



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

July 22, 2013

Wendell Back, Chairman
Menifee County Board of Education
PO Box 110
202 Back Street
Frenchburg, Kentucky 40322

Subject: Menifee County School District Special Examination

The Auditor of Public Accounts (APA) has completed its review of the Menifee 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 and gaining an understanding of general policies and procedures of the District. 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.

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,

Adam H. Edelen
Auditor of Public Accounts

c: Charles Mitchell, Superintendent



FINDINGS AND RECOMMENDATIONS

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-01: The Menifee County Disaster Relief Committee Was Not Properly Organized As A Non-Profit Entity; And Donations Were Commingled With The Menifee County School District's Funds

In response to the March 2, 2012 tornado in Menifee County, county government officials requested the Menifee County School Superintendent to act as the fiscal agent for contributions received by the county for disaster recovery assistance. In addition, the Menifee County Judge Executive organized a Committee ("Menifee County Disaster Relief Committee"), although he did not serve on the committee, to oversee donations (including financial and nonfinancial contributions), assess the extent of need within the community, and approve the limited assistance of home repairs and/or restoration for those individuals and families without adequate insurance. The composition of the committee consisted of people not associated with the Menifee County school system, school board, or donor community, and were given the responsibility for determining the administration of donated funds.

In consideration of concerns expressed about whether contributions received for benefit of tornado victims were tax deductible to the donors, a recommendation was made to the Superintendent to have the school board act as the charitable organization, whereby using the Board's bank account for depositing the various donations. The donations received were therefore deposited into the Menifee County School Board's bank account. In addition, the school district's general ledger system (MUNIS) was utilized to account for all tornado-related contributions and expenditures.

Based upon our examination, the committee formed to address the disaster relief efforts was not formally organized as a 501(c)(3) non-profit entity, nor did the committee establish a separate bank account for the depositing and administering of disaster relief contributions. Likewise, there was no formal documentation of donors contributing to the disaster recovery, such as donor's name, donor's address, date of contribution, contribution type, and the contribution value or amount. Although the intentions to assist and serve the community were commendable, the formation of a disaster relief committee under the auspices of a non-profit organization was misleading, as well as improper with respect to those contributors who would claim supporting donations as charitable contributions on year-end tax returns filed with the Internal Revenue Service and/or Kentucky Revenue Cabinet.

The failure to create a legally approved charitable organization with formal policies and procedures relating to the collection and expenditure of funds collected for disaster relief damages the public's trust that the charitable donations are going for intended purposes.

The depositing of disaster relief donations into the Menifee County School Board's bank account commingles private funds with public funds. Consequently, unless the donations were specifically designated for the disaster relief related to the March 2, 2012 Menifee County tornado, and accurately accounted for in the committee's MUNIS accounts, the contributions would be difficult to track and therefore would fall under the school board's discretion.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-01: The Meniffee County Disaster Relief Committee Was Not Properly Organized As A Non-Profit Entity; And Donations Were Commingled With The Meniffee County School District's Funds (Continued)

Recommendation

We recommend that in the event of future natural disasters, private contributions be clearly designated by their donors, and that those contributions be formally administered by an organized disaster relief entity (e.g., Red Cross, or other 501(c)(3) disaster relief). In the event community leaders would like to establish a charitable disaster fund, it should be legally organized as a separate 501(c)(3) organization with formal policies and procedures to protect the public's trust that donations are being used for their intended purposes.

Management's Response and Corrective Action Plan

Meniffee County School District has one central operating account with each fund or project accounted for separately and donations were designated specifically for and accurately accounted in MUNIS project #0012D. The Meniffee County Disaster Relief Committee plans to transfer all remaining funds to the "Meniffee County Long-Term Recovery" Committee as soon as their 501(c)(3) entity is established. The Long-term recovery committee applied for this status in May 2012 and has still not received confirmation. It would have been unconscionable for victims to not receive any help through this date. Our school board has a policy #10.3 that "It shall be the policy of the Board to work cooperatively with other community organizations in matters that promote the well-being of the schools and community as a whole." There are no board policies in place that deny the school the right to serve as fiscal agent for a project that is not solely related to school purposes. It was always the intent of the school district and committee to serve the people of this community to the utmost of our ability. In the future, we hope the Long Term Recovery Committee will be confirmed and able to serve our community. The school district will not accept donations for disasters in the future.

