



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

June 20, 2013

Ashland Board of Education
Patricia Hall, Board Chairman
1820 Hickman Street
Ashland, KY 41101

Members of the Board:

The Auditor of Public Accounts (APA) has completed its review of the Ashland Independent School District (District). As previously reported to you, our office received concerns related to the District financial policies and financial activities. This letter is to summarize the procedures performed and communicate the results of those procedures.

The procedures performed included reviewing the Superintendent's contract, expenditure transactions, and general policies and procedures of the District. In addition, interviews were conducted with employees and management. We did not perform a full scope financial audit. The focus of our examination was to review the concerns brought to our attention and the ongoing information obtained during the review. This letter presents, in total four findings and offers recommendations to strengthen controls and management oversight.

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

Detailed findings and recommendations based on our examination are attached to this letter to assist all parties involved for improving procedures and internal controls. In addition, District's management responses to the findings are included.

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

Sincerely,

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

Adam H. Edelen
Auditor of Public Accounts

c: Stephen E. Gilmore, Superintendent



FINDINGS AND RECOMMENDATIONS

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements

We reviewed travel, lodging and meal reimbursements from July 2008 through May 2013 for the superintendent, central office staff, and board members. During our review, we determined the Ashland Independent School District does not have strong internal controls relating to travel, lodging and meal reimbursements. In addition, there appears to be egregious spending regarding meals.

We randomly selected seven reimbursement documents during the timeframe noted above for the financial director and noted the following:

- Reimbursements did not have supervisor approval for:
 - Five travel vouchers for travel of \$4,411
 - Two personal reimbursements (AICPA dues, books and postage) of \$1,041
- The finance officer holds a position in a company which owns property in Lexington. On two occasions for trainings, the finance director stayed overnight at the property and sought reimbursement for lodging. The training the finance director attended was in Lexington and in Louisville. The overnight stays totaled 4 nights for a total cost of \$450, which is not excessive in amount but has the appearance of conflict of interest.

In April 2010, a board member went to a National School Boards Association (NSBA) conference in Chicago, Illinois. During this trip we noted:

- A receipt from a pub indicating purchases for alcohol in the amount of \$46.95;
- Three meals reimbursed that did not have itemized receipts in the total amount of \$87.19;
- Four meals claimed without proof of receipt in the amount of \$58.45; and
- Parking reimbursed without proof of receipt in the amount of \$32.

We reviewed seven credit card statements in the timeframe noted above and noted the following:

- No receipt for either the hotel stay or lunch for \$134.97. The credit card statement claims it was for Embassy Suites in Lexington; however, the reimbursement invoice states it was for a lunch conference in April 2012 for NSBA in Boston for the Superintendent and board members, but, supporting documentation for the conference was not attached to the invoice. In addition, the credit card statement included charges for spouses, which are against the Board policy. Three of the four board members did support reimbursement by proof of check for the spouse; however, no documentation for reimbursement was attached to the invoice on one spouse's travel expenses of \$467.70.
- We noted food charges that appear excessive or were questionable. We do acknowledge that the cost of meals is a part of travel and we do not believe that eating at high-end restaurants should be prohibited; however, it would be reasonable that public school funds should not be used to pay for the whole amount of these more expensive meals. In addition, some of the meals lacked documentation stating the purpose of the meal. Auditors could not determine if it was a personal meal or if it was while they were on business.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

Also, the receipts were not itemized; therefore, we could not always determine the number of meals or items purchased. The table below is an example of the meals we noted:

