

**Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the Dayton Independent School District**



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The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

March 7, 2013

Rosann Sharon, Board Chair
Board of Education
Dayton Independent Schools
200 Clay Street
Dayton, Kentucky 41074

RE: Examination Report Findings and Recommendations

Dear Ms. Sharon:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Dayton Independent School District (District). This examination identifies 12 findings and offers 55 recommendations to strengthen the management and oversight of the District.

In performing this examination, we requested and examined financial records maintained by the District Central Office staff for the period July 1, 2007 through June 30, 2012, unless otherwise noted. Information examined included employee contracts, payroll records, credit card statements, travel reimbursement expenses, internally prepared reports, and other supporting documentation when available. The audit team conducted interviews with the current Superintendent, Assistant Superintendent, current and former Finance Officers, other central office staff, all current Board members, and two former Board members to obtain further information related to general financial oversight practices and specific expense transactions. The former Superintendent declined to be interviewed by our staff.

Due to the nature of certain findings discussed within this report, we are referring these issues to the Federal Bureau of Investigation, Kentucky Teachers' Retirement System, Kentucky Department of Revenue, and the Kentucky State Committee for School District Audits.

The Auditor of Public Accounts requests a report from the District on the implementation of the examination recommendations within (60) days of the completion of the final report. If you wish to discuss this report further, please contact me or Brian Lykins, Executive Director of the Office of Technology and Special Audits.

Respectfully submitted,

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

Adam H. Edelen
Auditor of Public Accounts

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Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Dayton Independent School District

Impetus and Objectives for Examination

During the fall of 2012, the current Dayton Independent School District (District) Superintendent approached the Auditor of Public Accounts (APA) with concerns involving certain activities of the District's former Superintendent, who retired at the end of fiscal year (FY) 2012. In early October 2012, after initial discussions between the District and the APA about the basis for those concerns, the APA formally accepted a request by the District to perform a special examination of certain activities related to the former Superintendent, as well as conduct interviews of current and former District Board of Education (Board) members and examine certain District policies, internal controls, and other financial activity.

To accomplish this examination, the APA developed procedures to review the following areas of concern:

- Superintendent contract terms and conditions;
- Superintendent retirement reimbursements;
- Superintendent travel reimbursements by the District and the Kentucky Association of School Administrators;
- Superintendent travel benefits and their tax implications;
- District Central Office leave balances;
- District Central Office salaries; and,
- District credit card transactions.

The general examination period was July 1, 2007 through June 30, 2012, unless otherwise stated. Earlier time periods for specific expenditures were included based on information provided by the District or concerns that came to the attention of the auditors during the examination.

The District

The District is one of seven public school systems serving Campbell County, in addition to a parochial school district and several other private schools. With a city population of 5,338, the District currently serves approximately 927 students in two school buildings: Dayton Middle/High School serving students in grades

seven through twelve and Lincoln Elementary School serving preschool through sixth grade.

Academic Highlights

The 2011-12 School District Report Card shows that the District has been classified as "Needs Improvement" based on the fact that the District accountability performance scores fell to below the 70th percentile in the state.

Financial Highlights

The District reported spending \$10,306 per student during the 2011-12 school year, \$391 less than the state average. Excluding inter-fund transfers and debt service, the General Fund had \$6,966,627 in revenues and \$7,279,673 in expenditures for FY 2012, which means the District ended the fiscal year with expenses greater than revenues. However, due to a total of \$620,845 in cash reserves and other funds that carried forward from FY 2012 to FY 2013, the District did not begin FY 2013 with a negative fund balance.

The Board

KRS 160.290 outlines the general powers and duties of the Board. This statute indicates that the Board has general control and management of the public schools in its District. Each Board shall generally exercise all powers prescribed by law in the administration of its public school system, appoint the superintendent of schools, and fix the compensation of employees.

The Superintendent

Per KRS 160.370, "[t]he superintendent shall be the executive agent of the board that appoints him and shall meet with the board, except when his own tenure, salary, or the administration of his office is under consideration... He shall be the professional adviser of the board in all matters."

Findings and Recommendations

Introduction to Chapter 2 Examination Findings

As reported in this examination, certain actions of the former Superintendent of the District resulted in significant personal benefits that do not appear to have been disclosed to or approved by the Board. In total, over an eight-year period beginning in July 2004 and ending with his retirement in June 2012, the former Superintendent was paid \$223,672 in benefits and payments that were apparently not authorized by the Board, or were for false or duplicate expenses.

Finding 1: Former Superintendent received payment of \$146,276 in retirement related benefits that were not authorized by the Board.

Between July 1, 2004 and June 30, 2012, the former Superintendent received a total of \$146,276 in payments from the District for reimbursement of his personal retirement contributions and the purchase of 1.21 years of service credit. These two retirement benefits were not included in the former Superintendent's contract, and a review of the Board meeting minutes reveals that the benefits were never approved by the Board as a separate action outside the contract. According to current and former Board members, they were unaware that the payments were being made to the Superintendent during this eight-year period. It appears that the former Superintendent did include a budgetary line item within the District's working budget that was approved by the Board, but reportedly never identified it to the Board and according to KRS 160.370 he had no authority to place such items in the budget without express direction from the Board.

Recommendations: We recommend the Board recoup the \$146,276 in unapproved payments made to the former Superintendent as reimbursement for his personal retirement contributions and non-qualified service credit purchases. We recommend that all payments being made to the superintendent through payroll be provided to the full Board, Board Chair, or a designated Board committee for review. The Board may continue to generally approve staff payroll "when due" in Board meetings to ensure all staff receive payment on schedule. We also recommend that the Board adopt a policy requiring that no changes be made to the salary, benefits, or other payments related to the Superintendent without written direction of the Board supported by official action in an open meeting. We further recommend that the Board develop and publish to all staff an official process for the Board to receive concerns from staff related to the activities of the superintendent. This could be addressed through a modification to the District's current Fraud Prevention Policy already in effect.

Finding 2: Former Superintendent received \$36,237 in payment for 62 additional leave days not approved by the Board.

According to District leave records, at the time of the former Superintendent's departure from the District he had accumulated 62 more annual leave days than he could have earned based on the terms of his employment contract. A review of the meeting minutes of the Board does not indicate that any additional leave beyond what was provided for in the Superintendent's contract was approved by the Board. Interviews with current Board members and two former Board members revealed they do not recall approving additional leave days or discussing providing additional leave for the Superintendent. This resulted in an additional \$36,237 being paid to the former Superintendent at the time of his departure that was not earned based on terms of the employment contract or approved separately by the Board.

Recommendations: We recommend the Board recoup the full \$36,237 payment made to the former Superintendent for the 62 additional days applied to the former Superintendent's leave balance that were accumulated without Board approval. We recommend that, should the Board continue the provision of annual leave to certain staff, a financial report be presented to the Board, at least quarterly, containing the current amount of leave and the associated value of that leave by staff member. The future cost of payment for accumulated annual leave should also be considered for inclusion as a component of the District budgeting process and as a line item within the annual financial statement audit.

Finding 3: Former Superintendent was paid \$7,101 for 40.5 sick leave days he used but not deducted from his sick leave balance.

According to District records, calculations used to determine the former Superintendent's payout for unused sick leave at the end of his employment from the District did not take into account deductions for sick leave used during his employment. District staff made these calculations based on information provided by the former Superintendent and did not use the official records of the District. Files provided by the District contained 13 leave slips submitted by the former Superintendent that documented 40.5 sick leave days that were not deducted from the totals used to calculate the Superintendent's final sick leave balance. By not deducting the 40.5 used sick leave days, the sick leave balance was artificially inflated and resulted in the District incorrectly paying the Superintendent an additional \$7,101.

Recommendations: We recommend the District recoup the full \$7,101.68 overpaid to the former Superintendent for 40.5 sick leave days that should

have been deducted from the final sick leave balance. As stated in Finding 1, we recommend the Board modify the Fraud Prevention Policy to allow for employees to report issues to the Board in a manner that will not put their employment at risk. We recommend the Board provide training for staff responsible for time keeping ensuring that sick leave for all employees, including the superintendent, is tracked accurately, as Districts are required to pay for unused sick leave at the end of the employee's tenure. We further recommend that the Board require the superintendent to notify the full Board, Board Chair, or a designated Board committee when the superintendent takes sick leave for a scheduled contract workday. These requirements should be included in the superintendent's employment contract.

Finding 4: Former Superintendent was incorrectly paid \$4,091 for seven annual leave days used that were not deducted from his annual leave balance.

According to electronic District leave records, no annual leave was deducted from the former Superintendent's leave balance during the eight years that he received this type of leave. Though records reflect no use of annual leave, District files contained three leave slips submitted by the former Superintendent indicating a total of seven annual leave days were used for vacation. Based on these documents, the seven leave days should have been deducted from the balance of the former Superintendent's annual leave. At the end of the former Superintendent's employment, he was paid a daily salary rate of \$584.47 for each day within his accumulated leave balance. Using this rate, the seven leave days that were not deducted from his leave balance are valued at \$4,091, and were incorrectly included in the \$129,752.34 total amount paid to the Superintendent for unused annual leave.

Recommendations: We recommend the Board recoup the full \$4,091 paid to the former Superintendent for the seven annual leave days that were not deducted from his final annual leave balance. We recommend that the Board implement changes to the District Fraud Prevention Policy as described in Finding 1, to allow employees to report directly to the Board concerns related to the superintendent or others. We recommend the Board establish an annual work calendar for the superintendent that specifies, prior to the beginning of the year, the non-work days associated with the superintendent's contract. Any modification to this schedule should be formally presented to the Board for it to approve or deny, and the Board's action should be documented in the Board meeting minutes. We further recommend that the Board require the superintendent to notify the full Board, Board Chair, or a designated Board committee when the superintendent takes annual

leave for a scheduled contract workday. These requirements should be included in the superintendent's employment contract.

Finding 5: Former Superintendent used District gas credit card to purchase \$21,464 in fuel with no Board approval.