Responded to by: Meniffee County School District

Auditor Reply

In its response, the District indicated that donations were designated specifically for and accurately accounted for in MUNIS under a project code. We would like to reiterate that we were unable to determine the accuracy of the accounting because a review of donations identified that donors were not consistently instructed to properly code their checks to disaster relief. Therefore, the risk comingling creates is that the private donations could be deposited and miscoded inadvertently to accounts of the District. Also, although we understand and appreciate the District's intentions to organize a committee to administer and facilitate disaster recovery assistance to the community in response to the March 2, 2012 tornado, the committee formed was not a legally approved charitable organization and therefore, was not in a position to accept charitable donations.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-02: The Menifee County School District Does Not Have Adequate Policies And Procedures For Bank Reconciliations And Timely Follow-up On Outstanding Checks

During our examination of the Menifee County Disaster Relief project, we noted that the accounting records were maintained by the Menifee County School District (District). MUNIS (Municipal Information System) is the financial accounting software system utilized by the District. One of the MUNIS reporting features is a system-generated "AP Check Reconciliation Register," which identifies all checks outstanding (i.e. "Uncleared") as of the designated period. Although the Disaster Relief project can be separately identified within the MUNIS system (Project Code 0012D), the listing of "Uncleared" checks is a comprehensive listing of the checks outstanding for all Projects/Funds for the Menifee County School District. We did not identify any attempt by the District to separately identify the outstanding checks associated with the Disaster Relief project, and therefore, there is no specific reconciliation of the Menifee County Disaster Relief Fund.

The District has included the terms "Void After 30 Days" on the face of all checks. Upon examining the checks outstanding report for February 2013 for all Project/Funds, we noticed 16 checks totaling \$1,919.87 that were 30 days or older. Of those 16, eight (8) checks totaling \$964.59 have remained outstanding for more than 12 months, the oldest being 23 months. As part of our examination related to the Disaster Relief project, we noted one of the checks written on August 16, 2012 for disaster relief remains outstanding at the end of March 2013. The outstanding check includes two (2) Disaster Relief invoices totaling \$500 from July 2012. It appears that the District has not implemented formal policies and procedures to follow up with vendors on old outstanding checks. Likewise, there is no policy or procedure requiring such follow-up be documented.

The failure by the District to implement policies and procedures requiring bank reconciliations by specific fund and timely follow-up with vendors for outstanding checks constitutes an internal control deficiency. Furthermore, failure to perform timely follow-up of items outstanding on monthly bank statements could allow errors to go undetected and/or become difficult to resolve after a long period of time has passed. Lastly, failure to have in place the necessary procedures to follow-up on checks outstanding longer than thirty days, may place the District in an unnecessary past-due status with vendors and potentially damage the District's credit rating.

Good internal controls require policies and procedures requiring timely reconciliation of all bank accounts by specific funds, as well as the follow-up on all outstanding items, including checks outstanding and deposits in transit for those funds. An explanation of the follow-up should be documented, and any necessary subsequent measures performed.

Recommendation

We recommend the Menifee County School District formally implement policies and procedures to improve internal controls over its bank reconciliation and financial record-keeping functions with respect to vendor payments and checks outstanding, by specific fund (or project code). The policies and procedures should require the District to conduct a timely follow-up with its

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 13-MCSD-02: The Menifee County School District Does Not Have Adequate Policies And Procedures For Bank Reconciliations And Timely Follow-up On Outstanding Checks (Continued)

Recommendation (Continued)

vendors concerning status of checks that remain outstanding for a significant period of time. Furthermore, the policies should require that documentation of the follow-up be maintained, including the date of inquiry, stop payment requests, the need to reissue payments, as well as the corresponding accounting entries in the general ledger in order to properly record and reflect the transactions in the financial records. These steps should be established to ensure that the District maintains adequate internal controls over its bank and financial records, is credited timely for all vendor payments, and that it remains in good financial standing.

Management's Response and Corrective Action Plan

There are and have been School Board policies in place concerning internal controls of the Menifee County School District. Some of the KSBA policies concerning such are numbers 01.413, 04.21, 04.31, 04.9, 04.91. The Treasurer reconciles all funds and projects within the school district operation monthly. The school district is audited annually by an independent auditing firm. The outstanding check with the two disaster invoices in question was to a local vendor. We will follow-up on all outstanding checks in a timely manner. The bottom line being that when stop payments are made and checks reissued our financial situation remains exactly the same.