Transaction Date	Vendor	Vendor Location	Expense Type	Amount
1/30/09	Cracker Barrel	Mt. Sterling, KY	Restaurant – receipt was lost	\$25.26
1/30/09	Jeff Ruby's	Louisville, KY	Restaurant – no itemized receipt; number of meals unknown	\$993.54
1/30/09	Al J's	Louisville, KY	Lounge at Galt House – no itemized receipt; type of purchase is unknown	\$109.95
1/31/09	Porcini	Louisville, KY	Restaurant – no itemized receipt; number of meals is unknown	\$484.55
6/2/10	Cheddar's	Ashland, KY	Restaurant – no itemized receipt; purpose of meal not documented	\$33.50
7/14/10	Joe's Crab Shack	Louisville, KY	Restaurant – purpose of meal not documented	\$23.09
11/21/11	Café Magnolia	Louisville, KY	Café at Galt House – purpose of meal not documented	\$16.78
3/7/12	Buca di Beppo	Louisville, KY	Restaurant – for 7 people but documentation doesn't specify who	\$183.65
3/8/12	TGI Fridays	Louisville, KY	Restaurant – for 6 people but documentation doesn't specify who	\$158.70
3/15/12	Gazebo Lounge	Lexington, KY	Bar and Lounge – no itemized receipt	\$40.00
3/15/12	Malones	Lexington, KY	Restaurant – no itemized receipts	\$46.15
3/16/12	Frisch's	Winchester, KY	Restaurant – for two people but documentation doesn't specify who	\$17.86
3/16/12	Blue Fire Restaurant	Lexington, KY	Restaurant – no itemized receipt	\$23.00
3/20/12	O'Charleys	Ashland, KY	Restaurant – no itemized receipt	\$35.94
Grand Total				\$2,191.97

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

We also noted Ashland Independent School District pays for employees' meals for administrative professional days. No policy for meals outside of travel for business purposes was found and the amount of the meals paid for by the school district is excessive.

- In April 2012, an Ashland Independent employee was reimbursed with school funds for meals for 20 people for administrative professional day. The meal totaled \$631.15 to a local country club, with service charges and tips accounting for \$184.31 of the total. Also, it appears the meals were originally only approved for \$378.
- In April 2013, lunch was catered for administrative professional day from a local restaurant for 40 meals at \$8.25 each for a total of \$330. Desserts were provided by a separate vendor totaling \$75, making the meal total \$405.

We also noted that 50 \$10 gift certificates (\$500 total amount) to Chick-fil-a were purchased to present to the foodservice staff. There was also another invoice to Wal-Mart in the amount of \$35.62 for candy, thank you notes, and bags. The purchase order stated it was for the foodservice staff.

Ineffective internal controls and lax enforcement of policies and procedures related to travel, lodging, and meals has lead to insufficient documentation and questionable expenditures. No policies related to meals outside of business travel have been developed, nor did auditors identify policies related to staff gifts. Unnecessary spending takes money away from the projects and other services for the school district.

Ashland Independent School District Policies and Procedures 03.125 Expense Reimbursement for Certified Personnel and 03.225 Expense Reimbursement for Classified Personnel states:

Provided the Superintendent/designee has given prior approval to incur the expense, the Board shall reimburse school personnel for school-related travel when such travel is a required part of the duties of the employee or for school-related activities approved by the Superintendent and, when appropriate, the School Council. Travel expenses of school-based personnel in SBDM schools shall be paid from Council funds. In the case of expenses reimbursed from internal accounts, the Principal shall be the authority for approving reimbursement. The Board will be responsible only for actual expenses. Allowable expenses are:

Food

Actual monies spent for food while on out-of-District trips requiring an overnight stay. The maximum allowable food expenditure per day shall be \$30.00, unless otherwise authorized by the Superintendent or Superintendent's designee. Charges must be substantiated by a receipt. Alcoholic beverages shall be excluded from expenses.

Lodging

Hotel or motel charges (not including food or other charges) incurred in school-related travel. Charges must be substantiated by a receipt.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

Reimbursement Form

No requests for travel reimbursement will be considered unless filed on the proper form and accompanied by the proper receipts.

Ashland Independent School District Policies and Procedures 01.821 Board Member Expense Reimbursement states:

Out-Of-District Travel

Members of the Board may be reimbursed for actual and necessary expenditures incurred outside the District. Board members shall obtain Board approval prior to incurring out-of-district expenses. Reimbursements shall be at the same rate as that for employees of the District and be documented by receipts. Advancements for anticipated expenses shall not be made.

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

Good internal controls dictate when determining discretionary purchases such as meals, the Board should consider its primary purpose of promoting public education. Good internal controls also dictate that all travel, lodging, and meals be for necessary activities for the school district employees, be accompanied by itemized receipts for all purchases, and be properly approved.

