of leave, the leave activity, approximate costs, and source of funds to cover the activity. When reviewing a sample of these reports, auditors found trips attended by the Superintendent and others were listed, but the Superintendent was not included in the list of attendees. Given that the Board is routinely notified of all other District professional leave in this manner, it would seem reasonable that the Superintendent's professional leave and details pertaining to his leave, including anticipated associated costs to the Board, would be included in this standard report.

While a district board of education does not monitor district personnel, it does employ a superintendent through contract and conducts a superintendent's annual evaluation. Therefore, it appears reasonable that the board has the ultimate responsibility for monitoring the superintendent's work and leave as it relates to job performance and compliance with contract terms.

By requiring the District Superintendent to submit to the Board or designated committee of the Board a formal calendar, this would allow the Board, the Superintendent, and Central Office staff to clearly identify those days the Superintendent is to work or take leave. Any modification to the schedule would need to be formally presented to the Board to either approve or deny.

Finally, by establishing a formal written process for notifying the Board, Board Chairman, or designated Board committee of leave taken by the Superintendent, the Board would relieve District staff from being placed in the difficult position of monitoring the activity of the Superintendent, who is their direct supervisor.

Recommendations

We recommend the Board establish an annual work calendar for the Superintendent that specifies, prior to the beginning of the year, the non-work days associated with the Superintendent's contract. Any modifications to this schedule should be formally presented to the Board for its approval, and the Board's actions should be documented in Board meetings' minutes.

We recommend that the Board require the Superintendent to notify the full Board, Board Chair, or a designated Board committee when the Superintendent takes leave for a scheduled contract work-day. These requirements should be included in the Superintendent's employment contract and set in formal written policy adopted by the Board.

We further recommend the District include the Superintendent's professional leave in the standard monthly reporting to the Board, including the dates of the leave, the location of the leave, and the associated costs anticipated and funding source for the leave as is done with all other District personnel.

Finding 4: The District has incurred unnecessary travel expenses.

During the examination, auditors received several concerns pertaining to travel related expenses. While auditors found no issue with most travel expenditures examined during the examination period, auditors identified a few instances where additional travel expenses incurred by Central Office personnel and Board members appeared to be unnecessary and based on personal preference.

On Thursday, November 1, 2012, two Central Office personnel drove overnight to Washington, D.C. to submit a grant application due by Friday, November 2, 2012. The need for the trip resulted from the District receiving notification of a grant application deadline extension which ultimately did not apply to the District. According to District personnel, upon initial notification that the deadline for applications was being extended, the District decided to revise its application; however, the District shortly thereafter was informed that the extension did not apply to the District, but rather affected other geographic regions of the country. By the time the details of the extension were clearly communicated, the District had already begun to revise the application. The final application package was not complete until late in the afternoon on November 1, 2012. The Executive Assistant to the Superintendent stated that it was too late in the afternoon to ensure overnight delivery with a vendor; therefore, she and another Central Office staff person volunteered to deliver the package on behalf of the District.

According to the Executive Assistant, the two Central Office staff members drove over night in a District vehicle arriving at the hotel in Washington, D.C. around 3:00 a.m. Because of the early arrival time, the hotel charged the employees for a night's stay and parking for November 1, 2012. The two central office staff members rested and then delivered the application later that morning on November 2, 2012. After delivering the application both employees reportedly worked on District business the remainder of the afternoon and stayed overnight, incurring a second night stay. While travel expense requests for meals submitted by both employees indicate that the employees returned from Washington, D.C. on Saturday, November 3, 2012, the hotel portfolio shows a third night's stay on November 3, 2012 with check-out occurring the next day on Sunday, November 4, 2012. The hotel expense was paid using a District credit card.

The Executive Assistant to the Superintendent noted that check-out time at the hotel was 11:00 a.m. and that both employees were still exhausted from working a long day on Thursday, November 1, 2012. After discussing the matter with one another the employees determined that they did not feel physically prepared for the long drive home so they opted to sleep longer, which required an additional night's charge, totaling \$193.83. The Executive Assistant noted that they could have driven home once they arose but they had already incurred that additional expense and decided to drive back on November 4, 2012.

