



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

July 18, 2013

Fayette County Board of Education
Attn: John Price, Board Chairman
701 E. Main Street
Lexington, KY 40502

Members of the Board:

The Auditor of Public Accounts (APA) has completed its review of the Fayette County 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 include interviews with District staff, gaining an understanding of general policies and procedures of the District, analytical reviews of financial data, review of payments to vendors, and review of travel by District employees. We did not perform a full scope financial audit. The focus of our examination was to review the concerns brought to our attention with initial and ongoing information during the review. This letter presents findings and recommendations to strengthen controls and management oversight. A verbal finding was also issued offering recommendations to strengthen controls of document retention.

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

Detailed findings and recommendations based on our review are presented in 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: Tom Shelton, Superintendent; Rodney Jackson, and Mary Wright



FINDINGS AND RECOMMENDATIONS

**FAYETTE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Fayette County Public School District Has Potential Conflicts Of Interest With Vendors

Based on documents brought to the attention of the auditor, a potential conflict of interest existed between Fayette County Public School (FCPS) employees and Scholastic Inc. In December of 2009, after agreeing to purchase materials from Scholastic Inc., FCPS employees were invited to a mid-week conference in Nashville, TN. Scholastic waived the conference registration fee and provided free lodging for the employees. In addition, evening entertainment was provided by way of an open bar.

Although the conference was presented by Scholastic as an opportunity to network with other education professionals, the nature of the conference and timing of the invitation gave the appearance of a gratuity. In reviewing the documentation, these benefits appear to have been offered based on FCPS doing business with Scholastic Inc. Based on the analysis of financial information provided to the auditor, FCPS spent over \$1.5 million dollars with Scholastic from fiscal years 2009 through 2012. Most of that spending, totaling \$780,909, occurred during fiscal year 2010; the same year as the conference.

The creation of this conflict of interest occurred because FCPS employees were either unaware of the importance of maintaining arm's length dealings with vendors or lacked proper training. If employees with purchasing authority receive perks from vendors, future objectivity in procurement decisions could be questioned.

KRS 45A.455 Section (2) states: "It shall be a breach of ethical standards for any employee or former employee to solicit, demand, accept, or agree to accept from another person, a gratuity or an offer of employment, in connection with any decision, approval, disapproval, recommendation, preparation of any part of a purchase request."

FCPS Policy 03.1721 states: Employees are prohibited from soliciting, demanding, accepting or agreeing to accept from another person gratuities, kickbacks, or offers of employment in connection with the following: any decision, approval, disapproval, recommendation, preparation of any part of a purchase request, influencing the content of any specification or purchase standard, rendering of advice, investigation, auditing, or in any other advisory capacity in any proceeding or application, request for ruling or other determination, claim or controversy, or other particular matter, pertaining to any contract or subcontract and any solicitation or proposal thereof.

Recommendation

We recommend FCPS revise their policies and procedures to specifically define what benefits constitute a gratuity. In addition, training for staff on maintaining arm's length relationship with vendors should be provided. Conflicts of interests, and the appearance thereof, should be avoided so that all stakeholders can remain confident that FCPS is operating both as a good steward of public funds and in the best interest of the students.

**FAYETTE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

FINDING 2013-01: The Fayette County Public School District Has Potential Conflicts Of Interest With Vendors (Continued)

Management's Response and Corrective Action Plan

Management agrees that since no policies existed to prohibit this situation that it should be clarified through training and communication the arm length transaction perception and how it can be identified and avoided. Management will review and revise policies and procedures to specifically define what benefits constitute a gratuity. Management has also created a Best Practice mandatory training for all executive management to attend related to the Auditor of Public Accounts Best Practices. This training will be performed on July 31, 2013, in addition to this training a travel form that includes pre and post conference attendance has been created for utilization as a measure. The questions that will be asked to see the real purpose of the conference on the form are the following:

- a. Why is the PD important for an employee to attend? (Pre-PD)*
- b. How will you use this PD and share with your department/team of FCPS as a whole upon your return? (Pre-PD)*
- c. What is your expected outcome, professional growth plan, &/or school growth plan going to be impacted? (Pre-PD)*
- d. Findings and observations (what did you learn?) (Post-PD)*
- e. What conclusions and recommendations would you suggest based on what you learned? (Post-PD)*
- f. Proposed follow-up action if any for improvement for yourself, your department, or FCPS as a whole? (Post-PD)*
- g. How will you share/pass on what you learned with staff? (Post-PD)*
- h. Individuals contacted or networking opportunities made? (Post-PD)*

Management disagrees however as to the wording of the finding of being a true conflict of interest because there was no discrepancies or findings in all of the documentation audited & tested related to the purchasing and procurement of goods and services by the district. Management agrees that there was poor judgment, which is an ethical issue already being addressed by the Superintendent. Management also ascertains that if there would have been such policies, it would have either not happened or would have actually been a conflict. Management's interpretation of the finding is that the policies that should be and that are being developed will be part of the code of ethics developed by the superintendent so that this does not happen in the future.