From August 2003 through June 2012, the former Superintendent used a District gas card to purchase approximately \$21,464 in fuel that is believed to have been used exclusively for his personal vehicle. The purchase of fuel was not included as a benefit in the former Superintendent's employment contract with the Board, and there is no record in Board meeting minutes of the Board approving the use of a gas card for the former Superintendent as an added employment benefit. Board members stated they were never aware of the use of the gas card for the former Superintendent's personal vehicle. The use of the gas card also duplicated other benefits that were specifically provided in the Board approved employment contract.

Recommendations: We recommend that the District recoup the total \$21,464.53 in funds expended on unauthorized fuel purchases by the former Superintendent. We recommend that the Board ensure that policies include guidelines for the use of any District gas credit cards. This may be done by addressing an overall policy related to fuel purchases for all District vehicles and personal vehicles. We further recommend that the full Board, Board Chair, or a designated Board committee be responsible for routinely reviewing the Superintendent's benefits and the actual expenditures associated with those benefits. We recommend that the District work with the Board Attorney and its CPA to correctly account for taxable amounts previously not reported to the IRS. As recommended in Finding 1, the Board should develop a process for staff to report concerns to the Board on issues related to the Superintendent.

Finding 6: The former Superintendent received \$5,323 in reimbursement for expenses he did not incur and duplicate reimbursements for mileage.

During his tenure at Dayton Independent Schools, the former Superintendent was a member of KASA and also served in various leadership roles. KASA provides for the reimbursement of association related travel to those that serve as officers, board members, and committee members. During the time that the former Superintendent was eligible to receive reimbursements from KASA, he received \$2,454.58 from KASA for flights, hotels, parking, and food that was paid with one of the District's credit cards. He also received mileage reimbursements from KASA for 25 trips for which he then received \$2,868.90 in reimbursements from the District. According to the District Finance

Officer, the former Superintendent did not reimburse the District for any of this \$5,323.48 in total questionable reimbursements.

Recommendations: We recommend that the Board recoup the \$5,323.48 reimbursed to the former Superintendent for mileage later reimbursed to him by KASA and for association related expenses previously paid for with one of the District's credit cards and later reimbursed to him by KASA. We recommend that each reimbursement request document submitted by the Superintendent to the District be provided to the full Board, Board Chair, or a designated Board committee. The Board could assign District financial staff to conduct an initial review of the Superintendent's reimbursement request and to submit any concerns or issues to the Board before approval of the document is made. We recommend that the full Board, Board Chair, or a designated Board committee review and document the approval or other action taken regarding the Superintendent's requests for reimbursement. We recommend that each reimbursement request document submitted by the Superintendent or other District personnel to an outside educational agency or organization be photocopied and forwarded to the District Finance Officer. We recommend the District Finance Officer or a member of the District financial staff review the document to determine if any of the items being requested for reimbursement by the outside entity has been previously reimbursed to the individual by the District or was actually incurred by the District instead of the individual making the request. We recommend the District financial staff ensure all District reimbursement request documents are reviewed in a thorough and complete manner to ensure only actual costs related to the District are paid. The Board should consider whether it would be best to establish standard mileage amounts to be used for travel to the most common locations (Frankfort, Lexington, Louisville, etc.) or to require the inclusion of printed driving directions that support the number of miles submitted.

Finding 7: The former Superintendent submitted false reimbursement request documents to the District totaling over \$3,100 over a five-year period.

KASA was contacted by both the District and the APA to determine whether it would be possible to verify the former Superintendent's attendance at each of the meetings he reported traveling to on his reimbursement request documents over the last five fiscal years. There were 18 instances where KASA could not verify a meeting on or near dates that the former Superintendent requested and received mileage reimbursement from the District. Auditors also reviewed the last four years of KEDC's meeting minutes posted online to determine whether the former Superintendent was noted as being

in attendance at each of the meetings that he had requested mileage reimbursement from the District. There were 12 instances when meeting minutes did not support the former Superintendent's attendance at a meeting that he requested and received mileage reimbursement from the District. In total, he appears to have falsely submitted requests for at least 30 trips costing the District \$3,178.40 over the course of five years.

Recommendations: We recommend that the Board recoup the \$3,178.40 reimbursed to the former Superintendent for either meetings that did not occur or he did not attend. We recommend that the Board consider having the Superintendent provide a copy of the agenda, meeting minutes, or other materials provided by the organization hosting the meeting for which he is requesting reimbursement for mileage or other travel expenses as a result of his attendance at the meeting. We recommend that the District financial staff ensure all reimbursement request documents are reviewed in a thorough and complete manner to ensure only actual costs related to the District are paid. We further recommend that the itemized reimbursement request documents submitted by the Superintendent be provided to the full Board, Board Chair, or a designated Board committee. The Board could assign District financial staff to conduct an initial review of the Superintendent's reimbursement request and submit any concerns or issues to the Board before approval of the document is made. We recommend that the full Board, Board Chair, or a designated Board committee review and document the approval or other action taken regarding the Superintendent's request for reimbursement. We recommend that the Board and District consider revising the *Travel Expense Voucher* to include a certification statement to accompany the signature of the individual making the request.

Finding 8: Vague terms in former Superintendent's final contract and insufficient Board oversight allowed him to repeatedly increase his monthly travel allowance.

The former Superintendent's third and final employment contract with the District, which ran from July 1, 2004 through June 30, 2012, included a provision for a monthly travel allowance, but did not identify an amount to be received or describe a process for calculating the amount. During the prior two employment contracts with the District, the former Superintendent received a \$100 per month travel allowance. The monthly travel allowance then increased to \$452 in October 2004 and lasted for the remainder of the fiscal year. The monthly amounts again increased in each of the next three fiscal years until the \$727 amount continued for the last 58 months of his tenure. The extent and cost of the former

Superintendent's travel allowance appears to have surprised many of the current and former Board members interviewed. The Board did not review the individual payroll records for the Superintendent. Despite KRS 160.290(1) stating that the Board shall fix the compensation of employees, the Board failed to clearly specify in the former Superintendent's contract either the amount of travel allowance the former Superintendent was to receive annually or to detail a method by which the annual amount should be calculated. By the Board not defining the amount of the travel allowance, the former Superintendent assumed the role of the Board by establishing the amount of travel allowance he was to receive each year.

Recommendations: We recommend the Board ensure all intended salary and benefits for the Superintendent be clearly stated and approved in an open and public meeting. We recommend the approval be clearly documented each year in both Board meeting minutes and in the signed employment contract of the Superintendent. We also recommend that the Board's attorney review the Superintendent's proposed contract prior to being approved by the Board to ensure the contract clearly represents the salary, benefits, or other terms and conditions associated with the Superintendent's employment. Given that the Superintendent, without specific approval of the Board, was responsible for increasing the original amount of the travel benefit for the Superintendent from \$100 to \$727 monthly, we recommend the Board, in consultation with the Board Attorney, determine whether any portion of the travel benefits paid to the Superintendent should attempt to be recouped. We further recommend that the Board designate a Board member or Board committee to be responsible for presenting any documented changes to the Superintendent's contract to the financial oversight staff for actual implementation. We recommend that changes to the Superintendent's salary or benefits should only be made after District financial staff receives complete and signed documentation from the designated party of the Board. Similar to Findings 7, 8, and 10, we recommend that the full Board, Board Chair, or a designated Board committee review the expenses of the Superintendent to ensure the transactions are reasonable, necessary, and compliant with the contract. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent. As recommended in Finding 1, the Board should develop a process for staff to report concerns to the Board on issues related to the superintendent.

Finding 9: A review of a sample of transactions from the District's Visa Credit Card showed 43 transactions to be deficient in one of three categories.

During the examination period, the District did not have in place a strong, detailed policy specific to the use, by District employees or Board members, of credit cards issued in the name of the District. Due to the high usage of the Visa credit card by the District to make purchases, the auditors chose to test transactions through an approximately 36 percent sample of payments made to this account. While all 196 transactions reviewed were adequately approved, auditors found 43 transactions to be deficient in one of three categories: 1) "No Expense Purpose Stated;" 2) "Appeared Excessive;" or 3) "Inadequate Supporting Documentation Submitted." These 43 transactions, totaling \$3,964.57, may have been acceptable expenditures; however, a clear determination could not be made by the auditors due to the lack of proper documentation. Auditors noted only six transactions as having "No Expense Purpose Stated." The auditors noted only one transaction as having "Appeared Excessive." Auditors noted 36 transactions classified as having "Inadequate Supporting Documentation Submitted." It is possible that some of the transactions classified as having "Inadequate Supporting Documentation Submitted" could also be classified as having "Appeared Excessive" in nature; however, because the supporting documentation available from the District was missing such detailed information as what items were purchased, how many guests were involved, and who were the guests, the auditors were unable to draw such conclusions from the circumstances.

Recommendations: We recommend that the Board strengthen their policies and procedures related to the use of the District credit cards by specifying that adequate supporting documentation must be submitted for every purchase and then indicating what constitutes adequate supporting documentation. For example, expenditures should always be accompanied by a complete itemized receipt, identifying the date and location of the transaction, the number and names of those attending the activity or receiving the benefit, and the specific business related purpose of the expenditure. We further recommend that the Board specify the action that will be taken by the District for not providing adequate supporting documentation. We recommend the District policies and procedures specifically state that all credit card transactions will be reviewed for appropriateness, reasonableness, and necessity. The policy should also identify the position of those responsible for reviewing the transaction activity. In addition, we recommend that the full Board, Board Chair, or a designated Board committee should

review the Superintendent's credit card purchases to ensure the transactions are reasonable in amount, necessary, and properly supported by receipts or other appropriate documentation. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent.

Finding 10: Assistant Superintendent accumulated 16 more annual leave days than was allowable.

According to District annual leave records, the Assistant Superintendent accumulated 176 annual leave days during the eight-year period from FY 2004 through FY 2012. Based on KRS 161.220(10), District policy, and the employment contract that made this annual leave available to the Assistant Superintendent, only a maximum of 160 days could have been accumulated during that period, assuming no leave was ever used. This resulted in the accumulation of 16 annual leave days beyond what was feasible. These 16 days have a current value of \$6,368.96 that the District will be required to pay for at the time the Assistant Superintendent leaves the District if these 16 days are not removed from the annual leave balance.

