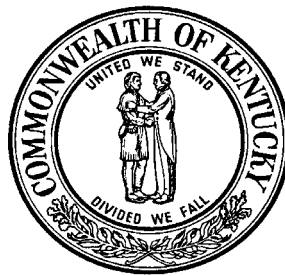


**BRACKEN COUNTY FOR LITERACY'S
ADMINISTRATION OF ADULT EDUCATION GRANTS
FROM THE COUNCIL ON POSTSECONDARY EDUCATION
AND KENTUCKY ADULT EDUCATION**

**For The Period
July 1, 2003 Through June 30, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

July 8, 2005

Reecie Stagnolia, Associate Vice President
Kentucky Adult Education
Council on Postsecondary Education
1024 Capital Center Drive, Suite 250
Frankfort, KY 40601

Michael Clark, President
Bracken County for Literacy, Inc.
5771 Powersville-Harrison Road
Brooksville, KY 41004

Re: Adult Education Grants

Dear Mr. Stagnolia and Mr. Clark:

This report contains the results of the performance audit of Bracken County for Literacy, Inc.'s administration of the Adult Education Grant for the fiscal year ending June 30, 2004. The Council on Postsecondary Education and Kentucky Adult Education contracted with us to conduct performance audits of selected local adult education providers. This report represents our findings, recommendations, and the provider's responses.

We conducted this performance audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

We greatly appreciate the courtesies and cooperation extended to our staff during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Crit Luallen".

Crit Luallen
Auditor of Public Accounts



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BRACKEN COUNTY FOR LITERACY, INC.'S ADMINISTRATION OF ADULT EDUCATION GRANTS FROM THE COUNCIL ON POSTSECONDARY EDUCATION AND KENTUCKY ADULT EDUCATION AS OF JUNE 30, 2004

EXECUTIVE SUMMARY

PURPOSE AND SCOPE

The Council on Postsecondary Education and Kentucky Adult Education (KYAE) selected the Bracken County for Literacy, Inc. (local provider) for a limited scope performance audit of its administration of the Adult Education and Family Literacy Grant for Bracken County. An on-site review was conducted on April 18 through April 20, 2005 to address the following objectives:

- Reconcile student and faculty data electronically submitted to Adult Education with the information retained by the local provider.
- Determine whether the local provider's professional development activities comply with applicable professional development policies and procedures.
- Determine whether local providers' expenditures and costs comply with the terms of their grant agreement and reconcile to invoices submitted.
- Report internal control weaknesses identified during our audit that relate to the audit's objectives.

To accomplish these objectives, the performance audit team reviewed the Policy and Procedure Manual for Kentucky Adult Education, as well as the provider's grant proposal and final agreement with KYAE. During the on-site review, the audit team reviewed the provider's accounting records (trial balance/general ledger), interviewed program administrators regarding internal controls related to the above grants, and tested samples of participant files, personnel files, and expenditure documentation for compliance with applicable requirements. Below is the summary of findings:

FINDINGS SUMMARY

FINDING	Disallowed Costs
The financial records provided consisted of a Register Report that listed each expenditure without any summary totals. An attempt was made to categorize the expenditures to compare the amounts to the final KAE-10 Expenditure Report. This comparison resulted in several variances and a difference of \$14,402 that was not supported by the provider's accounting records.	\$14,402.04
The amounts reported on the final KAE-10 Expenditure Report (provided to the auditors) as the year-to-date expenditures for Professional Development does not agree with the monthly KAE-10 Expenditure Report's total.	N/A
One (1) employee file did not contain adequate documentation of required orientation training.	N/A

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Two (2) instructors did not have evidence of a bachelor's degree on file.	N/A
Expenditure files were not provided for testing during or after the fieldwork. Therefore, expenditures reported on the Register Report could not be tested for supporting documentation. This means that the \$54,047.16 per the Register Report is considered questionable.	N/A
Six (6) significant internal control deficiencies were noted.	N/A

**BRACKEN COUNTY FOR LITERACY, INC.'S ADMINISTRATION OF ADULT
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RESULTS AND RECOMMENDATIONS

FINANCIAL REPORTING AND COMPLIANCE

Scope and Methodology

The KAE-10 Expenditure Reports were compared to the line item budget approved in the final agreement modification. This comparison was used to determine whether the provider's reimbursements complied with the approved budget.

