



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

June 20, 2013

Frank D. Ratliff, Board Chairman
316 S May Trail
Pikeville, KY 41502

Subject: Pike County School District Examination

Dear Board Members,

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

The procedures performed included reviewing the Pike County School District's SFS expenditure transactions and general policies and procedures. 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.

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, Pike County School 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

Cc: Roger Wagner, Superintendent

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FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

Finding 2013-01: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Initiation and Processing Of Payroll Leading To The Overpayment Of Wages And Contributing To Additional Potential Disallowable Costs

During our review of the Pike County School District's School Food Service Division (SFS), we noted the following issues related to the processing and maintenance of payroll:

- Inquiry and review of timesheet information identified the former SFS director hired several family members as substitutes for the year including her mother, son, and nephew. Discussions identified that although they did a good job during their employment, their services were not deemed necessary for the day to day operations;
- Review of the 2012-2013 school year payroll support identified that the former SFS Director's family members were not paid according to the rate approved by the school board. The former director's son and nephew, hired as substitute custodians, were compensated at a rate of \$9 an hour, \$1.75 more than the board approved rate. Additionally, the former SFS director's mother, hired as substitute secretary, was compensated \$12 per hour, \$4.75 more per hour than board approved salary schedule allowed;
- Review of the former SFS Director's mother's payroll for the 2012-2013 school year revealed she was overpaid by \$2,660. A follow-up on the 2011-2012 school year revealed she was overpaid by \$5,736;
- Review of the former SFS director's mother's timesheets revealed she consistently worked eight hour days. The salary schedule identified that a substitute school secretary should only be working seven hours daily;
- Review of the timesheets of the former SFS director's nephew and son revealed they were overpaid a combined \$245 during the 2011- 2012 school year and \$470 during the 2012-2013 school year;
- A hiring letter was not available for the 2011-2012 school year to authorize the hiring and utilization of the former SFS director's son and nephew as substitutes;
- Review of miscellaneous timesheets and standard invoices revealed instances where SFS staff worked catering events, such as the Hall of Fame reception. Several instances were noted where staff were compensated at extremely high rates of pay, and in some instances a clear detail of the number of hours worked was not provided. One staff member was compensated over \$300 for eight hours of documented work time, which corresponds to over \$37 per hour. Another instance revealed a SFS staff member being compensated \$248 without any indication of the number of hours worked;

FINDINGS AND RECOMMENDATIONS

Finding 2013-01: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Initiation and Processing Of Payroll Leading To The Overpayment Of Wages And Contributing To Additional Potential Disallowable Costs (Continued)

- Inquiry and review of timesheets identified that SFS staff members signed and approved their own or other employee's timesheets and payroll documents on behalf of the former SFS director; and
- Review of standard invoices for substitutes revealed instances where inadequate information was provided to substantiate the expense such as who the substitute was working for and which school location.

Recommendation

We recommend the Pike County School District's School Food Service Division implement adequate internal controls to strengthen the processing of payroll including:

- All full time and substitute employees should be compensated and work the allotted number of hours in accordance with the board approved salary schedule;
- Timesheets and standard invoice requests for payment should be completely prepared and require additional information be provided for substitutes including the employee being substituted for as well as the school or location worked; and
- Employees should cease the practice of approving their own or other employees' payroll documents by signing on behalf of the authorizing official. Adequate internal controls should be implemented to ensure all timesheets and payroll documents are reviewed and signed off on by the responsible authorizing official only.

Management's Response and Corrective Action Plan

Disputes/Explanations:

1. *Management questions the validity of determining the necessity of employment.*
2. *The former Food Service Director's nephew was only paid the Board approved \$7.25/hour, not \$9.00 hour as listed above. No overpayment exists.*
3. *The former Food Service Director's son was paid \$9.00/hour, an overpayment of \$1.75/hour. Invoices indicate that he worked 156 hours in 2011-2012. This means he was overpaid \$273 (156 hours X \$1.75/overpayment). Invoices indicate that he worked 231 hours in 2012-2013. This means he was overpaid \$404.25 (231 hours X \$1.75 overpayment). The total overpayment for the two years is \$677.25, less proportional credit for social security and medicare overpayments and correction of unpaid overtime.*

FINDINGS AND RECOMMENDATIONS

Finding 2013-01: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Initiation and Processing Of Payroll Leading To The Overpayment Of Wages And Contributing To Additional Potential Disallowable Costs (Continued)

Management's Response and Corrective Action Plan (Continued)