Recommendation

We recommend Ashland Independent School District:

- Re-evaluate all policies and procedures related to travel, lodging, and meals;
- Implement and enforce a review process to apply appropriate approvals on the Finance Director’s expenses and travels;
- Re-evaluate the expenses incurred by the district related to travel, lodging, and meals to ensure they are in the best interest of the school district, are for necessary business functions, and are reasonable in amount. This evaluation should include meals and other expenses provided for staff appreciation events or other gifts; and,
- Consider a policy on maximum daily limits for meals for out-of-district travel for board members, Superintendent, and staff.

Management’s Response and Corrective Action Plan

All travel by the Finance Director was approved by the Superintendent per the professional duty absence request form TI. Past practice did not require the Superintendent to approve the actual reimbursement as approval of expenses is obtained on the TI form.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

Management's Response and Corrective Action Plan (Continued)

At the time an offer of employment was made to the current Finance Director, the Superintendent verbally agreed as a condition of employment that the district would pay the cost of the Finance Directors CPA license, dues and continuing professional education as required by the AICPA. The postage was for reimbursement of district certified mail and receipts were attached. These purchases were not personal expenditures made for the Finance Director.

Reimbursement was made to the Finance Officer for the cost of lodging he paid to a company in which he was a minority owner for lodging to attend a conference in Louisville and Lexington. This company was a separate legal entity. This property consisted of rental property that was regularly and continuously held out for rent to other parties. The rental fee was made at arms-length by the Finance Officer and was set by the majority of the owners. Since the block of rooms at each hotel where the conference was held was sold out on each occasion, it was necessary to stay in an alternate location. After reviewing the rental rate per night at hotels in close proximity to each event, the Finance Officer determined that the cost at these locations was \$75.00 to \$100.00 more than the cost to rent this property. Along with the additional mileage cost and parking fees at a minimum this resulted in a savings to the district of \$350.00 to \$500.00. Because the company is a separate legal entity, he was a minority owner, the transaction was at arms-length and the property was also rented out to other parties consistently and the cost savings to the district, the Finance Officer made the decision to stay at the property and did not consider this to be a conflict of interest in fact or appearance.

The report states that there was no receipt for either a hotel stay or lunch for \$134.97. The credit card statement claims it was for Embassy Suites in Lexington; however, the reimbursement invoice states it was for a lunch. The hotel reservation was for a Verity math teacher for May 31, 2010. The June statement shows room charge for \$134.97 (no show). The July statement shows \$134.97 credited as the room was cancelled in a timely manner.

The report stipulates that in April 2010 a board member went to a NSBA conference in Chicago Illinois. During this trip it was noted that a receipt indicated a purchase for alcohol in the amount of \$46.95. In addition, the superintendent and the finance officer attended a KASA Finance meeting and went over the daily per diem on 3/15/12. It is noted that the superintendent and board members attended KSBA in 1/09 and a meal for 11 people reflects a receipt of \$993.54. In all of these instances, the district has received reimbursement from all parties involved.

The report cites that for a NSBA conference in Boston in 2012 for Superintendent and board members the supporting documentation for the conference was not attached to the invoice. In addition, the credit card statement included charges for spouses. These charges on the credit card are against the Board policy. Three of the four board members did show reimbursement

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

Management's Response and Corrective Action Plan (Continued)

by proof of check for the spouse; however, no documentation for reimbursement was attached to the invoice on one spouse's travel expenses of \$467.70. A personal check for spouse reimbursement was made to Ashland Independent Schools on July 22, 2012, check #1405 in the amount of \$470.00.

The Ashland Board of Education will review and decide if a policy will be developed and approved for the payment of employee meals and/or gifts. Until action is taken by the board to create a policy except for meals incurred for overnight meals employee meals or gifts will not be allowed and paid by the school district for any reason.

After the completion and issuance of the independent audit for the year ended June 30, 2012, the Ashland Board of Education and the Ashland Independent School District reviewed the policies and procedures related to expense reimbursement for certified and classified staff as well as out of district travel related to the Board and began the following practices to insure compliance with existing board policies.