The KAE-10 Expenditure Reports were then compared to the internally generated financial records maintained by the local provider. This comparison was used to determine whether the local provider's accounting records support the amounts requested for reimbursement on the KAE-10 Expenditure Reports.

Findings

The auditor could not reconcile the provider's financial records to the final KAE-10 report. The provider did not provide financial records at the time of the audit and only sent financial records after receiving a report draft asking for responses.

The financial records provided consisted of a Register Report that listed each expenditure without any summary totals. Based on the descriptions provided, an attempt was made to categorize the expenditures in order to compare the amounts to the final KAE-10 Expenditure Report. This comparison resulted in several variances and a difference of \$14,402 that was not supported by the provider's accounting records. The following table illustrates the variances and the amount that is considered disallowable due to the lack of support.

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Basic Grant (Adult Education)	KAE-10 Expenditure Report 6/30/04	Provider's Trial Balance 6/30/04	Difference
Administrative Personnel	\$5,048.83	\$0.00	\$5,048.83
Other Administrative Costs	150.00	0.00	150.00
Operating Costs	3,420.00	3,753.49	(333.49)
Instructional Personnel	27,721.04	38,997.22	(11,276.18)
Other Instructional Costs	2,585.00	7,432.17	(4,847.17)
Equipment Costs			
Development Funds	7,824.33	2,644.96	5,179.37
Performance Reward			
Sept. Conference Registration	400.00	0.00	400.00
Professional Development	1,300.00	1,043.75	256.25
Family Literacy			
Administrative Personnel	1,860.00	0.00	1,860.00
Other Administrative Costs	350.00	0.00	350.00
Operating Costs			
Instructional Personnel	11,774.00	0.00	11,774.00
Other Instructional Costs	6,016.00	175.57	5,840.43
Equipment Costs			
Development Funds			
Performance Reward			
Sept. Conference Registration			
Professional Development			
TOTAL	\$68,449.20	\$54,047.16	\$14,402.04

After this comparison was completed, there was an additional \$17,886.56 in unallowable expenditures that should not have been reimbursed. The following table breaks down these expenditures.

Miscellaneous Expenditures	Amount
Overdraft Charges	\$308.00
Quarterly Taxes	6,807.20
City Taxes	640.47
941 Taxes	3,103.18
Loan Payments	7,027.71
Total	\$17,886.56

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In addition, the amounts reported on the final KAE-10 Expenditure Report (provided to the auditors) as the year-to-date expenditures for Professional Development does not agree with the monthly KAE-10 Expenditure Report's total. There were amounts requested in September, January, February, and April using a separate KAE-10 Expenditure Report sometimes labeled as Family Literacy.

Recommendations

We recommend the provider establish a Trial Balance using the same accounts/categories used in the expenditure reports. This Trial Balance should allow a proper reconciliation of each expenditure category to the KAE-10 Expenditure Reports each month to ensure that amounts requested are supported by the provider's accounting records.

We recommend that the provider's KAE-10 Expenditure Reports should be prepared in the same format each month and that all Basic Grant expenditures be included on the same KAE-10 Expenditure Report. A review should be performed to verify that all information reported each month rolls up into the year-to-date amounts on the final KAE-10 Expenditure Report.

Provider Response

As president of Bracken County for Literacy, Inc., I was dismayed that all information either was not available for the auditor or was not provided. I believe that all budgeted funds received during fiscal year 2003-2004 were used as directed. The Program Director tells me she did not understand that this is what you wanted when you visited her office.