Responded to by: Menifee County School District

Auditor Reply

Proper internal controls over bank accounts and monthly bank reconciliations require more than determining which checks have cleared the bank account each month, and designating them within the MUNIS accounting system. Internal controls also require the timely follow-up on all checks outstanding. This control is not only to determine the most current cash available to the Board, but also to determine the status of any unpaid vendors in order to remain in good financial standing.

In addition, the Board should review its banking agreement. All District checks currently include the terms "Void After 30 Days" on the face of the checks. Policies and procedures concerning what constitutes a check as void should be based upon the Board's banking agreement.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-03: The Menifee County Disaster Relief Committee Failed To Follow Established Criteria For Disbursement Of Donated Funds And Did Not Adequately Document Approvals For Expenditures

During our examination of the Menifee County School District (District), we determined that the Menifee County Disaster Relief Committee did not maintain appropriate supporting documentation to justify that the individuals receiving disaster relief met appropriate eligibility criteria for receiving the assistance. Upon our request, the Committee furnished a document that outlined the Committee's criteria for determining eligibility and criteria for the distribution of funds collected from the donor contributions. When we requested additional supporting documentation for each recipient, however, the Committee was unable to furnish the information. Consequently, the Committee failed to obtain the following items it had described in its criteria document:

- Criteria for Eligibility:
 - Copy of the disaster claim denial from homeowner's insurance company
 - Evidence that storm victim has not and will not be receiving assistance from FEMA
 - Copy of deed, listing victim as legal owner
 - Evidence that damage is the direct result of the March 2, 2012 tornado

- Criteria for Distribution of Funds:
 - Assessment of storm damage by selection of Committee members
 - Committee's evaluation or rate of damage

Furthermore, there were no applications on file with the Disaster Relief Committee to document each victim's name, address, amount of award approved by the Committee, specific repairs and/or replacements, invoices by project, etc. Although the Committee's intentions were to provide fair and equitable assistance to the Menifee County tornado victims, it failed to clearly document the rationale for decisions made, as well as provide a transparent accounting by project.

Likewise, there is no evidence that the Menifee County School Board (Board) reviewed, discussed, and made recommendations for final approval of the above criteria and ultimate distribution of disaster funds.

The failure to have established and approved guidelines for determining eligibility for disaster relief puts the District and Board at risk for fraudulent and/or questionable payments. Furthermore, the failure to maintain appropriate documentation justifying that all recipients met the approved criteria draws into questions whether donated funds were used for the purposes for which they were solicited.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-03: The Meniffee County Disaster Relief Committee Failed To Follow Established Criteria For Disbursement Of Donated Funds And Did Not Adequately Document Approvals For Expenditures (Continued)

Recommendation

We recommend that in the event of future natural disasters, private contributions be clearly designated by their donors, and that those contributions be formally administered by an organized disaster relief entity (e.g., FEMA, Red Cross, or other 501(c)(3) disaster relief), whereby the criteria for eligibility and equitable distribution of relief funds and other aid has been established based upon and the organization's formal policies.

Management's Response and Corrective Action Plan

Members of the Disaster Relief Committee and community officials determined that individuals helped were all in the March 2, 2012 Storm's Path. The committee has obtained and has in their records a copy of deeds for victims whose homes were rebuilt. The committee was not able to obtain FEMA assistance records due to confidentiality laws. The committee was not able to obtain a copy of the homeowners insurance because in most cases personal records were destroyed by the tornado. There was verbal communication and verification received by the committee. We realize and acknowledge there should have been better documentation and records kept.

Responded to by: Meniffee County School District

Auditor Reply

During our examination we were told by the Meniffee County Disaster Relief Committee (Committee) that assistance for the March 2, 2012 tornado victims was based upon specific criteria for eligibility and criteria for distribution of funds. When we requested, however, the supporting documentation and any related applications for assistance, the Committee admitted that such criteria was never applied, and the requested documentation did not exist. Verbal agreements and criteria for determining those in need were not well documented in meeting minutes or other records, and expenditure documentation did not adequately identify the person or project for which the payment was intended.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-04: The Menifee County Disaster Relief Committee And Menifee County Board Of Education Approved The Use Of Disaster Relief Funds For Items Not Directly Assisting Tornado Victims