- 1. Board members will obtain Board approval prior to incurring out-of-district expenses for attendance at any event and complete a TI form and all reimbursements will be documented by proper receipts.*
- 2. The Superintendent will obtain Board approval prior to incurring out-of-district expenses for attendance at any event and complete a TI form and all reimbursements will be documented by proper receipts.*
- 3. The Finance Officer will obtain Superintendent's approval prior to incurring out-of-district expenses by continuing to complete a TI form and for payment of all travel expense reimbursements. In addition, the Superintendent will approve all Purchase Orders requested by the Finance Officer. All reimbursements and payments will be documented by proper receipts.*
- 4. Meal charges will no longer be allowed to be made using a district credit card. All meal charges must be made by the individual employee and reimbursement requested by completing a Travel Expense Voucher and forward proper receipts. A reimbursement will not be made to any employee including the Superintendent, Board members and Finance Officer without proper documentation.*

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Ashland Independent School District Did Not Follow Policies And Procedures For Travel, Lodging, And Meal Reimbursements (Continued)

Management's Response and Corrective Action Plan (Continued)

The Ashland Independent Board of Education and the Ashland Independent School District will take the following corrective action:

- 1. Review and revise, if necessary, policies and procedures related to travel, lodging, and meals. For example, at this time policies 03.125, 03.225 and 01.821 state "substantiated/documented by receipts" and there is a recommendation by the Finance Officer to change to "substantiated/documented by itemized receipts".*
- 2. Consider a policy on maximum daily limits for meals for out of district travel for Board members, Superintendent, and all employees.*

Management also provided explanation to the table on page 6. This is included in the report and attached as Appendix 1

Auditor's Reply

During the APA review, we requested numerous documents and based our findings on the information provided. Management has claimed in the response that they received reimbursement for purchases of alcohol, purchases that exceeded per diem, and the meal for 11 people in the amount of \$993.54; however, this information was not provided to the auditor when the request for the invoices took place. In addition, management also claims the reimbursement for spouse travel was made; however, the information provided to the auditors only indicated three of the four reimbursements for spouses. But regardless of the reimbursement, paying for spouse travel on the school credit card is against board policy. While we do not dispute the claims made by management, we cannot verify that the reimbursements did occur. Reimbursements for improper expenditures should be properly documented on invoices.

In addition, management provided an explanation to the receipts that were not itemized. This explanation is included in the report as Appendix 1. While the explanation may state who purchased the meal, this is not a sufficient explanation on what items were purchased or if it was a business or personal meal to ensure allowability. We stress the need for itemized receipts for reimbursement purposes.

We would also like to reiterate that renting property in which the Finance Director has ownership, regardless if he is a minority owner, gives the perception of conflict of interest. Both Lexington and Louisville have a vast array of lodging available that would have been more prudent, and is unlikely that staying at this rental property saved the district \$350 to \$500.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-02: The Ashland Independent School District Did Not Follow The Kentucky Model Procurement Code Regarding Small Purchase Authority

Ashland Independent School District has adopted the Kentucky Model Procurement Code (KRS Chapter 45A) and has policies in place that requires them to follow it. The Kentucky Model Procurement Code prescribes the methods by which services should be bid, negotiated, and how contracts should be awarded. The small purchase authority for Ashland Independent School District is \$20,000 for purchases of goods and non-professional services. Goods or services, individual or aggregate, that exceed \$20,000 are required to be bid to potential vendors to ensure the best price for goods and services are obtained. We noted two fiscal years, FY 2010 and FY 2012, where painting services exceeded the small purchase authority limit.

The school district paid an individual vendor \$55,980 in FY 2010 and \$40,820 in FY 2012 for painting services for various projects in the district. One project totaling \$12,960 in FY 2012 was bid according to district personnel, and evidence was reviewed by the auditor that indicated two bids were received by the district; however, the remaining balance of \$27,860 in FY 2012 and the total amount of \$55,980 in FY 2010 were for projects that were not awarded through bidding procedures as required by the Kentucky Model Procurement Code.

The amount of each of the various projects did not surpass the \$20,000 threshold; however, the aggregate project amounts for this individual vendor did exceed the limit for the small purchase authority, resulting in a violation of the Kentucky Model Procurement Code. In addition, in FY 2010, five payments were made on the same day, June 28, 2010. Each of those payments was under the \$20,000 limit; however, the amount of those five payments totaled \$42,000. In FY 2012, four payments were made in August 2011. Each payment was under the \$20,000 limit; however, the total amount of those four payments was \$27,060. This does give the appearance of split purchases, or procurement fraud, to circumvent the small purchase authority.