Recommendations: We recommend the District reduce the Assistant Superintendent's annual leave balance by a minimum of 16 days. We recommend that the Board determine if it will continue to offer annual leave as an employment benefit in the future. If it does not intend to do so, Board Policy 03.122 should be amended to remove the section related to annual leave. We also recommend that the Board ensure District financial staff account for the liabilities of all types of leave accumulated by District staff that could result in payments from the District. These amounts should be reported to the Board at least annually by staff and included in the Annual Financial Report. We further recommend the Kentucky State Committee for School District Audits consider including a provision in guidelines to school district auditors that requires annual leave to be included in a district's annual financial statement audit.

Finding 11: Former Superintendent's annual evaluations were not consistently performed according to his contract and District policy.

The former Superintendent's 2004 employment contract states that the Board shall annually provide the Superintendent with an evaluation. This language is also repeated in District policy. Despite this long-standing contract term and District policy, two Board members stated that an evaluation of the former Superintendent had not been performed for the last couple of years. One of these Board members stated that the last superintendent evaluation was performed by the Board in 2009. Through a review of Board

meeting minutes from 2004 through 2011, auditors found only one reference to an evaluation of the former Superintendent that took place in July 2009.

Recommendations: We recommend the Board ensure its compliance with District policy 02.14 and with KRS 156.557. This will require the Board to not only perform the Superintendent's evaluation annually but to also present a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, since District Policy 02.14 was revised on October 30, 2012 to require the superintendent evaluation to be in writing, the Board should ensure that the written evaluations are performed in accordance with policy and that the evaluation is available to the public upon request in accordance with KRS 165.557(4)c.

Finding 12: The Board continued to extend the former Superintendent's contract without reviewing the actual contract or the cost of benefits provided.

After the former Superintendent's third employment contract was presented to the Board in 2004 for initial approval, it does not appear that the actual contract was ever provided to the Board for review, yet the Board continued to extend this contract in subsequent years until the former Superintendent's retirement in June 2012. Current and former Board members stated that the former Superintendent's contract was extended based on discussions in a closed meeting but none of these Board members recalled actually seeing the contract after 2004. These Board members were never given, nor did they request, a copy of the contract that they were extending.

Recommendations: We recommend that the Board maintain multiple copies of the superintendent's contract for an annual review by all members. In addition, we recommend one copy of the contract be maintained by the Board's attorney to ensure that it is available for review. Any superintendent contract extension should include a review of the actual contract and a determination of the cost associated with the benefits provided, as well as inquiring of the District Finance Officer of actual benefit costs and whether other benefits are being provided that are not included in the actual employment contract.

Chapter 1

Introduction and Background

Impetus and Objectives for Examination

During the fall of 2012, the current Dayton Independent School District (District) Superintendent approached the Auditor of Public Accounts (APA) with concerns involving certain activities of the District's former Superintendent, who retired at the end of fiscal year (FY) 2012. In early October 2012, after initial discussions between the District and the APA about the basis for those concerns, the APA formally accepted a request by the District to perform a special examination of certain activities related to the former Superintendent, as well as conduct interviews of current and former District Board of Education (Board) members and examine certain District policies, internal controls, and other financial activity.

To accomplish this examination, the APA developed procedures to review the following areas of concern:

- Superintendent contract terms and conditions;
- Superintendent retirement reimbursements;
- Superintendent travel reimbursements by the District and the Kentucky Association of School Administrators;
- Superintendent travel benefits and their tax implications;
- District Central Office leave balances;
- District Central Office salaries; and,
- District credit card transactions.

The general examination period was July 1, 2007 through June 30, 2012, unless otherwise stated. Earlier time periods for specific expenditures were included based on information provided by the District or concerns that came to the attention of the auditors during the examination. For example, personnel issues such as those related to the former Superintendent's contract and the benefits he received were reviewed in their entirety from the beginning of his employment with the District in 1997.

To address these areas of concern, auditors reviewed numerous documents, conducted interviews, and examined the supporting documentation for District expenditures. Documents reviewed include, but were not limited to, credit card statements and supporting documentation, reimbursement request documents and supporting documentation, employment contracts, Board meeting minutes, policies and procedures, and vendor payment reports. Auditors held discussions with agencies such as the Office of Education Accountability, Kentucky Teacher Retirement System (KTRS), Kentucky Association of School Administrators (KASA), and others, to assist with the clarification of certain subjects and conclusions. Interviews were conducted with approximately 13 individuals, including the following:

Chapter 1

Introduction and Background

- Five current and two former Board members;
- Assistant District Superintendent;
- Three current and former District Finance Officers; and,
- Two current District employees.

The APA provided an opportunity to the former Superintendent to be interviewed; however, through his attorney, he declined the offer.

The District

The District is one of seven public school systems serving Campbell County, in addition to a parochial school district and several other private schools. This independent school system serves the city of Dayton, Kentucky, which covers approximately 1.287 square miles of land and 0.652 square miles of water along a bend of the Ohio River.

With a city population of 5,338, the District currently serves approximately 927 students in two school buildings: Dayton Middle/High School serving students in grades seven through twelve and Lincoln Elementary School serving preschool through sixth grade.

The Central Office is located less than ¼ mile distance from the District school buildings. At the time of our examination, the Central Office consisted of approximately twelve positions. The faculty at the high school was comprised of 28 certified teachers, two guidance counselors, two administrators, and six classified staff members. The faculty at the elementary school was comprised of 32 teachers, a guidance counselor, two administrators, and six classified staff members.

Academic Highlights

The 2011-12 School District Report Card shows that the District has been classified as “Needs Improvement” based on the fact that the District accountability performance scores fell to below the 70th percentile in the state. The District’s overall score was a 51.4, which gave them a percentile ranking of 28. The 2011 Average Freshman Graduation Rate was 63.2 percent, compared to the state average of 77.8 percent.

Financial Highlights

The District reported spending \$10,306 per student during the 2011-12 school year, \$391 less than the state average. According to the 2011-12 District Report Card, approximately 685 of the 839 students enrolled in the District receive free lunch and 54 more students receive lunch at the reduced rate.

Regular operating expenses for the general education of all students are paid from the District’s General Funds. General Fund revenues primarily consist of state SEEK funds and property taxes. Excluding inter-fund transfers and debt service, the General Fund had \$6,966,627 in revenues and \$7,279,673 in expenditures for FY 2012, which means the District ended the fiscal year with expenses greater than revenues. However, due to a total of \$620,845 in cash reserves and other funds that carried forward from FY 2012 to FY 2013, the District did not begin FY 2013 with a negative fund balance.

Chapter 1

Introduction and Background

The District assessed a four percent property tax increase for FY13.

The Board

The Board consists of five individuals elected from those residing within the boundaries of the independent school district. All Board members serve a term of four years. While Board members are not compensated for their term on the Board, Board members may receive, as allowed by KRS 160.280, a per diem of \$75 per regular or special Board meeting or training session attended, not to exceed \$3,000 per calendar year per member; however, District Board members have a long standing practice of waving their right to receive per diem and receive no compensation.

KRS 160.290 outlines the general powers and duties of the Board. This statute indicates that the Board has general control and management of the public schools in its District. Each Board shall generally exercise all powers prescribed by law in the administration of its public school system, appoint the superintendent of schools, and fix the compensation of employees.

The Superintendent

Per KRS 160.370, “[t]he superintendent shall be the executive agent of the board that appoints him and shall meet with the board, except when his own tenure, salary, or the administration of his office is under consideration. As executive officer of the board, the Superintendent shall see that the laws relating to the schools, the bylaws, rules, and regulations of the Kentucky Board of Education, and the regulations and policies of the district board of education are carried into effect.... He shall be the professional adviser of the board in all matters. He shall prepare, under the direction of the board, all rules, regulations, bylaws, and statements of policy for approval and adoption by the board. He shall have general supervision, subject to the control of the board of education, of the general conduct of the schools, the course of instruction, the discipline of the pupils, and the management of business affairs. He shall be responsible for the hiring and dismissal of all personnel in the district.”

Chapter 2

Findings and Recommendations

Introduction to Chapter 2 Examination Findings

As reported in this examination, certain actions of the former Superintendent of the District resulted in significant personal benefits that do not appear to have been disclosed to or approved by the Board. In total, over an eight-year period beginning in July 2004 and ending with his retirement in June 2012, the former Superintendent was paid \$223,672 in benefits and payments that were apparently not authorized by the Board, or were for false or duplicate expenses.

Over the eight-year period, the former Superintendent was reimbursed \$146,276 for retirement related benefits not included in his contract. At the time of his retirement from the District, the former Superintendent was compensated \$47,429 for sick and annual leave days that he should either not have received or that should have been deducted from his leave balances. He also used a District gas credit card for his personal vehicle, which was not a benefit authorized by the Board, and accumulated a total of \$21,464 in fuel purchases. Further, he was reimbursed approximately \$8,502 for expenses he did not incur, that were duplicated, or were for apparent non-existent meetings.

It is also apparent that the former Superintendent did not fully disclose to the Board additional, non-contractual benefits that he initiated and received. The former Superintendent included two line items in the District's approximately 500 line-item working budget for his retirement reimbursements and travel allowances, while having no authority to create benefits related to his own compensation. According to those interviewed, the former Superintendent did not inform the Board that the budget included these two new line items. The titles of these budget line items were also abbreviated and not sufficiently descriptive to reasonably reveal the actual use of District funds.

The total value of annual leave accumulated by the former Superintendent and Assistant Superintendent were apparently not disclosed to the Board, despite the significant liabilities to the District that accumulated as unused leave balances increased. Further, the Board was not aware that the Assistant Superintendent was receiving annual leave.

It seems evident that the Board lacked information concerning the escalating liabilities created by an increase in annual leave balances when considering the Board was unaware that, upon retirement, the former Superintendent would receive a \$184,198 payout for unused leave days. Of this amount, \$129,752 was for the former Superintendent's accumulated annual leave. The Board did not realize this payment was made by the District until the month following the former Superintendent's retirement. This payment had a significant financial impact on the District and was the primary reason the amount of funds to carry forward from FY 2012 to FY 2013 was reduced from the \$825,000 estimated in the FY 2013 budget to an actual carry forward of \$620,845. According to interviews and documentation reviewed, the former Superintendent did not report to the Board that this payment would have a significant impact on the District's budget and reportedly asked the Finance Officer not tell the Board the reduced carry forward was due to his final payment.