During our examination of the Menifee County Disaster Relief project, we noted disbursements were made from the charitable contributions that did not appear to directly assist tornado victims, or pay for the recovery and restoration of homes damaged or destroyed during the March 2, 2012 tornado in Menifee County as stated as being the Committee's objectives. The following is a summary of items purchased or paid for from the donated funds:

- 18 vouchers for gasoline and/or kerosene totaling \$1,400.00
- 222 meals purchased totaling \$1,335.17
- 6.75 cases of Ale-8-One soft drink totaling \$162.00
- Utility bill reimbursement of \$159.99

The fuel vouchers totaling \$1,400 were purchased during the period between March 2012 and July 2012. Upon reviewing the Menifee County Disaster Relief Committee's (Committee) meeting minutes, we noted that the Committee had only approved \$250 of fuel vouchers during its June 25, 2012 meeting. The Committee's minutes from March 16, 2012 document a discussion about the possibility of providing gas vouchers to some of the relief volunteers, however, there was no decision made. Consequently, there was no evidence supporting the approval by the Committee for \$1,150 of the fuel vouchers purchased.

The invoices for meals (\$1,335.17) and soft drinks (\$162) were paid on behalf of volunteers for six days during May 2012. The approval of these costs was not documented in the Committee's May 2012 minutes, or subsequently. The April 23, 2012 Committee minutes indicated the Committee's approval to pay \$97.53 for food for volunteers from other states; however, there were no invoices/receipts that indicate that those food costs were paid. Likewise, there was no evidence within the MUNIS financial system of those expenses.

The utility expense of \$159.99, paid in June 2012, was documented as a reimbursement to an individual for use of electricity, and included three services periods covering February 29, 2012 through May 31, 2012. The June 4, 2012 Committee minutes document the Committee's approval to pay a \$175 electric bill; however, the minutes do not specify that the payment is for reimbursement to an individual.

In addition to the lack of transparency concerning the Committee's discussion and approval of the various invoices paid, the Menifee County School Board (Board) minutes provide no evidence of having discussed, reviewed and approved the payment of any invoices submitted by the Committee. It appears the Board received a list of District related expenditures, in which the disaster relief expenditures were included but not separately identified. As the fiscal agent of the Committee, the Board did not appear to have sufficient detail for determining whether expenditures met the Committee's objectives.

The failure by the Committee and Board to consistently document and approve expenditures with full disclosure as to their purpose jeopardizes the public's trust that donated funds were used as intended.

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-04: The Menifee County Disaster Relief Committee And Menifee County Board Of Education Approved The Use Of Disaster Relief Funds For Items Not Directly Assisting Tornado Victims (Continued)

Approval of expenditures by the Committee and Board, at a minimum, should have been required for all funds related to the established objectives for relief effort given the Committee, with any exceptions clearly documented and approved.

Good internal controls over the expenditure process dictate that policies and procedures be in place requiring the review, approval, and verification of the validity and purpose of each expenditure. The details of the approvals should be clearly documented in the applicable Committee and Board minutes.

Recommendation

We recommend the Menifee County Disaster Relief Committee document the specific use and approval of any remaining funds in the Disaster Relief project fund. Evidence of the Committee's approval for each expenditure should be clearly documented and submitted to the Menifee County School Board for ultimate approval and payment. The details of all approvals should be clearly documented in the respective Committee's Minutes and Board's Minutes.

Management's Response and Corrective Action Plan

The Disaster Relief Committee has always intended to release the remaining funds to the "Menifee County Long Term Recovery" organization once their 501c3 status was in place, which they applied for in May 2012. The committee will transfer all remaining funds after current funds that are encumbered are spent. Then the MUNIS project #0012D will then after be closed. We acknowledge that not all documentation was easily accessible, but there was verbal approval for everything. At this critical time many mistakes were made but many tornado victims that were very much in need were helped.