Insufficient planning or lack of understanding of the Kentucky Model Procurement Code can lead to the district failing to get the best possible prices for services. If small purchase authorities are circumvented, this can lead to a lack of transparency and to the appearance of favoritism to particular vendors.

KRS 45A.343 Local public agency may adopt provisions of KRS 45A.345 to 45A.460 -- Effect of adoption -- Contracts required to mandate revealing of violations of and compliance with specified KRS chapters -- Effect of nondisclosure or noncompliance, (1) states, "Any local public agency may adopt the provisions of KRS 45A.345 to 45A.460. No other statutes governing purchasing shall apply to a local public agency upon adoption of these provisions."

KRS 45A.385 Small purchases by local public agencies, states, "The local public agency may use small purchase procedures for any contract for which a determination is made that the aggregate amount of the contract does not exceed twenty thousand dollars (\$20,000) if small purchase procedures are in writing and available to the public."

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-02: The Ashland Independent School District Did Not Follow The Kentucky Model Procurement Code Regarding Small Purchase Authority (Continued)

Ashland Independent Board of Education Policy for Fiscal Management bidding procedures, 04.32, states “District small purchase procedures may be used for any contract in which the aggregate amount does not exceed \$20,000.00.”

Recommendation

We recommend the Ashland Independent School District:

- Comply with the Kentucky Model Procurement Code and ensure the small purchase authority is followed for all applicable projects or purchases of goods or services;
- Plan and project needs for services that will exceed the small purchase authority and perform competitive bidding to ensure economical procurements are achieved; and,
- No longer split or divide payments in order to circumvent the small purchase procurement requirement.

Management’s Response and Corrective Action Plan

The small purchase authority for the district is \$20,000 for purchases of goods and non-professional services. The district did not understand that if the aggregate exceeded \$20,000 for individual goods or services for separate projects, there was a requirement to bid to potential vendors. For example, painting services were provided at Blazer High School buildings 1, 2, 3, 4, 5, 6, and 7. Because each project was quoted separately, by building, each was viewed as a separate project. There was no intention to subvert the small purchase procurement requirement or to circumvent the Kentucky Model Procurement Code. The District’s approach was based on a misunderstanding of the small purchase authority requirements as described in the auditor’s report.

The Ashland Independent Board of Education and the Ashland Independent School District will take the following corrective action:

- 1. Comply with the Kentucky Model Procurement Code and ensure the small purchase authority be followed for all applicable projects or purchase of goods or services.*
- 2. Plan and project needs for services that will exceed the small purchase authority and perform competitive bidding to ensure economical procurements are achieved.*

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-03: Ashland Independent School District Did Not Adhere To District Policy Regarding Purchase Orders

In our review of district expenditures between July 2008 and May 2013, we reviewed 36 purchase orders and noted 32 instances in which the purchase order did not include all relevant information pertaining to the transaction. Missing information was noted for each purchase order in at least one of the following fields:

- Check number;
- Payment date;
- Total charges;
- Quantity ordered;
- Unit price;
- Requesting party; and
- Department Head approval.

Additionally, out of 36 purchase orders, we noted five instances where amounts reported on the purchase order did not have supporting documentation or the purchase order was supported by inadequate and inaccurate supporting documentation. The amounts shown on the five purchase orders did not agree with amounts on receipts/invoices or did not have a receipt attached.

District personnel did not adhere to district policy regarding completion of purchase orders, resulting in the submission of incomplete purchase orders supported by insufficient or inaccurate documentation. District expenditures were not supported by adequate documentation, increasing the risk that funds may be expended improperly or not serving the best interest of students.

District policies require that purchase orders be completed prior to purchases being made, including approval by appropriate personnel. Good internal controls dictate that purchase orders have all fields completed to ensure all relevant information pertaining to a transaction is documented.

The Accounting Procedures For Kentucky School Activity Funds *Redbook* states, “The school treasurer shall match up the purchase order, shipping document (if applicable), and vendor or standard invoice and verify that all items ordered have been received, services have been satisfactorily performed, all amounts agree, and that all necessary approvals and signatures have been obtained.”

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-03: Ashland Independent School District Did Not Adhere To District Policy Regarding Purchase Orders (Continued)

Recommendation

We recommend that the District:

- Ensure all fields are completed on purchase orders prior to approval with the exception of fields to be completed upon payment;
- Ensure all expenditures are supported by sufficient documentation and that expenditure amounts reported on purchase orders match supporting documentation; and,
- Evaluate policies to determine if changes are necessary to provide for more complete and accurate documentation of expenditures.