I am sure the board will want to look into this at greater lengths. We will have a full audit done for fiscal year 2003-2004 if the state wishes. In any event I will suggest to the board that an in house audit be done concerning all expenditures for fiscal year 2003-2004. I will also suggest to the board that we implement all recommendations of the auditor and receive help from the state should we have questions concerning their implementation.

Our board not only wants to run a program that will provide for the needs of those who need our services but also wants to comply with all requirements to assure the state that the funds are being expended properly. We believe that all reimbursed funds for fiscal year 2003-2004 were properly expended and should have been reimbursed. If our documentation is not adequate to show this we need to correct our documentation.

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PARTICIPANT ELIGIBILITY AND RECORD KEEPING

Scope and Methodology

A total of 54 participants were selected randomly from the electronic student data sent from KYAE and compared to the documentation maintained in the participant files. We examined the files for the following:

- Proper eligibility documentation.
- Proper assessment testing.
- Evidence to support the achievement of goals/objectives.
- Agreed the establishment and achievement of goals/objectives to the information reported to KYAE.
- Proper separation from the program when applicable.
- Other requirements were tested based upon the applicable program requirements.

The participants tested received services during the period of July 1, 2003 and June 30, 2004.

Findings

No exceptions noted.

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PAYROLL AND STAFF REQUIREMENTS

Scope and Methodology

A sample of 13 payroll disbursements, representing 17% of the total payroll expenditures, was judgmentally selected for payroll testing. Personnel files were examined to verify that staff had received the required professional development training hours and had completed an Individual Professional Development Plan if applicable. Timesheets were examined for existence and approval. Personnel files were examined to verify evidence of the instructor's bachelor's degree. A determination was made as to whether the employee was included in the staff listing information reported to KYAE.

Findings

CPE and KYAE require all new instructors and program directors complete required KYAE orientation training within 6 months (instructors: Orientation to Adult Education; Orientation to Instruction and Curriculum) or one year (program directors: Orientation to Adult Education; Orientation to Program Management) of employment. One (1) employee file did not contain adequate documentation of required orientation training.

CPE and KYAE require that instructors hired after July, 1998 have a bachelor's degree. There were two (2) instructors that did not have evidence of bachelor's degree on file.

Recommendations

We recommend the creation of a personnel checklist of items required for inclusion in each employee file to facilitate a periodic review of the contents to ensure that the required documentation is being maintained. Employee files should include the proper evidence to support compliance with orientation training and KYAE's bachelor's degree requirement when applicable.

Provider Response

From the Program Director:

Employees were told to present their timesheets, mileage records, and training records for FY 2004 only. All employees had completed orientation before FY 2004. One of these instructors is an instructional assistant and does not require a bachelor's degree, although she does have 2 associate degrees. If she was listed as an instructor, it was a misprint. The other instructor has a Bachelor's Degree. She has been asked to bring a copy for our records. It is now on file. Each employee now has an employment file.

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From the President:

The Board and I were of the understanding that one of these instructors was hired as an aide and was not required to have a bachelor's degree. If the grant for 2003-2004 listed her as an instructor I believe that was an error. We also understood that the other instructor had a bachelor's degree. I will suggest to the board that your recommendations are approved and I am sure they will agree.

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PURCHASING/EXPENDITURE COMPLIANCE

Scope and Methodology

Expenditures should be tested for authorization/approval, supporting documentation, proper recording, and that it was an actual expense during the grant period of July 1, 2003 and June 30, 2004.

Findings

CPE and KYAE require that accounting records are maintained and supported by source documentation. Expenditure files were not provided for testing during or after the fieldwork. This information was reported to be at the Program Director's home but it was never provided to the auditor. Therefore, expenditures reported on the Register Report could not be tested for supporting documentation. This means that the \$54,047.16 per the Register Report is considered questionable.

Recommendations

We recommend that expenditure information be maintained on the premises and be available for audit purposes. The provider agreed in their contract to provide access to any books, documents, papers, records, or other evidence for the purposes of a financial audit or program review. These records are to be maintained for a period of not less than three years after the closing date of the contract.