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It is also important to note that during the time the former Superintendent received the unauthorized benefits and payments, the District began to struggle financially as funding decreased and expenses increased. Leading to the elimination of cost of living increases for District staff salaries. Additionally, the District was struggling academically, culminating in a December 2011 assessment by the Kentucky Department of Education that led to state management of the District's middle school and high school.

The following findings report in detail these and other issues identified during this examination.

Finding 1: Former Superintendent received payment of \$146,276 in retirement related benefits that were not authorized by the Board.

Between July 1, 2004 and June 30, 2012, the former Superintendent received a total of \$146,276 in payments from the District for reimbursement of his personal retirement contributions and the purchase of 1.21 years of service credit. These two retirement benefits were not included in the former Superintendent's third contract that was effective on July 1, 2004. See Exhibit 1. Further, a review of the Board meeting minutes reveals that the benefits were never approved by the Board as a separate action outside the contract. According to current and former Board members, they were unaware that the payments were being made to the Superintendent during this eight-year period.

Two former District Finance Officers stated that they were told by the former Superintendent that the Board approved the benefits, but that the approval was given in a closed session that the Finance Officers would not have been allowed to attend. Though the Finance Officer, serving at the time the initial reimbursement payments were made, questioned the justification of the former Superintendent, she stated that the former Superintendent directed her to provide this benefit. A later Finance Officer also questioned the payments, but neither of the former staff members reported their concerns to the Board, reportedly, due to fear of reprisal and loss of their jobs.

The former Superintendent inserted a budget line item allocating funding for both of these benefits in every working budget from the time he received the reimbursement payments. However, while the former Superintendent was responsible for developing a working budget to present to the Board as part of his duties as executive agent, KRS 160.370 prohibits a superintendent from acting as executive agent when the superintendent's salary is under consideration. Specifically, the statute states,

[t]he superintendent shall be the executive agent of the board that appoints him and shall meet with the board, except when his own tenure, salary, or the administration of his office is under consideration.

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By removing a superintendent as executive agent of the Board when the superintendent’s salary is being considered, this statute would appear to prohibit any superintendent from adding a new item in a school district budget when it is related to the salary or compensable benefits of the superintendent. Only with express direction and approval by the Board could such items have been included in the budget. This should be done through the superintendent’s employment contract, which contains the terms and conditions for employment that the superintendent negotiated and agreed to with the Board.

Through available documentation and interviews, it appears that the former Superintendent initiated new benefits for himself by placing the cost of these benefits in an approximately 500 line-item working budget with a non-descript name. The former Superintendent then never discussed it with or identified it to the Board during the budget approval process and reportedly misrepresented to the former Finance Officers the Board’s knowledge and approval of the payments in order to receive cooperation in issuing District checks for the benefits.

*Personal
 Retirement
 Contributions*

Personal retirement contributions are those payroll deductions taken directly from an employee’s paycheck meant to support their retirement through a particular retirement system. For KTRS members, deductions were approximately 10 percent of their salary during the former Superintendent’s tenure. Payroll deductions for retirement were withheld from each of the former Superintendent’s paychecks from the start of his employment with the District in July 1997. Beginning in July 2004, the District started providing a monthly check to the former Superintendent for an amount equal to his monthly retirement deductions.

Table 1 contains the total annual amounts deducted from the former Superintendent’s paychecks for the purpose of his contribution to KTRS. As a comparison, the table also contains the total annual amounts paid to the former Superintendent for the purpose of reimbursing those retirement deductions.

Table 1: Amount of Retirement Contributions Reimbursed to Former Superintendent by Fiscal Year

Fiscal Year	Superintendent Deductions	FY Reimbursement Total
2005	\$11,822.43	\$11,822.46
2006	12,219.60	12,230.40
2007	12,636.24	12,636.25
2008	13,538.16	12,636.25*
2009	13,800.96	12,636.24*
2010	13,938.96	12,636.24*
2011	14,292.72	14,292.72
2012	14,646.24	14,646.24
Total	\$106,895.31	\$103,536.80

Source: Auditor of Public Accounts based on District’s payroll records.

* Reimbursement amounts for FY 2008 - FY 2010 did not equal the increasing retirement contributions of the former Superintendent due to an oversight by payroll staff that kept personal contribution reimbursements the same for that time period.

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Based on information provided by other state education oversight agencies, a limited number of superintendents at other school districts in Kentucky do receive reimbursement of their retirement contributions as part of their benefit packages; however, such benefits are included in their employment contracts. No such written documentation is available to justify this benefit was intended to be included as part of the former Superintendent's employment package at the District.

According to the former District Finance Officer, at the time the reimbursement checks began, the former Superintendent told the former Finance Officer that the Board approved the former Superintendent to receive reimbursement for his retirement contributions. Since the former Finance Officer kept minutes for the Board meetings, she asked when such a decision was made because she did not remember the Board approving anything associated with retirement contribution reimbursements. The former Finance Officer stated that the former Superintendent told her that the decision was made during a closed session of the Board. When the former Finance Officer told the former Superintendent that the Board could not take action behind closed doors, she remembered the former Superintendent stating, "are you questioning me?" When the former Finance Officer responded to the former Superintendent that she was just questioning whether such action was supposed to be done, the former Superintendent reportedly stated, "well it was done." None of the Board members interviewed recall discussing or approving this benefit while in closed session or otherwise.

The former Finance Officer stated she "backed off" because she had already made the former Superintendent mad on a separate issue. The former Finance Officer acknowledged not going to the Board with her concerns, stating,

I didn't go to the Board. If you ever work for a superintendent, you know the one thing that will get you fired, especially if you are a classified employee, is to go to the Board and question your superintendent. I was getting near retirement and I didn't go to the Board. He told me to do it, I did it. He is my boss. The only one that could fire me was him.

Another former Finance Officer that served after the person who first began issuing the retirement reimbursement checks provided a similar account of events during her tenure. This former Finance Officer stated that the former Superintendent always maintained that the Board approved the benefit in a closed session, so the former Finance Officer continued the payments. She also stated that going to the Board on any issue would have resulted in the loss of her job. The current Finance Officer and Payroll Clerk for the District appear to have continued the payments because they had already been an ongoing benefit when they were hired and assumed it was correct.

Chapter 2 Findings and Recommendations

Purchase of Non- Qualified Service Credit

Service credit, as it relates to KTRS, is the cumulative number of years and months worked during the career of a retirement member that will be used to calculate their retirement benefit. Non-qualified service credit can be purchased by an eligible member to add additional years or months of service to their service credit total without having actually worked that time. This purchase is an actuarially calculated amount based on the member's salary that allows them to enhance their final retirement benefit through the additional funding provided through the purchase. According to KTRS calculations, the purchase of the additional 1.21 years of non-qualified service credit increased the former Superintendent's final retirement benefit by \$948.67 per month or \$11,384.04 per year.

Table 2 contains the total amounts that were deducted from the former Superintendent's paychecks for the purpose of purchasing the non-qualified service credit and the amounts that the District then reimbursed to him for those deductions.

Table 2: Amount Reimbursed to Former Superintendent for the Purchase of Service Credit by Fiscal Year

Fiscal Year	Superintendent Deductions	FY Reimbursement Total
2007	\$1,991.08	\$1,991.06
2008	8,574.14	9,237.82*
2009	12,197.52	12,197.52
2010	12,197.52	12,197.52
2011	7,115.22	7,115.22
Total	\$42,075.48	\$42,739.14

Source: Auditor of Public Accounts based on District's payroll records.

* Total reimbursements for FY 2008 were higher than the former Superintendent's deductions due to payroll continuing to pay the service credit purchase reimbursement amount while there was a break in the service credit related withholdings in September and October of 2007. In October, the former Superintendent was reimbursed double the amount that had typically been deducted. The overpayment for the two month period was \$663.66.

The former Superintendent first purchased service credit through KTRS beginning in February 2003 and made 12 monthly installments through payroll deductions. This was to reinstate 0.79 years of service that he had cashed out of the retirement system many years earlier. These payments were not reimbursed by the District.

In October of 2006 the former Superintendent began making payments of \$221.23 through payroll deduction to purchase an additional 0.21 years of non-qualified service credit, presumably to give him an even one year of additional service when added with the 0.79 years previously purchased. In November 2006, the District began to reimburse the former Superintendent for the \$221 deductions along with the retirement reimbursements already being made as discussed in this finding.

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According to KTRS records, the former Superintendent terminated the purchase of the 0.21 years of service in September 2007 after only making enough payments for 0.06 years of service credit. The former Superintendent replaced this purchase with a new purchase plan for 1.15 years of service credit. Presumably this was to continue to reach one full year of service when combined with the 0.79 and 0.06 purchases, while adding an additional year of service credit for a total of two years of additional credit. Monthly payroll deductions of \$1,016.46 for this new purchase began in November 2007 and continued through January 2011. The District reimbursed the new higher deduction amounts on a monthly basis as well.

The former District Finance Officer serving at the time the reimbursement for the service credit began could not recall how the reimbursement payments for the service credit purchase began or the justification provided by the former Superintendent. A former staff member who served as the Finance Officer shortly after these reimbursement payments began maintains that the former Superintendent told staff that the Board approved the reimbursement for the service credit purchases in a closed session, such as his annual evaluations, and that it was a common practice at other school districts. The former staff member acknowledged that there would not be written evidence of any such action by the Board. Further, none of the Board members interviewed recall discussing or approving this benefit while in closed session or otherwise.

As previously stated, while there may have been line items in the District budget related to the expenses of the two retirement benefits, the former Superintendent never had the authority to initiate the benefits. Furthermore, even if the former Superintendent had such authority, it is also his duty under KRS 160.370 to act as the “professional advisor” to the Board. Such a role would require him to have called attention to these additions to the budget. Instead, no Board member can recall the former Superintendent discussing these benefits.