4. *The former Food Service Director's mother was paid \$12.00/hour, an overpayment of \$4.75/hour. Invoices indicate that she worked 1210.5 hours in 2011-2012. This means she was overpaid \$5,749.88 (1210.5 hours X \$4.75/hour). In addition 12.5 of those hours were paid at time and half due to overtime law. At the rate of \$12.00/hour, the overtime supplement is \$6.00/hour. At the rate of \$7.25/hour, the overtime supplement is \$3.63/hour, which means she was overpaid \$2.37/hour on overtime and increases the amount overpaid by \$29.63 (12.5/hours X \$2.37). The total overpayment for 11-12 was \$5,779.51. Invoices indicate that she worked 560 hours in 2012-2013. This means she was overpaid \$2,660.00 (560/hours X \$4.75/hour). The total overpayment for the two years is \$8,439.51 less proportional credit for social security and medicare overpayments and correction of unpaid overtime.*
5. *The two employees sited for Hall of Fame payments of \$300.00 and \$248.00 were paid correctly by law. These two employees are full-time, 40 hour per week, year round employees. They were each paid 1 ½ times their hourly rate for overtime to work the Hall of Fame Banquet. One worked (8) hours and the other worked (9) hours. It is acknowledged that their time sheets should have been more detailed.*
6. *Hire letters are available for the nephew and mother for the 2011-12 school year. It is acknowledged that a hire letter for the son was not available.*
7. *School secretaries only work (7) hours per day; however Central Office secretaries work (8) hours per day. All substitute secretaries are hired as school secretaries, but have always worked the number of hours (7 or 8) allowed by the position they are substituting.*

Management acknowledges that the former SFS Director utilized her family members, and as corrected above, did pay them in amounts exceeding the salary schedule. Management further acknowledges the other conditions as listed, with corrections/comments noted above.

Corrective Action: Employment of staff in SFS shall be based on necessity. All employees hired shall go through the standard hiring practices and be paid according to salary schedule. Finance will be given the authority to question any invoice that is submitted to Payroll that does not adhere to the salary schedule. The Superintendent will be notified if an invoice is approved by the SFS Director at an amount or hours above the salary schedule. The Superintendent will assign an administrative staff member to have purview over the Director of Food Service's payroll invoice. The Director of Finance will prepare and conduct training with SFS administrative staff on the proper completion and approval of invoices for payroll.

FINDINGS AND RECOMMENDATIONS

Finding 2013-01: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Initiation and Processing Of Payroll Leading To The Overpayment Of Wages And Contributing To Additional Potential Disallowable Costs (Continued)

Management's Response and Corrective Action Plan (Continued)

Restitution: Restitution of the overpayment of salaries as calculated by Pike County's Director of Finance was received on June 13, 2013. New W2s (W2-C) will be issued to each employee listed above for 2011 and 2012 and the district will obtain excess payments to social security and medicare for those years by completing an amended 941(941-C).

Auditor Reply

Given the overpayments in salaries over the last two fiscal years benefiting the former food service director's family members, it is only prudent to also question the necessity of those positions, which was supported by discussions and interviews with staff. Any usage of tax payer funding to staff unnecessary positions as dictated by the daily workload is just as careless and inefficient as an overpayment in wages.

We appreciate the Pike County School District's efforts in pinpointing the exact amount of overpayments in wages as described above which increased the overpayment amount. We have also provided additional supporting documentation for the overpayment of the former food service director's nephew during December of 2012, which supports an overpayment of \$38, confirming the \$715 combined overpayment amount for the director's nephew and son as described per our calculations.

Concerning the number hours approved for secretaries daily, our determination of the seven hour workday day is based on the salary schedule for school based classified employees for each respective school year. These schedules did not differentiate between central office and school secretaries, and therefore the justification for the necessity of an eight hour workday could not be supported.

Management's response identifies that hire letters were available for both the mother and nephew during the 2011-2012 school year. Upon request for the additional supporting documentation, only the hire letter for the mother could be located.

We would like to further comment that although restitutions were received for the overpayment of salaries, it does not resolve the underlying issue that a lack of controls were in place in order to prevent the exception from occurring. Furthermore, our review was limited in scope, and there exists the possibility that the review of additional fiscal years or other employees' payroll records could potentially reveal further discrepancies.

FINDINGS AND RECOMMENDATIONS

Finding 2013-02: The Pike County School District School Food Services Division Purchased Fruit From A Fundraising Entity Which Was Partially Utilized In The Preparation Of Fruit Baskets For District Personnel

During our review of the Pike County School District's School Food Service Division (SFS), we noted one instance where SFS purchased \$6,426 in fruit from the Pike County Central High School Band. Although the purchase did not violate any of the bidding and procurement policies and procedures, we did note the following:

- The selling of fruit by the High School Band is intended to be for fundraising purposes, which by nature incorporates a greater markup in cost to allow the band to receive increased profit from each sale. The purchase of the fruit by SFS can be deemed an uneconomical and unnecessary use of taxpayer dollars; and
- In tracking the usage of the purchased fruit by SFS, it was determined that \$1,353 of the fruit was utilized to prepare fruit baskets which were distributed to over 50 staff members within the Pike County School District. The remainder of the fruit was utilized in meal preparation at the school level.