Management's Response and Corrective Action Plan

The district reviewed all documentation requested by the auditors that were deemed incomplete.

Without exception, we determined that every purchase order that we reviewed had either a copy of the check attached (which would display the check number, date paid and amount) or this information was written in the fields provided on the purchase order. Prior to the district's transfer to the MUNIS cloud environment, a copy of the check was attached to all purchase orders and related invoice/documentation. After the migration to the MUNIS cloud in 2012, the check number, date paid and amount were written directly on the purchase order. These purchase orders are complete as to the check number, date paid and total charges.

Every purchase order that was deemed incomplete because it either did not include quantity ordered and unit price had either an amount shown on the line item for "TOTAL COST" or "TOTAL." In addition, each of the amounts on these purchase orders agreed to the invoice paid. Past practice considered these purchase orders complete.

All purchase orders that did not include a "Requesting Person" or "Department Head/Principal" were submitted by a Department Head, Principal or Treasurer. Past practice of the school district did not require these individuals to sign the purchase order up to 3 times as applicable but instead as long as these individuals signed the purchase order once in their capacity as the Requesting Person, Department Head/Principal or Treasurer, the purchase order was considered complete.

Of the 5 instances where amounts reported on the purchase order did not have supporting documentation or the purchase orders was supported by inadequate and inaccurate documentation 2 purchase orders were paid where the amounts written on the purchase order was less than the invoice paid. The other 3 instances involved purchase orders without receipts. The 2 purchase orders where the invoice paid was greater than the amount shown on

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-03: Ashland Independent School District Did Not Adhere To District Policy Regarding Purchase Orders (Continued)

Management's Response and Corrective Action Plan (Continued)

the purchase order were verbally approved by the Finance Officer at the time of purchase and involved the purchase of cell phones for the Maintenance Department and Energy Managers. The other 3 purchase orders did not have a receipt and were for travel. One of these payments was subsequently credited back to the district the following month as the trip was cancelled.

The Ashland Independent Board of Education and the Ashland Independent School District will take the following corrective action:

- 1. Complete all fields on purchase orders prior to approval with the exception of fields to be completed upon payment.*
- 2. Ensure all expenditures are supported by sufficient documentation and that expenditure amounts reported on purchase orders match supporting documentation.*
- 3. Review and revise, if necessary, policies to determine if changes are necessary to provide for more complete and accurate documentation of expenditures.*

Auditor's Reply

We would like to reiterate the importance of documenting on the purchase orders what was actually purchased. If the quantity or amount purchased changes, then that change should be reflected on the purchase order. In addition, a verbal approval by the Finance Officer is not sufficient. Approvals need to be documented on the purchase orders.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-04: Ashland Independent Board Of Education Did Not Comply With Agreement Provisions Regarding Compensation

During the review of the Ashland Independent School District, auditors performed an analysis of the Superintendent's compensation to address allegations received by the Auditor of Public Accounts. Auditors reviewed multiple sources of documentation including the superintendent's contract, subsequent contract amendments, board minutes, district accounting records, and email correspondence. Auditors noted several issues concerning the Superintendent's contract, including salary payments exceeding approved amounts, improper execution of salary adjustments, and payment of fringe benefits which were not included in the contract.

Employee Agreement July 1, 2008 – June 30, 2011

Analysis of salary documentation shows that for the 2009-2010 and 2010-2011 school years, the Superintendent was paid \$7,050 and \$14,430 more than the base contract amount. The auditor was provided documentation to indicate approval of raises by the Board of Education (Board) for \$6,000 for school year 2009-10 and 5% in 2010-11; however, after consideration is given to the Board approved raises, the Superintendent's salary still exceeded approved amounts.