Further, the budget notes for the FY 2005 budget, when the personal retirement contribution reimbursements first began, do not include any discussion of the proposed new expenses. The note from the Finance Officer includes disclosure of staff salary increases and other detailed changes to the budget, but does not mention the additional budget line item for the benefit of the former Superintendent. The budget note did mention that the District SEEK funding was to be cut by over \$195,000 and that would keep the District from doing some things that they would like to do. See Exhibit 2.

Rather than disclose these additional benefits, the former Superintendent instead inserted a line item with the non-descript name of “PD. Ben” in a budget with approximately 500 other individual line items. While the Board may have had the opportunity to ask about each line item, it is unlikely they would have done so given the overwhelming volume of the budget and what appears to be an effort to hide the true nature of a line item by the one individual statutorily tasked with advising the Board.

Board members could have been made aware of the payments being made for the unapproved benefits if the payments had not been considered part of the former Superintendent's salary by the District Finance Officers. Board Policy 04.3111 requires that unless District payments are related to contracted salaries, payments will take advantage of discounts, will prevent penalties, or are in accordance with other policies; the orders for District payments must be signed by the chairperson of the Board. Since the former Superintendent told the former Finance Officers that the Board had approved the benefits, the former Finance Officers considered the payments as part of normal payroll, which is approved by the Board at one time for all staff through the "Consent Agenda" at each Board meeting.

Being approved under the Consent Agenda means payroll is bundled with other items for general approval without discussion, unless a member requests to add the item to the regular meeting agenda for discussion. Specifically, the approved statement reads, "Authorization for Payment of all School Board Employees as Per Schedule & When Due." There is no actual listing of the payroll amounts to be paid to each employee provided to the Board members. This information is included within other expenditure categories within the financial reports provided to the Board members, meaning it was not possible to review the payments being made to a specific staff member, including the Superintendent.

The oversight process at the District was weakened because the Board appears to have trusted that the Superintendent would always act in the best interests of the District, and that no further oversight of his personal District financial activities was required. The Superintendent is the executive agent of the District and oversees daily management, and while a Board is not expected to insert itself into the daily operations, KRS 160.290 states that a Board "shall have control and management of all school funds." The oversight process established by the Board must include monitoring of the superintendent's use of funds.

The District Fraud Prevention Policy 04.41 requires that any employee who suspects "fraud, impropriety, or irregularity" to report their suspicions to their supervisor or the superintendent. There is no official course of action in the policies if the employee suspects the superintendent of wrongdoing, who is designated by law as the responsible party for hiring and dismissal of all district employees. This places the staff member in the undesirable position of determining how best to report their suspicions about a superior staff member that ultimately oversees their personnel evaluations, advancement opportunities, and their very employment.

Findings and Recommendations

The only District authority above the Superintendent is the Board. The Board hires the Superintendent, conducts annual evaluations of their job performance, and directs the general activities of the District through the setting of policy. It stands to reason that the Board should also be responsible for the ultimate review of payments being made to the Superintendent and avoid unfairly tasking a subordinate staff member with oversight over the supervisor.

Recommendations We recommend the Board recoup the \$146,276 in unapproved payments made to the former Superintendent as reimbursement for his personal retirement contributions and non-qualified service credit purchases.

We recommend that all payments being made to the superintendent through payroll be provided to the full Board, Board Chair, or a designated Board committee for review. The Board may continue to generally approve staff payroll “when due” in Board meetings to ensure all staff receive payment on schedule.

We also recommend that the Board adopt a policy requiring that no changes be made to the salary, benefits, or other payments related to the Superintendent without written direction of the Board supported by official action in an open meeting.

We further recommend that the Board develop and publish to all staff an official process for the Board to receive concerns from staff related to the activities of the superintendent. This could be addressed through a modification to the District’s current Fraud Prevention Policy already in effect.

Finding 2: Former Superintendent received \$36,237 in payment for 62 additional leave days not approved by the Board.

According to District leave records, at the time of the former Superintendent’s departure from the District he had accumulated 62 more annual leave days than he could have earned based on the terms of his employment contract. A review of the meeting minutes of the Board does not indicate that any additional leave beyond what was provided for in the Superintendent’s contract was approved by the Board. Interviews with current Board members and two former Board members revealed they do not recall approving additional leave days or discussing providing additional leave for the Superintendent. This resulted in an additional \$36,237 being paid to the former Superintendent at the time of his departure that was not earned based on terms of the employment contract or approved separately by the Board.

The former Superintendent only began receiving annual leave as part of his benefits package at the beginning of his third employment contract, which had an effective date of July 1, 2004. The contract provided for 20 annual leave days per year that could accumulate without limit. Specifically, the contract states,

Findings and Recommendations

[t]he Superintendent shall receive 20 days of annual leave, which shall accrue without limit, exclusive of legal holidays and other school vacations. In the event this contract is terminated by mutual agreement prior to its expiration date, the Board shall compensate the Superintendent for any unused vacation days accrued from the previous year and on a pro rata basis for the current year. The Board shall compensate the Superintendent for all accrued leave at the time of retirement or separation.

Based on the July 1, 2004 effective date of the contract and the end of the former Superintendent’s tenure with the District as of June 30, 2012, the Superintendent received this benefit for an eight-year period. Receiving 20 annual leave days per year for eight years results in a maximum of 160 annual leave days that the former Superintendent was entitled to receive, assuming no leave days were used. District leave records indicate that the former Superintendent accumulated 222 annual leave days at the time of his departure from the District. This results in a difference of 62 additional annual leave days, and there is no justification for these days being added to the Superintendent’s leave balance.

As seen in the cited contract provisions, the former Superintendent was entitled to compensation for any accumulated annual leave at the time of his retirement or separation. According to District payroll records, the former Superintendent was paid \$129,752.34 for all 222 annual leave days included in the District leave records. Based on this payment, the value of the 62 extra leave days was \$36,237.14 or \$584.47 per day.

Table 3 provides the dates the annual leave days were entered into the District’s annual leave records for the former Superintendent and the number of days that were added with each entry. The table also contains the fiscal year in which the addition of the leave days was made.

Table 3: Former Superintendent Annual Leave Accumulated by Date

Fiscal Year	Date of Accrual	Actual Accrual Days
2005	7/14/04	43
2006	7/1/05	20
2006	8/3/05	32
2007	6/30/07	27
2008	8/2/07	20
2009	7/1/08	20
2010	7/1/09	20
2011	7/1/10	20
2012	7/1/11	20
	Total	222

Source: Auditor of Public Accounts based on District’s employee leave accrual history.

As seen in Table 3, 43 annual leave days were added to the former Superintendent's leave totals just 14 days after the start of his third employment contract that provided the new benefit. This resulted in the former Superintendent's annual leave balance beginning with 23 more annual leave days than should have been granted by the new contract. Annual leave was added to the account balance twice in Fiscal Year 2006, with 20 days on July 1, 2005 and an additional 32 days on August 3, 2005, approximately one month apart. At this time, the former Superintendent had received 95 annual leave days in a two-year period or 55 more annual leave days than provided by his employment contract. Seven additional days of leave beyond what the contract allowed for were added to the Superintendent's leave account balance when 27 total days were added on June 30, 2007, resulting in a total of 62 additional annual leave days being accumulated.

While the District's leave system does not retain the names of the staff that entered the extra leave days, the current Payroll Officer stated that she was the one to enter the leave days after she started employment with the District in August 2005. She stated the days would be entered when the former Superintendent would bring her notes with the number of days he wanted added to the leave accruals, but those notes were reportedly not retained. The time period worked by the current Payroll Officer accounted for the majority of the time period when the additional leave days were entered into the system. The only other additional days of leave added to the Superintendent's balance was the 23 days added at the beginning of his tenure. The former Finance Officer serving in 2004 could not recall adding any extra days, but stated she would not have done it without the former Superintendent telling her to do so.

The Board was never notified that the extra leave days were being added. Based on interviews with current and former staff, this appears to be due to District employees' fears of losing their jobs had they reported anything negative regarding the former Superintendent. This is another example of the control and oversight process being weakened due to subordinate employees being expected to monitor the activities of the District Superintendent.

The monitoring process could be strengthened by Board members receiving the leave balance and associated value for the annual leave within the regular financial reports provided at Board meetings. A review of the District's Annual Financial Reports show that annual leave was not included as a liability. Including a line item in these reports related to the ever increasing liability of accumulated annual leave from FY 2004 through FY 2011 could have brought the issue to the attention of Board members.

Findings and Recommendations

Sick leave accumulation was specifically identified as a liability in all of the District’s Annual Financial Reports since at least FY 2005, but no line items in the financial reports appear to include annual leave liability. Since the District is liable for 100 percent of the value of annual leave as opposed to 30 percent of sick leave, the total value of annual leave liabilities can increase rapidly even with only two employees receiving the benefit.

For example, the District paid the former Superintendent a total of \$129,752.34 for the value of his annual leave. As seen in Finding 10, without changes to the Assistant Superintendent’s annual leave balance, the District has a potential liability of \$70,058.56 for the 176 days of accumulated annual leave. If changes are made to the leave balances, the District will still be liable for 160 annual leave days with a value of \$63,689.60. These are significant amounts that the Board should have been made aware of by their executive agent, the former Superintendent, financial staff, and possibly others. Had the Board implemented this method to monitor annual leave, it is unlikely that the rapid accumulation of annual leave by the former Superintendent would have gone unnoticed.

Recommendations

We recommend the Board recoup the full \$36,237 payment made to the former Superintendent for the 62 additional days applied to the former Superintendent’s leave balance that were accumulated without Board approval.

We recommend that, should the Board continue the provision of annual leave to certain staff, a financial report be presented to the Board, at least quarterly, containing the current amount of leave and the associated value of that leave by staff member. The future cost of payment for accumulated annual leave should also be considered for inclusion as a component of the District budgeting process and as a line item within the annual financial statement audit.

Finding 3: Former Superintendent was paid \$7,101 for 40.5 sick leave days he used but not deducted from his sick leave balance.