Provider Response

From the Program Director:

When asked for bank statements on the very last day of the audit, the Program Director did have them at home, but offered to get them as she only lived 5-10 minutes away. She was told that it was okay, not to worry about it. She often does work on her computer at home and it was a simple oversight. She had been checking balances, and making certain that expenditure reports, invoices, etc. had no mistakes in readiness for this audit. Such records are on file in this office today. It should also be noted that the provider's Register Report, as well as invoices and receipts charged to the grant were available, not requested.

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From the President:

The board and I were unaware that any documents or materials were not present at the literacy program. I will suggest to the board that we adopt a resolution that requires all documentation, statements and property of the literacy program be kept on premises at all times.

I will also suggest to the board that we review all information and documentation so that it is in a form that will meet the approval of an auditor.

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PROFESSIONAL DEVELOPMENT REIMBURSEMENT COMPLIANCE

Scope and Methodology

Professional Development expenditures should be tested for proper authorization, supporting documentation, and adherence to approved rates and reimbursement policies.

Findings

CPE and KYAE require that accounting records are maintained and supported by source documentation. Expenditure files were not provided for testing during or after the fieldwork. This information was reported to be at the Program Director's home but it was never provided to the auditor.

Recommendations

We recommend that expenditure information be maintained on the premises and be available for audit purposes. The provider agreed in their contract to provide access to any books, documents, papers, records, or other evidence for the purposes of a financial audit or program review. These records are to be maintained for a period of not less than three years after the closing date of the contract.

Provider Response

From the President:

As stated above, the board and I were unaware that all materials were not at the literacy program for inspection. We will endeavor to see that they are from now on.

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INTERNAL CONTROLS RELATING TO GRANT

Scope and Methodology

Bracken County for Literacy, Inc.'s fiscal administrator (Program Director) was given an Internal Control Questionnaire regarding the controls in place for cash disbursements, bank reconciliations, revenue, expenditures, and payroll. The questionnaire was completed by the fiscal administrator and reviewed for any significant control deficiencies.

Findings

According to the Internal Control Questionnaire completed by the provider, the following significant internal control deficiencies were noted:

- Checks are prepared and signed by employees who also approve the invoices.
- Signing of blank checks is not forbidden when going to Wal-Mart to purchase supplies.
- KAE-10 Expenditure Reports are not reviewed for accuracy nor is the reconciliation to the general ledger.
- There are no policies and procedures related to purchasing practices.
- Purchase orders are not used in the purchasing function.
- Employment applications and investigations are not required for new employees and personnel files do not include pertinent employment information.

Recommendations

We recommend that the provider establish policies and procedures to address the noted control deficiencies and the other reported exception areas. Review procedures should be implemented for all expenditures and requests for reimbursements. Procedures should be established to investigate and document pertinent employment information.

Provider Response

From the Program Director:

Checks are signed by employees who also approve the invoices but are also signed and approved by the Treasurer or President of the Bracken County for Literacy Board. Two signatures must be on the checks before they can be cashed. Signing of blank checks was not forbidden when going to Wal-Mart to purchase supplies, however, each check was dated, made out to Wal-Mart, and signed by only one person. The second person must sign after supplies had been purchased. This practice was changed in October 2004. No blank checks have been signed since.

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From the President:

We became aware that a past Treasurer would sign a blank check for small supply items to be purchased for the program. This was addressed and disallowed by the board. If the auditor believes we should adopt a purchase order policy we will do so. Now the Program Director orders her supplies and, when the bill is to be paid, the Treasurer reviews the bill and signs the check along with the Program Director. This is a very small amount of our budget and few checks. Payroll checks, rent, etc. are made out by the Program Director, reviewed by the treasurer and must be signed by both. The by-laws permit the President to sign in lieu of the Treasurer but I don't believe the President's name is even on the signature card at the bank to permit this at present. I will suggest to the board other control procedures as addressed by the auditor. Perhaps a review committee to review all checks written on a monthly or quarterly basis.