Recommendation

We recommend the Pike County School District's School Food Service Division utilize funding in the most economical way available in order to provide the greatest benefit to the children and taxpayers of Pike County. Additionally, the District should prohibit utilizing District funds or purchased inventory from SFS or other departments for personal gifts for District employees.

Management's Response and Corrective Action Plan

Management acknowledges the conditions above. Management would like to note that oranges and tangelos were purchased from the Pike County Central High School Band. Tangelos were not on bid and the oranges were approximately 3% (87 cents) higher than the bid, but the fruit was brought straight from Florida to the school district and was much fresher than the fruit on bid.

Corrective Action: The Director of Finance will prepare and conduct training with SFS administrative staff on cost effectiveness and the proper use of purchased food products. Finance shall be given the authority to question purchases made by School Food Service. The Superintendent shall assign an administrative staff member to have purview over large SFS purchases, as well as purchases that go off the current bid.

FINDINGS AND RECOMMENDATIONS

Finding 2013-03: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Processing Of Invoices and Travel Reimbursements Which Led To Several Unallowable And Questionable Costs

During our review of the Pike County School District's School Food Service Division (SFS) for fiscal year 2012 and 2013 to date, we noted the following exceptions related to invoices, travel vouchers, and requests for reimbursement:

- Review of the travel reimbursement to the former food service director for the School Nutrition Association's Annual National Conference in Nashville in July 2011 revealed several purchases in violation of the District's travel policies, including \$82 in restaurant charges when per diem was already being claimed, \$28 in long distance phone calls, and \$918 in spa charges. Further discussions revealed that three employees attended the conference, and the spa charges were going to be a gift paid for by former food service director for the employees; however, these charges were reimbursed in full by school funds;
- Review of the itinerary for the 2011 School Nutrition Association's Annual National Conference identified opening general session was to begin on July 10th at 2:30 P.M., however, employees attending the conference had two rooms reserved beginning on July 8th. The July 9th itinerary included an emporium and marketplace event and pre-conference sessions which required pre-registration. Review of conference registration forms revealed that employees had not elected to attend any of pre-conference sessions. This brings to question the necessity of at least one night of hotel stays for the two rooms in the amount of \$453;
- In several instances we noted school funds were utilized to purchase food for board and staff meetings which were deemed excessive in nature. Most notably was a \$1,375 restaurant payment for county wide in-service training, \$1,250 restaurant payment for a staff meeting, and various staff luncheons and board meetings which exceeded \$75 in cost each. During the two fiscal years under review, analysis of provided MUNIS reports revealed over \$4,500 of obvious food and restaurant purchases for meeting events, with additional payments likely, but not easily identified on expense reports without further review of detailed invoices. On April 9, 2013, the School Board approved a policy describing when the purchasing of food would be allowed;
- One instance was noted where the former school food service director was reimbursed \$255 for a hotel stay, however, it was later established that the hotel bill had been paid for directly by the Pike County School District. As such, no employee reimbursement should have been made;
- Review of invoices revealed one instance where school food service funds were utilized to purchase \$1,103 in sporting goods including footballs, whistles, stopwatches, and blocking shields for a high school summer physical education program with the anticipation that a federal grant would be received to reimburse for the purchase. The grant was never received, and therefore, school food service funds were inappropriately utilized;

FINDINGS AND RECOMMENDATIONS

Finding 2013-03: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Processing Of Invoices and Travel Reimbursements Which Led To Several Unallowable And Questionable Costs (Continued)

- Review of invoices and supporting documentation revealed one instance where an itemized receipt was not submitted when requesting reimbursement of meals for a board meeting in the amount of \$93 from a local restaurant. Without an itemized receipt, it was not possible to identify if all items purchased were allowable and reasonable;
- Review of invoices as support for reimbursement revealed instances where sales tax was paid and improperly reimbursed;
- Instances were noted where adequate information was not provided on travel vouchers to justify the amount of per diem paid for meals while in travel status. Forms consistently lacked the departure and return times necessary in order to determine which meals should be credited for reimbursement; and
- Instances were noted where employees were completing and approving their own travel reimbursement forms by signing the former food service director's name as was requested. Additionally, instances were noted where the food service director approved her own travel reimbursement forms.