According to District records, calculations used to determine the former Superintendent’s payout for unused sick leave at the end of his employment from the District did not take into account deductions for sick leave used during his employment. District staff made these calculations based on information provided by the former Superintendent and did not use the official records of the District. Files provided by the District contained 13 leave slips submitted by the former Superintendent that documented 40.5 sick leave days that were not deducted from the totals used to calculate the Superintendent’s final sick leave balance. By not deducting the 40.5 used sick leave days, the sick leave balance was artificially inflated and resulted in the District incorrectly paying the Superintendent an additional \$7,101.

A review of the District's electronic sick leave records for the former Superintendent identified that 37.5 sick leave days were deducted from the total sick leave accumulated, indicating sick leave was used. The electronic records did not agree with the District's paper files that contained leave slips submitted by the former Superintendent that document 40.5 sick days used. Further, a review of the electronic sick leave records also revealed that the amount of sick leave accumulated for the former Superintendent was far greater than allowed by law and the former Superintendent's employment contract. The overstated sick leave balance in the electronic records calls the reliability of these records into question; however, we were able to determine the appropriate sick leave balance by compiling information available in District files.

Since the former Superintendent's original employment contract with the District beginning in July 1997 did not include a specific provision for sick leave, he received 10 days per year as did teachers and other certified staff. The former Superintendent's third employment contract, beginning July 1, 2004, provided for 12 sick days per year, which allowed for 166 sick days to be accumulated. Combined with the two emergency days and the one personal leave day provided each year since FY 2000 that converted to sick leave when not used, the former Superintendent could have accumulated a maximum of 205 sick leave days during his employment with the District. However, the District's electronic sick leave records indicate that the former Superintendent had a balance of 279 sick leave days at the end of his employment with the District.

When calculating the former Superintendent's payment for unused sick leave, the District did not use the inaccurate totals found in the electronic leave records nor did they determine an accurate sick leave balance based on source documents. Instead, payment calculations were based on the total amount of sick leave compiled and provided by the former Superintendent. See Exhibit 3. While this amount more accurately reflects the sick leave that could have been earned by the former Superintendent, it does not include any deductions for sick leave used and the former Superintendent was allowed to dictate his final sick leave balance. When staff were asked why the sick leave balance provided by the former Superintendent was used instead of electronic or other records, the Payroll Officer stated that the sick leave balance provided by the former Superintendent was less than the District's records.

Findings and Recommendations

In total, the former Superintendent calculated a total of 203 sick leave days earned during his tenure with the District. Combined with 107.5 sick leave days carried over from previous educational positions held in other Districts, the former Superintendent was paid for 310.5 sick leave days. By statute, sick leave days are paid at 30 percent of an employee's salary at the time of retirement. The former Superintendent received a payment of \$54,446.18 for his sick leave based on 30 percent of his daily salary amount or \$175.35. Based on the \$175.35 amount, the District overpaid the former Superintendent \$7,101.68. Since the full amount of payments for unused sick leave can be included in final retirement calculations, KTRS determined the \$7,101.68 overpayment increased the former Superintendent's final retirement benefit by \$67.13 per month or \$805.56 per year.

While allowing the former Superintendent to provide his sick leave balances to calculate his sick leave payment should not have occurred, interviews with a number of current and former staff indicate that staff may have felt there was no other choice. These staff reported that the former Superintendent was prone to acting in an intimidating manner. The staff also considered him to be their boss and appeared to have felt that questioning the former Superintendent could have resulted in termination of their employment. As initially discussed in Finding 1 and again in other findings, it would be beneficial for the Board to develop a process in which employees can report issues involving the superintendent or others without fear of reprisal.

Recommendations

We recommend the District recoup the full \$7,101.68 overpaid to the former Superintendent for 40.5 sick leave days that should have been deducted from the final sick leave balance.

As stated in Finding 1, we recommend the Board modify the Fraud Prevention Policy to allow for employees to report issues to the Board in a manner that will not put their employment at risk.

We recommend the Board provide training for staff responsible for time keeping ensuring that sick leave for all employees, including the superintendent, is tracked accurately, as Districts are required to pay for unused sick leave at the end of the employee's tenure.

We further recommend that the Board require the superintendent to notify the full Board, Board Chair, or a designated Board committee when the superintendent takes sick leave for a scheduled contract workday. These requirements should be included in the superintendent's employment contract.

Findings and Recommendations

Finding 4: Former Superintendent was incorrectly paid \$4,091 for seven annual leave days used that were not deducted from his annual leave balance.

According to electronic District leave records, no annual leave was deducted from the former Superintendent's leave balance during the eight years that he received this type of leave. Though records reflect no use of annual leave, District files contained three leave slips submitted by the former Superintendent indicating a total of seven annual leave days were used for vacation. Based on these documents, the seven leave days should have been deducted from the balance of the former Superintendent's annual leave. At the end of the former Superintendent's employment, he was paid a daily salary rate of \$584.47 for each day within his accumulated leave balance. Using this rate, the seven leave days that were not deducted from his leave balance are valued at \$4,091, and were incorrectly included in the \$129,752.34 total amount paid to the Superintendent for unused annual leave.

As detailed in Finding 2, the former Superintendent should have had a maximum leave balance of 160 annual leave days by the end of his employment with the District, assuming no annual leave was used. Given that District records contain official leave slips for 3 days in 2008 and 4 days in 2010, the former Superintendent's annual leave balance should have been reduced to a maximum of 153 days. This still would have resulted in a payment of \$89,423.91 from the District at time of his departure.

In discussions with District staff regarding why the seven days of leave were not deducted from the annual leave balance, auditors were told that the former Superintendent was hostile toward staff when issues involving his use of leave were discussed. Though none of the staff interviewed could provide a specific reason for not deducting the leave, current and former staff recounted that if central office staff noticed the former Superintendent had been out of the office and suggested that he complete a leave slip that he would become angry with staff. In discussing this issue, it appears that staff may have been intimidated and stopped questioning the former Superintendent's use of leave. Regardless of the reason for not deducting the leave, it is clear that the former Superintendent should not have been paid for the seven leave days.

According to information from staff, in addition to the seven days of unrecorded leave, the former Superintendent took annual leave for vacations or for other reasons but did not report the leave used. Auditors performed a review of the former Superintendent's electronic work calendars. Entries on these calendars do include appointments for a number of days that could have been used for vacation or other non-work days. One former staff member stated that the former Superintendent told her that he worked more than his required contract and did not need to take leave days. This may refer to the possibility that the former Superintendent worked on non-contract days, which may have offset leave taken.

Findings and Recommendations

The former Superintendent was originally contracted to work 240 days per year, increasing to 242 in 2008. Given the average year has approximately 260 regular work-days, approximately 18 to 20 work-days remain that were considered non-contract days for the former Superintendent. The employment contract does not include a schedule of specific work days or state when non-contract days can be used, so it is not possible to determine the actual amount of time the former Superintendent worked and when non-contract days were being used.

Though the Board is responsible for overseeing the work and performance of the superintendent, it did not have a process in place to identify the days the Superintendent was to perform his duties. They had not specified or requested the former Superintendent to schedule non-contract days at the beginning of the year, which would have notified the Board of the contract days the Superintendent was scheduled to work. This process would allow the Board, the Superintendent, and central office staff to clearly identify leave days used by a superintendent. Any modification to the schedule would need to be formally presented to the Board for approval or denial of the changes. The Board Chairman or designated Board committee chair should be notified by the superintendent of leave taken to allow the Board oversight of the superintendent's leave. This relieves the staff from being placed in the difficult position of monitoring the activity of the superintendent.

Recommendations We recommend the Board recoup the full \$4,091 paid to the former Superintendent for the seven annual leave days that were not deducted from his final annual leave balance.

We recommend that the Board implement changes to the District Fraud Prevention Policy as described in Finding 1, to allow employees to report directly to the Board concerns related to the superintendent or others.

We recommend the Board establish an annual work calendar for the superintendent that specifies, prior to the beginning of the year, the non-work days associated with the superintendent's contract. Any modification to this schedule should be formally presented to the Board for it to approve or deny, and the Board's action should be documented in the Board meeting minutes.

We further recommend that the Board require the superintendent to notify the full Board, Board Chair, or a designated Board committee when the superintendent takes annual leave for a scheduled contract workday. These requirements should be included in the superintendent's employment contract.

Findings and Recommendations

Finding 5: Former Superintendent used District gas credit card to purchase \$21,464 in fuel with no Board approval.

From August 2003 through June 2012, the former Superintendent used a District gas card to purchase approximately \$21,464 in fuel that is believed to have been used exclusively for his personal vehicle. The purchase of fuel was not included as a benefit in the former Superintendent's employment contract with the Board, and there is no record in Board meeting minutes of the Board approving the use of a gas card for the former Superintendent as an added employment benefit. Board members stated they were never aware of the use of the gas card for the former Superintendent's personal vehicle. The use of the gas card also duplicated other benefits that were specifically provided in the Board approved employment contract.

According to former and current District staff, the former Superintendent initially used a District gas credit card with a permanently assigned District vehicle provided as an employment benefit at the beginning of his tenure with the district in July 1997. The District returned the leased vehicle being used by the former Superintendent in June 2003. The Superintendent used his personal vehicle beginning in July 2003. District records show that the former Superintendent continued to use the District gas card without authorization from the Board.

In the former Superintendent's third employment contract, with a start date of July 1, 2004, the Board provided a monthly travel allowance and the reimbursement for personal expenses incidental to District related travel. There was no provision for the usage of the District gas credit card, and Board members serving at that time stated they never discussed the use of a gas credit card as an employment benefit option under the third contract, and were unaware that the former Superintendent continued to use it after the leased vehicle was returned.

The continued use of the District gas credit card resulted in the former Superintendent receiving an increase to his overall compensation package at a substantial cost to the District and duplicated other benefits that were approved by the Board. Table 4 contains the total annual travel allowance received by the former Superintendent, the amounts he charged to the District gas credit card, and the mileage reimbursements for trips that occurred on the same or next day that the gas card was used.