Responded to by: Menifee County School District

**MENIFEE COUNTY SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS**

Finding 2013-05: A Potential Conflict Of Interest Existed Related To Lease Payments For A Commercial Warehouse Formerly Owned By The Family Of The Meniffee County Disaster Relief Committee Chairman

Immediately following the March 2, 2012 tornado, donated materials and monetary contributions were dropped-off by members of the general public at various Meniffee County schools. The schools also provided temporary shelter and food to those in need. As more donated building supplies and other nonperishable items arrived, the need grew for a larger storage facility. The Meniffee County Judge-Executive organized the Meniffee County Disaster Relief Committee (Committee) to oversee all donations, assess the extent of need within the community, and approve the limited assistance of home repairs and/or restoration for those individuals and families without adequate insurance. Due to the urgency of need for a larger storage facility, the Committee suggested contacting the owner of a vacant commercial warehouse that had formerly been Amburgey Wholesale Supply. The owner of Worley Properties, LLC, permitted use of the warehouse for three months. However, at the end of the three-month period, the storage facility was still needed for the remaining donated items. The owner agreed to lease the warehouse for an additional three month term, and continue the lease on a month-to-month basis if necessary. The Committee voted to retain the warehouse and pay a \$1,500 per month lease payment.

During our examination it was determined that the commercial warehouse leased had previously been owned by the family of the Committee Chair and still operated under the family's name. Based on discussions with the Committee Chair, the business and building sold several times since 2003. In 2007, the business and building were acquired by a Georgia-based company, owned by the same person that owns Worley Properties, LLC. The business was formally renamed Amburgey Wholesale Supply, Inc. We confirmed the registration of Amburgey Wholesale Supply, Inc. with the Kentucky Secretary of State's corporate listings. The company's dissolution was filed with the Secretary of State on March 7, 2012.

Although Amburgey Wholesale Supply Inc. has been dissolved, the website still displays the business name and also includes the name of the Committee Chair as a Kentucky contact. In researching this potential conflict of interest, we obtained copies of three checks payable to Worley Properties, LLC totaling \$12,000. When examining the check details, and supporting purchase orders, we noted that the address listed on the checks and on the purchase orders for Worley Properties, LLC was the home address of the Committee Chair.

It is apparent that during the active stages of the disaster relief, the suggestion by the Committee to use a known vacant building previously owned by the Committee Chair's family may appear to be reasonable. However, three months later, when payment arrangements were made for the continued use of the space, it could appear to be a conflict of interest for the building lease to be made with a business still containing the name of the Committee Chair on its website, and using the Committee Chair's address. Based on information reviewed, we did not determine that the Committee Chair received any of the proceeds from the rental of the property or that other improprieties took place. However, these do appear to be red flags that should be brought to the attention of the Meniffee County School Board (Board).

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FINDINGS AND RECOMMENDATIONS**

Finding 2013-05: A Potential Conflict Of Interest Existed Related To Lease Payments For A Commercial Warehouse Formerly Owned By The Family Of The Menifee County Disaster Relief Committee Chairman (Continued)

The failure by the Board to identify and prohibit potential conflicts of interest may be attributable to the lack of internal controls that require a review and approval by the Board of all invoices and supporting records resulting from the Committee's decisions and corresponding transactions. Consequently, the failure to implement adequate internal controls over the disbursement of disaster relief funds increases the potential for questionable and/or unethical decisions or business transactions to occur.

Recommendation

We recommend the Menifee County School Board implement policies and procedures that include the review, approval, and verification of validity of all business transactions and invoices prior to payment. The policies and procedures should provide guidance for the formation of contracts with respect to related parties or other conflicts of interest. The details of all approvals should be clearly documented in the Board's minutes. We recognize it is difficult for proper internal controls to be developed during a crisis, and therefore we recommend future charitable donations related to emergency relief be given to active disaster relief organizations with established policies and procedures in place to handle such emergencies for the community. If a community based disaster relief fund is deemed necessary, it should be established as a separately legal charitable organization with policies and procedures in place prior to its involvement with an emergency situation.

Management's Response and Corrective Action Plan

Due to the mass amounts of donations received by the Menifee County Disaster Relief Committee including furniture, building supplies, tools and equipment, the Committee by suggestion of the Menifee County Judge Executive, recommended contacting the owner of the only vacant warehouse in the county. The Committee Chairman expressed his concern over this due to the history of the building. The Committee recommended renting the building for the purpose of storage because the building was handicap accessible, had restrooms, a forklift and could house two tractor trailers for unloading at one time.

The Menifee County Disaster Relief Committee will adhere to all policies relating to review, approval and verification of all business transactions. The Menifee County School District will no longer accept donations for disaster relief but will refer all such donations to the Menifee County Long Term Recovery Committee

Responded to by: Menifee County School District