While it is appropriate that the two Central Office staff members did not charge an additional per diem amount for meals on November 4, 2012, it appears staff members were given a reasonable amount of time to rest in Washington, D.C. before the 11:00 a.m. check out time on November 3, 2012. It also appears reasonable that any additional rest deemed necessary by staff to prepare for the return trip to the District could have been obtained on Friday, November 2, 2012. The expense to the District may have been incurred based on personal preference rather than a necessary expense of the District.

In April 2013, two Board members, along with the Superintendent and two Central Office staff members attended the 73rd Annual National School Board Association (NSBA) Conference, in San Diego, California. According to NSBA conference material, 19 hotels in close proximity to the convention center were designated as Annual Conference hotels. Room rates for the conference hotels varied per hotel and were dependent upon single and double occupancy. Room rates for single occupancy ranged from \$169 a night to \$239 a night, while double occupancy rates ranged from \$169 a night to \$259 a night.

During the conference trip to San Diego, District financial records document that District representatives stayed at a historic luxury resort, approximately 4.5 miles away from the convention center, not at a hotel designated for the conference. According to the Superintendent's Executive Assistant who made the travel arrangements on behalf of the District representatives, some of the conference hotels were booked by the time travel arrangements were made and the resort hotel was selected after Central Office staff members researched hotels in the area and found a deal at the resort, stay five nights and receive two of the five nights free. The resort hotel portfolio documents that District representatives received five nights and were only charged a nightly room rate of \$415 per night for three nights; however, the resort charged a \$25 resort fee in addition to a nightly rate of \$415. The resort fee along with tax on the fee, were charged by the resort for each of the five nights per room. While the room rate, excluding resort fees and taxes, averaged \$249 a night for five nights, which fell within the range of the conference hotels for double room occupancy and was only approximately \$10 more than the rate for a single occupancy, the resort fees raised the average nightly rate, excluding taxes to \$274.

According to the Superintendent, the District's rule is that they "can stay at any hotel as long as it is equal to or lower than a conference rate, unless hotels are unavailable, in which we still negotiate." The Superintendent stated that his Executive Assistant believed the total package was comparable to the conference rate at the time the arrangements were made and that the hotel did not accept the District's tax exempt documentation, though the hotel had promised not to charge tax and added a resort fee. The Superintendent stated that the District "spent considerable time and effort attempting to resolve the issue but were unsuccessful" and he believes "this was still the best deal available considering the available rooms in San Diego."

Had the District been able to avoid the room taxes and resort fees charged by the hotel selected, the District still incurred additional costs for taxi service as a result of staying approximately 4.5 miles from the conference center. According to conference material, the NSBA offered complimentary all-day shuttle service between conference hotels and the convention center, with the exception of nine conference hotels which were deemed to be within easy walking distance from the convention center.

Though the average daily amount of \$274 actually paid, excluding taxes, for the non-conference hotel was approximately \$25 more daily than the highest amount charged for double occupancy at conference hotels and \$35 for single occupancy, a review of travel reimbursement documents identified that the District incurred over \$700 in taxi service for the week. The majority of these charges were clearly documented for the purpose of travel between the resort, the convention center, and the immediate area surrounding the convention center. Auditors found documentation of taxi service expenses incurred by the Superintendent during the San Diego trip did not always document the beginning and ending travel destinations; therefore, auditors were unable to determine from documentation the exact purpose of \$115 in taxi service for the Superintendent incurred from April 12, 2013 through April 15, 2013; however, the fares charged were consistent with those incurred for travel between the hotel and the conference center.

Recommendations

We recommend Board members and District personnel more closely scrutinize the use of District funds relating to travel expenses. Travel costs should specifically relate to District business and additional costs incurred based on personal preference should be considered a personal expense of the individual and not an expense of the District. Further, we recommend the Board receive a written report of the total cost of out-of-state trips taken by the Superintendent and Board members.

Finding 5: District funds expended for condolence to District personnel.

Through examination of credit card and expense reimbursements made during the period of July 1, 2010 through May 30, 2013, auditors found District funds expended for condolence gifts to District personnel. District records document that the District incurred over \$800 for condolence flowers and candy. This type of expense is considered more personal in nature should not be an expense incurred with the use of District funds. We recommend personal funds be collected to pay for this type of expense.