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Table 4: Travel Benefits Provided to Former Superintendent by Fiscal Year

Fiscal Year	Total Travel Allowance*	Mileage Reimbursed**	Amount Charged on Gas Card	Gallons of Gas	Total Travel Benefits
2004	\$1,200.00	\$1,288.00	1,391.22	846.45	\$3,879.22
2005	4,368.00	3,279.50	2,088.90	1,064.21	9,736.40
2006	6,300.00	5,185.50	2,807.27	1,116.97	16,298.77
2007	8,124.00	5,116.80	3,099.83	1,257.46	18,347.63
2008	8,732.34	5,759.10	3,403.03	1,092.47	19,902.47
2009	8,724.00	4,388.80	1,277.92	548.32	16,399.72
2010	8,724.00	3,544.25	1,804.10	653.78	16,082.35
2011	8,724.00	1,904.44	2,781.05	877.61	15,420.49
2012	8,724.00	1,471.78	2,811.21	803.03	15,018.99
Total	\$63,620.34	\$31,938.17	\$21,464.53	8,260.30	\$117,023.04

Source: Auditor of Public Accounts based on District’s gas credit card statements.

* While a travel allowance was not specifically included in the former Superintendent’s employment contract until July 1, 2004, a \$100 per month travel allowance was provided in previous years. See Finding 8 for further discussion.

** Mileage reimbursement totals are only those trips identified by the District as occurring on or the next day the gas card was used by the former Superintendent and do not include all mileage reimbursements.

As presented in Table 4, the contract provisions for a travel allowance and mileage reimbursements approved by the Board were already a significant benefit to the former Superintendent, at a minimum total combined cost to the District of \$94,358.51 over nine fiscal years. See Finding 8 for further discussion of the travel allowance. The addition of fuel purchased on the District gas credit card allowed the former Superintendent to increase his travel related benefit by an additional \$21,464.53, for a combined total of \$117,023.04. In addition to not being approved by the Board, these expenses were completely duplicated since mileage reimbursement rates include the cost of fuel.

While the approved travel benefits contained in the employment contract state the purpose of the travel allowance and cost reimbursements, the use of District gas credit cards were not regulated by the contract, Board decision, or District policy. Most fuel purchases were made near the former Superintendent’s home a short distance from the District, but some gas purchases were made at locations farther from the District. Without a specific provision or explanation of benefits for the use of the gas credit card, it is not clear whether the former Superintendent only used the gas card for District business trips or for personal travel as well.

Findings and Recommendations

During the tenure of the former Superintendent, no specific policy existed related to the use of any District gas credit cards. Board Policy 03.125 refers to the reimbursement of District vehicle fuel costs to employees, but not the direct payment for gas using a District gas card. Board Procedure 04.31 AP.2 discusses the use of District credit cards, but is not specific to gas credit card usage. The procedure does prohibit the use of credit cards for personal expenses. The Board will need to approve policies to ensure staff are clearly informed of the use of a gas credit card.

Likewise, staff must be aware of any policies involving their responsibility to oversee the use of a gas credit card. Staff must also be empowered to report concerns to the Board involving activities of the Superintendent or others. A former Finance Officer stated that while employed at the District she received training on IRS rules related to travel benefits and was informed that the IRS generally prohibits an employee from receiving both mileage reimbursement and fuel without including one of these as a taxable benefit. As the Finance Officer, she was aware that the former Superintendent was using the District gas credit card. When she asked the former Superintendent about how to address the issue of him receiving both mileage reimbursement and fuel, she stated that he told her to continue the same process they had been following. Based on a review of the former Superintendent's W-2 forms, it does not appear that any amounts associated with the fuel benefit were ever included as a taxable benefit.

The former Finance Officer and another former District employee both stated that reporting to the Board about any issues related to the former Superintendent would likely have resulted in the loss of their jobs. She did state that the independent auditor contracted by the District was told of the problem, but they were not aware of any action taken. By not making the Board aware of the former Superintendent's use of the District gas credit card, it would have been impossible for the Board members to have known to request detailed gas card statements for review.

Recommendations We recommend that the District recoup the total \$21,464.53 in funds expended on unauthorized fuel purchases by the former Superintendent.

We recommend that the Board ensure that policies include guidelines for the use of any District gas credit cards. This may be done by addressing an overall policy related to fuel purchases for all District vehicles and personal vehicles.

We further recommend that the full Board, Board Chair, or a designated Board committee be responsible for routinely reviewing the Superintendent's benefits and the actual expenditures associated with those benefits.

We recommend that the District work with the Board Attorney and its CPA to correctly account for taxable amounts previously not reported to the IRS.

Findings and Recommendations

As recommended in Finding 1, the Board should develop a process for staff to report concerns to the Board on issues related to the Superintendent.

Finding 6: The former Superintendent received \$5,323 in reimbursement for expenses he did not incur and duplicate reimbursements for mileage.

As the District Superintendent, the former Superintendent was eligible for membership in the KASA. KASA is a statewide organization dedicated to serving school administrators throughout Kentucky through advocacy, professional development, research, and leadership.

During his tenure at Dayton Independent Schools, the former Superintendent was not only a member of KASA, but also served in various leadership roles. Most importantly, he served as President-elect during the 2007-08 school year, President during the 2008-09 school year, and Immediate Past President during the 2009-10 school year. The former Superintendent also provided leadership to KASA over the years by serving on working committees, the Executive Committee, and the Board of Directors.

KASA provides guidelines for the reimbursement of association related travel to those that serve as officers, board members, and committee members. According to its Executive Director, KASA strives to cover expenses not covered by the member's school district. As a result, members take numerous approaches to requesting reimbursement from KASA. Some members request that any reimbursement they receive for attending a meeting be paid to their school district because they are on school time and driving a school owned or leased vehicle. Other members request that reimbursements be made payable to themselves instead because they are driving a private vehicle to the meeting. KASA is willing to make the reimbursement check payable to either the member or to the District, whichever is specified by that member.

The former Superintendent received \$6,056.25 from KASA in the form of 32 reimbursements for association related travel. These reimbursements occurred during FY 2007, FY 2008, FY 2009, and FY 2010, the years leading up to and including the three years he served as an officer. Also during his tenure, the District received one reimbursement for \$279.32 from KASA for association related travel that had been paid for by the District, not the former Superintendent. The former Superintendent specified the reimbursement be made in this manner.

In addition, during the last six fiscal years, FY 2007 through FY 2012, the former Superintendent received over \$9,852 in reimbursements from the District for travel related to KASA and its national equivalent, American Association of School Administrators (AASA).

Findings and Recommendations

During the time that the former Superintendent was eligible to receive reimbursements from KASA, he received \$2,454.58 from KASA for flights, hotels, parking, and food previously paid with one of the District's credit cards. He also received mileage reimbursements from KASA for the same 25 trips for which he was reimbursed \$2,868.90 by the District. According to the District Finance Officer, the former Superintendent did not reimburse the District for any of the \$5,323.48 in total questionable reimbursements.

Table 5 shows 25 instances where the former Superintendent requested and received reimbursement from both the District and KASA for mileage associated with the same trip.

In some instances, the former Superintendent submitted different mileage amounts to each organization for the same trip. For the 25 trips identified as duplicate reimbursements, KASA reimbursed the former Superintendent for a total of 6,350 miles, while the District reimbursed him for a total of 6,780 miles, a difference of 430 miles for the same trips. For reasons unknown, the former Superintendent claimed more mileage with the District than with KASA for these 25 trips.

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Table 5: Duplicate Reimbursements to the Former Superintendent for KASA-Related Mileage

Meeting		KASA		District	
Date(s)	Location	Miles	Amount	Miles	Amount
9/29/2006	Frankfort	250	\$75.00	250	\$107.50
11/2/2006	Bowling Green	450	184.50	450	184.50
11/10/2006	Frankfort	250	102.50	250	102.50
4/13/2007	Frankfort	200	82.00	250	102.50
5/11/2007	Frankfort	200	82.00	250	102.50
9/26/2007	Frankfort	220	90.20	250	102.50
9/27/2007	Frankfort	220	90.20	250	102.50
11/2/2007	Lexington	250	107.50	200	86.00
11/9/2007	Frankfort	220*	94.60	250	107.50
11/29/2007	Frankfort	250	107.50	250	107.50
1/15/2008	Frankfort	250	107.50	250	107.50
2/5/2008	Frankfort	250	107.50	250	107.50
4/30-5/4/08	Louisville	250	112.50	250	112.50
5/9/2008	Frankfort	250	112.50	250	112.50
6/5-6/6/08	Cadiz	600	270.00	600	270.00
8/29/2008	Elizabethtown	250	122.50	300	147.00
11/10-11/11/08	Louisville	200	98.00	200	98.00
11/14/2008	Frankfort	220	107.80	250	122.50
1/16/2009	Frankfort	250	92.50	250	92.50
2/17-2/21/09	Lexington	200	74.00	200	74.00
4/29/2009	Louisville	230	87.40	230	87.40
5/14/2009	Elizabethtown	300	114.00	300	114.00
6/4-6/5/09	Lucas	440	167.20	420	159.60
11/12/2009	Louisville	240	98.40	250	102.50
6/3-6/4/10	Carrollton	130	55.90	130	55.90
Total					\$2,868.90

Source: Auditor of Public Accounts based on information provided by the District and KASA.

* The former Superintendent originally requested from KASA reimbursement for a 250 mile roundtrip to Frankfort from Dayton; however, KASA staff lowered the total number of miles for the trip to 220 due to driving directions obtained on MapQuest.