School Year	Salary per contract	Raise approved by Board Minutes	Paid Salary/ Accounting Detail	Overpaid per Contract	Overpaid per Board Approved Raise
2008-09	\$ 105,000	-	\$ 105,000	-	-
2009-10	\$ 105,000	\$ 111,000	\$ 112,050	\$ 7,050	\$ 1,050
2010-11	\$ 105,000	\$ 116,550	\$ 119,430	\$ 14,430	\$ 2,880
Totals				\$ 21,480	\$ 3,930

For school year 2009-2010, the approved amount was the base contract salary of \$105,000 plus the additional \$6,000 for a total salary of \$111,000. Records indicate that salary of \$112,050 was paid for the year, for a total overpayment of \$1,050. For school year 2010-2011, the approved salary was \$116,550 (a 5% increase from the prior year's salary of \$111,000) and the actual salary paid was \$119,430, resulting in an overpayment of \$2,880. Total overpayments for the two-year period were \$3,930.

Per the contract between the Board and Superintendent, any salary adjustments shall be in the form of an amendment to the agreement. Auditors could not be provided with any such amendments for school years 2009-2010 and 2010-2011. Raises were documented in the minutes for the Board; however, this is insufficient to meet the requirements of the contract.

Employee Agreement July 1, 2011 – June 30, 2014

We would like to note that salary increases with this agreement were made via proper contract amendment and no additional issues were noted with the Superintendent's salary.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-04: Ashland Independent Board Of Education Did Not Comply With Agreement Provisions Regarding Compensation (Continued)

We did note, however, some professional dues made to organizations that were not listed in the Superintendent's contract. The Superintendent's contract for the period July 1, 2008 – June 30, 2011 contained a provision authorizing the payment of professional dues including the Optimist Club of Ashland and the Rotary Club of Ashland. The Superintendent's second contract, for the period July 1, 2011 – June 30, 2014, also contains a provision for payment of professional dues; however, the Optimist and Rotary Clubs are not stated as organizations authorized for payment. Contract analysis also indicates that from July 1, 2011 to present, the district improperly expended funds for the payment of dues and meals to the Optimist Club of Ashland and the Rotary Club of Ashland in the amount of \$1,826.23.

Ashland Independent School District and the Board of Education did not properly execute an agreement amendment for adjustments to the salary of the superintendent resulting in overpayments for the school years of 2009-2010 and 2010-2011.

The district also did not honor the terms of the Superintendent's July 1, 2011 – June 30, 2014 contract and incorrectly paid professional dues to the Optimist Club of Ashland and the Rotary Club of Ashland in the amount of \$1,826.23.

Per 2008-2011 Agreement provisions regarding Compensation, "The Board, based upon its evaluation of the Superintendent, may adjust the salary of Superintendent during the term of this Agreement; provided, that in no event shall the Superintendent be paid less than the salary specified above. Any such adjustment of salary made during the term of this Agreement shall be in the form of an amendment to this Agreement...."

Per 2011-2014 Agreement provisions regarding Professional Dues, "The Board recognizes that mutual benefits derived by the Superintendent and the Board of the Superintendent's membership in certain professional organizations. The Board agrees to pay the Superintendent's dues for the Kentucky Association of School Superintendents and the Kentucky Association of School Administrators."

Recommendation

We recommend the Ashland Independent Board of Education:

- Ensure the intended compensation for the Superintendent is paid based on contractual amounts, including base salary and fringe benefits such as professional dues; and,
- Continue to execute contract amendments for any increases in salary for the Superintendent.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-04: Ashland Independent Board Of Education Did Not Comply With Agreement Provisions Regarding Compensation (Continued)

Management's Response and Corrective Action Plan

As noted by the auditor, the Ashland Independent Board of Education approved all raises for the Superintendent during the 2009-2010 and 2010-2011 school years. This approval was inclusive of a 1% raise the Board provided to every employee of the district for 2009-2010 and 2010-2011. Although formal written amendments to the contract were not executed for those years, the Board believes that its agreement with the Superintendent and approval of the salary increases for those years did effectively amend the contract terms with the Superintendent, and all salary payments were therefore proper and authorized.

The Ashland Independent Board of Education recognizes the benefits of the Superintendent's membership in community and professional organizations and intends to execute a contract amendment for payment of dues for the Optimist Club of Ashland and the Rotary Club of Ashland, as well as other professional organizations such as the Kentucky Association of School Superintendents.