Recommendation

We recommend the Pike County School District's School Food Service Division implement adequate internal controls to strengthen the processing of invoices, travel vouchers, and requests for reimbursement by implementing the following:

- Staff in charge of approving payments should conduct a more thorough review of all expenditures to ensure all line items are necessary, reasonable, and allowable in accordance with District policy. Itemized supporting documentation should be required and obtained for all transactions and state sales tax should not be paid or reimbursed per the District's tax exempt status. Approval of conferences should include a comparison of the event itinerary against the scheduled hotel arrival and departure dates to ensure District funds are not being utilized for travel costs outside the scheduled conference dates. Additionally, controls should be implemented to ensure staff are not being improperly reimbursed for purchases they are not entitled to; and
- For future food purchases by the District, documentation should clearly illustrate how each purchase is in compliance with policy 04.31 AP.12, Purchasing – Food, as adopted by the board on April 9, 2013. The District should take into consideration the necessity and reasonableness of each purchase, including the potential public reaction concerning any purchase which could be deemed excessive or unnecessary in nature;

FINDINGS AND RECOMMENDATIONS

Finding 2013-03: The Pike County School District School Food Services Division Failed To Implement Adequate Controls Over The Processing Of Invoices and Travel Reimbursements Which Led To Several Unallowable And Questionable Costs (Continued)

Recommendation (Continued)

- Employees requesting reimbursement on travel vouchers should be required to provide both a departure date/time and return date/time in order to substantiate the per diem rate reimbursed associated with overnight stays; and
- Employees should cease the practice of approving their own or other employees' reimbursement documents by signing on behalf of the authorizing official. Adequate internal controls should be implemented to ensure all travel vouchers and requests for reimbursement are reviewed and signed off on by the responsible authorizing official only.

Management's Response and Corrective Action Plan

Explanation: The rooms for the School Nutrition Association's Annual National Conference in Nashville, TN in July 2011 were paid by KVEC for the districts utilizing their SFS purchasing consortium. KVEC made the reservations, establishing the arrival and departure dates, and sent prepayment for the rooms prior to the arrival of Pike County SFS staff.

Management acknowledges the conditions, with the explanation noted above.

Corrective Action: The Director of Finance shall prepare and conduct training with SFS administrative staff on the proper use of funds, the travel voucher form, travel policies, policy 04.31 AP.12-Food policy, expense reimbursement procedures and the approval process. Finance shall be given the authority to question SFS reimbursements and payments. The Superintendent shall assign an administrative staff member to have purview over expense reimbursements for the Director of School Food Service.

Restitution: Restitution of the spa fees (\$918), restaurant fees (\$82.06), and duplicate payment of hotel fees (\$254.66) from the former SFS Director was received June 13, 2013.

Auditor Reply

Even though the hotel rooms for the 2011 School Nutrition Association's Annual National Conference were paid for by the Kentucky Valley Educational Cooperative (KVEC), this still does not provide adequate justification for supporting the early arrival by staff to the conference, which cost the School District directly through payroll and per diem related costs. The School District is still ultimately responsible for ensuring all employee activities during working hours, regardless of funding source, are necessary.

FINDINGS AND RECOMMENDATIONS

Finding 2013-04: The Pike County School District School Food Services Division's Catering Activities Were Not Properly Operated Or Monitored Which Created An Environment Where Waste, Fraud, And Abuse Could Occur Undetected

During our review of the Pike County School District's School Food Service Division (SFS) for fiscal year 2012 and 2013 to date, we noted the following in regards to the SFS's catering activity:

- Interviews and inquiry identified that SFS had operated a catering business which provided services to the schools, school board, and other social events connected to the school district. Interviews identified that some "off the books" events did occur but it could not be established to what extent school resources were utilized as a separate tracking for inventory purposes was not maintained;
- Review of invoices identified instances where catering items were purchased as indicated on the purchase order, however, it was not apparent for which event it was intended to be used to determine if it was necessary or reasonable;
- Interviews identified one instance where decorations were purchased with the use of school funds for a wedding event catered. Discussions identified these decorations have been reused for school functions whenever possible; and
- Interviews identified that SFS staff volunteered to work the catering events as necessary. In most instances they were compensated for their time, however, there were a few instances when they were not.

Discussions have identified that the Pike County School District's School Food Service Division no longer operates a catering business, and only anticipates providing assistance in preparation of the Hall of Fame Dinner which is funded by private donations.

Recommendation

We recommend the Pike County School District continue its current practice of not operating a catering program; however, in the event that a decision is made to resume catering operations, the District should operate in accordance with the recommendations provided by the Office of Educational Accountability. This should include the SFS Division adequately tracking and documenting expenses, revenues, and inventory, for each event to ensure a high level of accountability is achieved.

Management's Response and Corrective Action Plan

Management acknowledges the conditions above.

Hall of Fame banquet will still be worked by SFS staff; however, the district (not SFS) will purchase the food from bid, utilizing the donations that are received. The SFS staff that work will be paid directly from donations, and overtime will be paid if required. The Director of Finance will prepare and conduct training with SFS administrative staff on procedures for the Hall of Fame and the cessation of catering.