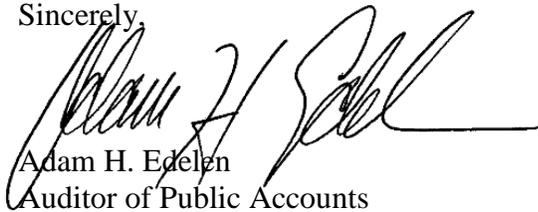
Recommendations

We recommend the Board establish a formal written policy specifically stating that District funds should not be used for condolence gifts as these are personal expenses that should be paid by District employees.

We trust that the findings and recommendations presented in this letter will be of assistance to the Board in strengthening its controls and oversight of District financial activity.

If you have any questions regarding this letter, please contact me at (502) 564-5841. Thank you, in advance for your attention to these matters.

Sincerely,



Adam H. Edelen
Auditor of Public Accounts

cc: Joshua Powell, Montgomery County School District Superintendent

MONTGOMERY COUNTY SCHOOL DISTRICT BOARD RESPONSE



Joshua Powell, Ph.D., Superintendent
Kenney Gulley, Chairperson
Kelly Murphy, Vice Chairperson



Alice Anderson, Board Member
Sharon Smith-Breiner, Board Member
Donna Wilson, Board Member

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

From: Kenney Gulley, Board Chair
Montgomery County School District

Date: August 20, 2013

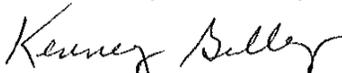
I must admit when I was notified in April that your office would be looking into numerous concerns regarding certain financial transactions and activity of the Montgomery County School District there was some anxiety that accompanied this entire process. However, I was confident that all decisions regarding finances and policies made by this Board of Education and the Superintendent that has been in place since July 2011 have always placed the achievement of our students as the top priority and no wrong doing has taken place.

To add some context to this investigation I think it is important to know this Board of Education came to a consensus in the spring of 2011 while going through a search for our next Superintendent that we would truly make student achievement our number one priority and we would allow that priority to drive all of our decisions. During that time we have faced significant reductions in funding as have all school districts in Kentucky but we have not allowed that excuse to deter us. We have opened a new Intermediate school, opened a new alternative school, increased the tax collection rate to our sheriff, installed Smart Boards in every elementary classroom, given raises to every employee, hired 38 additional classified and certified employees, and still increased our carryover balance (funds on hand at year end). The decisions to reduce contractor work and consultants in favor of hiring our own employees are not too difficult to make when we can show we save money and/or improve our services. The decisions to eliminate some programs in favor of reducing class size really didn't seem to be too tough either when we really let student achievement and data begin to drive our thought process. However, it became pretty clear that not everyone is as enamored with our thought process as wild accusations have been made in attempts to disparage our employees and students. This district has seen remarkable improvements in student achievement and fiscal responsibility in a very short timeframe. Your audit comes at a time to either validate or discredit these wild accusations.

I would like to commend your office on a very thorough audit as we have provided information requested for the past three fiscal years on our budgets, board minutes, financial statements, Superintendent contracts, district credit cards, vendor payments, travel expenses, job descriptions, salary schedules, professional memberships, employee surveys, candidates interviewed for specific positions, annual auditor's reports along with a myriad of other requests. I expressed to the employees in your office that we would cooperate with your investigation hoping that we might accomplish two objectives. The first being that we would use this additional perspective to look at our finances and activities of our district to confirm that nothing illegal or improper had occurred. The second being that we may find additional measures to improve the policies and procedures used in our district to help us be ever more efficient. Upon reading your report I believe we have accomplished both. You mention in your report that several concerns that had been made to your office could not be substantiated. I spoke with Mr. Brian Lykins, Executive Director from your office, in a follow up conversation and he confirmed to me that there was no evidence of illegal or fraudulent activity but rather they had identified five areas where suggestions were made for us to consider as means of improving the controls used in our district. I asked if I could be provided with the actual claims made against our district and was told that I couldn't have that information, however, one of the questions that arose over and over throughout interviews was a question of millions of dollars missing. I believe it is imperative that while your office does not wish to address specific claims made against our district that one of this magnitude should be clarified and stated very clearly that your investigation yielded no evidence to support this wild accusation.

Our board will certainly consider the recommendations provided to us as we strive to ensure the funds entrusted to us by the taxpayers are fully used for the betterment of our students and community.

Respectfully submitted,



Kenney Gulley