The Ashland Independent Board of Education and the Ashland Independent School District will take the following corrective action:

- 1. The compensation for the Superintendent will continue to be paid based on contractual amounts approved by the Board, including base salary and fringe benefits, including professional dues, as in the past.*
- 2. The Board will execute formal written contract amendments for any future changes to the Superintendent's contract, including salary increases for the Superintendent.*

Auditor's Reply

We do recognize that the current Employment Agreement is being properly amended when salary negotiations are occurring. However, we do reiterate that the raises for the Superintendent were not properly executed in the school year 2009-2010 and 2010-2011. The Agreement does specifically state, "Any such adjustments of salary made during the term of this Agreement shall be in the form of an amendment to the Agreement...". Therefore, a verbal agreement for an adjustment to salary is not sufficient.

The management response indicates that the Superintendent received a 1% raise that was provided to every employee in the district. The Employment Agreement does not include a provision in which he would be included as receiving the same salary compensations as other certified employees. Therefore, any adjustments to his salary should have been in the form of an amendment to the agreement.

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APPENDIX

**FINDING 2013-01
MANAGEMENT RESPONSE**

Appendix 1

Transaction Date	Vendor	Vendor Location	Expense Type	Amount
1/30/09	Cracker Barrel	Mt. Sterling KY	Restaurant – receipt was lost <i>Superintendent lunch</i>	\$25.26
1/30/09	Jeff Ruby's	Louisville KY	Restaurant – no itemized receipt; number of meals unknown <i>Superintendent & Board members for 11 people</i>	\$993.54
1/30/09	Al J's	Louisville KY	Lounge at Galt House – no itemized receipt; type of purchase is unknown <i>Superintendent & Board Members appetizers</i>	\$109.95
1/31/09	Porcini	Louisville KY	Restaurant – no itemized receipt; number of meals is unknown <i>Superintendent & Board members</i>	\$484.55
6/2/10	Cheddar's	Ashland, KY	Restaurant – no itemized receipt; purpose of meal not documented <i>Superintendent and Local Planning Committee (LPC) facilitator from KSBA to discuss the facilities plan for the district.</i>	\$33.50
7/14/10	Joe's Crab Shack	Louisville, KY	Restaurant – purpose of meal not documented <i>Blazer Principal, High Schools that Work Conference dinner</i>	\$23.09
11/21/11	Café Magnolia	Louisville KY	Café at Galt House – purpose of meal not documented <i>Safe Schools/Healthy Students Social Worker CEC Conference lunch</i>	\$16.78

**FINDING 2013-01
MANAGEMENT RESPONSE**

Transaction Date	Vendor	Vendor Location	Expense Type	Amount
3/7/12	Buca di Beppo	Louisville KY	Restaurant – for 7 people but documentation doesn't specify who <i>Director of Instructional Technology, District Technology Coordinator, Maintenance Technology Technician, Administrative Assistant, Technology Integration Specialist, Charles Russell Media Specialist, Charles Russell School Technician, KYSTE conference dinner</i>	\$183.65
3/8/12	TGI Fridays	Louisville KY	Restaurant – for 6 people but documentation doesn't specify who <i>District Technology Coordinator, Maintenance Technology Technician, Administrative Assistant, Technology Integration Specialist, Charles Russell Media Specialist, Charles Russell School Technician, KYSTE conference dinner</i>	\$158.70
3/15/12	Gazebo Lounge	Lexington KY	Bar and Lounge – no itemized receipt <i>Superintendent and Finance Officer, appetizers, KASA Finance mtg.</i>	\$40.00
3/15/12	Malones	Lexington KY	Restaurant – no itemized receipts <i>Superintendent dinner KASA Finance mtg.</i>	\$46.15

FINDING 2013-01
MANAGEMENT RESPONSE

Transaction Date	Vendor	Vendor Location	Expense Type	Amount
3/16/12	Frisch's	Winchester KY	Restaurant – for two people but documentation doesn't specify who <i>Superintendent and Finance Officer, KASA Finance mtg. lunch</i>	\$17.86
3/16/12	Blue Fire Restaurant	Lexington KY	Restaurant – no itemized receipt <i>Superintendent and Finance Officer, KASA Finance mtg. breakfast</i>	\$23.00
3/20/12	O'Charleys	Ashland KY	Restaurant – no itemized receipt <i>Superintendent, Woodlands Board Member, Ashland Community and Technical College Foundation Board president lunch to discuss Early College program scholarships</i>	\$35.94
Grand Total				<u>\$ 2,191.97</u>