Findings and Recommendations

Auditors discovered three reimbursement requests submitted to KASA where the former Superintendent received reimbursement for flights, hotels, parking, and/or food previously paid for with one of the District's credit cards. These reimbursements were made payable to him, not to the District, which had actually incurred the expense. In total, the former Superintendent received \$2,454.58 in reimbursements from KASA for expenses previously paid for by the District. The details of each instance follow:

- The former Superintendent attended an Officers' Meeting on August 29, 2008 and stayed overnight at the Holiday Inn Express Hotel and Suites in Elizabethtown on the night of August 28, 2008. Although he used the District Visa card to pay the \$126.78 charge for this stay, he also requested and received reimbursement from KASA in full for the same expense.
- The former Superintendent attended the AASA NCE Conference in San Francisco from February 17, 2009 through February 21, 2009. The following expenses were reimbursed either in full or in part by KASA on March 5, 2009:
 - A \$625 flight to San Francisco was purchased on July 1, 2008 using an American Express card account and was paid by the District; however, the former Superintendent requested and received reimbursement from KASA in full for the same purchase, despite having not incurred the expense.
 - The charge for four nights of accommodation at the Grand Hyatt San Francisco, less a prepayment made earlier, was placed on the District Visa card on February 21, 2009; however, the former Superintendent requested and received reimbursement from KASA for the \$762.66 balance paid at the time of departure.
 - Nine restaurant charges were placed on the District Visa card while the former Superintendent was in travel status for the conference. Although he had not personally incurred any expense related to these meals, he requested and received partial reimbursement from KASA for seven of these meals, a total of \$205.70 for the cost of meals for himself and, on two occasions, an employee of KASA. The former Superintendent submitted the itemized version of the receipts, without tip or payment method noted, to KASA and the final version of receipts, not itemized but with tip noted, to the District as support for payment of the District's credit card bill.
- The former Superintendent attended the AASA Conference in Phoenix from April 30, 2009 through May 2, 2009. The following expenses were reimbursed either in full or in part by KASA on May 15, 2009:
 - A \$487.19 flight to Phoenix was purchased on March 17, 2009 using an American Express card account and was paid by the District; however, the former Superintendent requested and received partial reimbursement from KASA for the same purchase, \$243.58, or approximately half of the expense.

Findings and Recommendations

- The charge for two nights of accommodation at the Sheraton Phoenix Downtown Hotel was placed on the District Visa card on May 3, 2009; however, the former Superintendent requested and received reimbursement from KASA for the same \$424.66 expense.
- Four restaurant charges were placed on the District Visa card while the former Superintendent was in travel status for the conference. Although he had not personally incurred any expense related to these meals, he requested and received reimbursement from KASA for two of these meals totaling \$45.48.
- A \$21 short-term parking ticket was paid on May 2, 2009 with the District Visa card. The receipt for this purchase was also submitted to and accepted by KASA for reimbursement in full.

These duplicated payments were possible for two reasons. First, the reimbursement checks from KASA were addressed to the former Superintendent, not the District, and the Board did not require the former Superintendent to provide them with a copy of reimbursement request documents submitted to KASA. Therefore, District staff and Board members were unaware that the former Superintendent was receiving reimbursement directly from KASA for mileage previously reimbursed to him by the District or for association related expenses previously paid for with one of the District's credit cards.

Second, because no one on the Board ever reviewed the District reimbursement request documents, the Board members were unaware of the specific details behind the final payment amount authorized by the Orders of the Treasurer at their Board meetings to the former Superintendent for his expenses. As employers of the Superintendent and fiduciaries of the District, Board members should have final review and approval of each of the Superintendent's reimbursement requests.

Recommendations We recommend that the Board recoup the \$5,323.48 reimbursed to the former Superintendent for mileage later reimbursed to him by KASA and for association related expenses previously paid for with one of the District's credit cards and later reimbursed to him by KASA.

We recommend that each reimbursement request document submitted by the Superintendent to the District be provided to the full Board, Board Chair, or a designated Board committee. The Board could assign District financial staff to conduct an initial review of the Superintendent's reimbursement request and to submit any concerns or issues to the Board before approval of the document is made. We recommend that the full Board, Board Chair, or a designated Board committee review and document the approval or other action taken regarding the Superintendent's requests for reimbursement.

Findings and Recommendations

We recommend that each reimbursement request document submitted by the Superintendent or other District personnel to an outside educational agency or organization be photocopied and forwarded to the District Finance Officer. We recommend the District Finance Officer or a member of the District financial staff review the document to determine if any of the items being requested for reimbursement by the outside entity has been previously reimbursed to the individual by the District or was actually incurred by the District instead of the individual making the request.

We recommend the District financial staff ensure all District reimbursement request documents are reviewed in a thorough and complete manner to ensure only actual costs related to the District are paid. The Board should consider whether it would be best to establish standard mileage amounts to be used for travel to the most common locations (Frankfort, Lexington, Louisville, etc.) or to require the inclusion of printed driving directions that support the number of miles submitted.

Finding 7: The former Superintendent submitted false reimbursement request documents to the District totaling over \$3,100 over a five-year period.

During the audit period, the former Superintendent requested and received \$18,101.94 in reimbursements from the District. The top two purposes repeatedly stated on his reimbursement request documents involved his association with and travel for KASA and the Kentucky Educational Development Corporation (KEDC). During the five-year period in question, he received \$9,142.58 in reimbursement for 74 requests for KASA related travel expense reimbursements and \$1,626.50 in mileage and parking reimbursement for 18 KEDC related trips. Table 6 provides an annual breakdown of these organization related reimbursements in relation to the total reimbursed to the former Superintendent during the period examined.

Table 6: FY 2008 – FY 2012 Breakdown of Reimbursements Received by the Former Superintendent

Fiscal Year	Total Reimbursements	KASA Related Reimbursements	KEDC Related Reimbursements
2008	\$6,106.20	\$3,499.60	\$259.50
2009	4,506.98	2,312.30	272.00
2010	3,905.03	2,188.48	334.00
2011	1,957.48	598.80	481.00
2012	1,626.25	543.40	280.00
5 Year Total	\$18,101.94	\$9,142.58	\$1,626.50

Source: Auditor of Public Accounts based on information provided by the District.

Findings and Recommendations

KASA was contacted by both the District and the APA to determine whether it would be possible to verify the former Superintendent’s attendance at each of the meetings he reported traveling to on his reimbursement request documents over the last five fiscal years. KASA staff indicated that they do not maintain attendance records or a master calendar of events, but, by cross-checking the calendars of three staff members, they were able to verify whether or not a KASA event was scheduled for a particular day. Table 7 shows a breakdown of 18 instances where KASA could not verify a meeting on or near the date that the former Superintendent requested and received mileage reimbursement from the District.

Table 7: FY 2008 – FY 2012 Breakdown of Questionable KASA Related Reimbursements Received by the Former Superintendent

Fiscal Year	Total KASA Related Reimbursements	Number of Events	Questionable KASA Related Reimbursements	Number of Events
2008	\$3,499.60	27	\$659.50	6
2009	2,312.30	18	359.00	3
2010	2,188.48	18	603.90	5
2011	598.80	6	222.50	2
2012	543.40	5	232.50	2
5 Year Total	\$9,142.58	74	\$2,077.40	18

Source: Auditor of Public Accounts based on information provided by the District and KASA.

Auditors reviewed the last four years of KEDC’s meeting minutes posted online to determine whether the former Superintendent was noted as being in attendance at each of the meetings that he had requested mileage reimbursement from the District. Table 8 shows a four-year breakdown of KEDC related reimbursements received versus a similar breakdown of questionable reimbursements due to the lack of documentation supporting the former Superintendent’s attendance.

Table 8: FY 2008 – FY 2012 Breakdown of Questionable KEDC Related Reimbursements Received by the Former Superintendent

Fiscal Year	Total KEDC Related Reimbursements	Number of Events	Questionable KEDC Related Reimbursements	Number of Events
2009	\$272.00	3	\$272.00	3
2010	334.00	4	164.00	2
2011	481.00	5	481.00	5
2012	280.00	3	184.00	2
4 Year Total	\$1,367.00	15	\$1,101.00	12

Source: Auditor of Public Accounts based on information provided by the District and obtained on the KEDC website.

Findings and Recommendations

The former Superintendent was able to request and receive reimbursement for expenses it appears he did not incur for at least four reasons: 1) he was not required to submit supporting documentation for each meeting he attended; 2) District staff nor Board members were responsible for confirming his attendance at the meetings that he indicated he had attended; 3) Board members did not review a sample of his reimbursement request forms; and 4) the *Travel Expense Voucher*, used by the District as the reimbursement request document, did not include language on it requiring certification by the individual making the request that the amount requested is a correct statement of the amount due as itemized in the request.

In total, he appears to have falsely submitted requests for at least 30 trips costing the District \$3,178.40 over the course of five years. While it is possible that the former Superintendent could have arrived late to a meeting and a correction was not made to the meeting minutes, due to the repetitive nature of this problem it appears he did not attend these meetings. Such action was a loss to the District because the former Superintendent was apparently not working in the District and was not receiving the benefit derived from attending the meetings in question.

Recommendations We recommend that the Board recoup the \$3,178.40 reimbursed to the former Superintendent for either meetings that did not occur or he did not attend.

We recommend that the Board consider having the Superintendent provide a copy of the agenda, meeting minutes, or other materials provided by the organization hosting the meeting for which he is requesting reimbursement for mileage or other travel expenses as a result of his attendance at the meeting.

We recommend that the District financial staff ensure all reimbursement request documents are reviewed in a thorough and complete manner to ensure only actual costs related to the District are paid.

We further recommend that the itemized reimbursement request documents submitted by the Superintendent be provided to the full Board, Board Chair, or a designated Board committee. The Board could assign District financial staff to conduct an initial review of the Superintendent's reimbursement request and submit any concerns or issues to the Board before approval of the document is made. We recommend that the full Board, Board Chair, or a designated Board committee review and document the approval or other action taken regarding the Superintendent's request for reimbursement.

We recommend that the Board and District consider revising the *Travel Expense Voucher* to include a certification statement to accompany the signature of the individual making the request.

Findings and Recommendations

Finding 8: Vague terms in former Superintendent's final contract and insufficient Board oversight allowed him to repeatedly increase his monthly travel allowance.

The first two employment contracts entered into between the former Superintendent and the Board, from July 1, 1997 through June 30, 2000 and July 1, 2000 through June 30, 2004, were one page documents that did not mention any benefits to be received by the Superintendent beyond his base salary; however, the former Superintendent's third and final contract, which ran from July 1, 2004 through June 30, 2012, did list a monthly travel allowance among the benefits, but did not identify an amount to be received or describe a process for calculating the annual amount. The ninth condition listed on the former Superintendent's final contract did state that,

[t]he Board shall provide the Superintendent a travel allowance each month for the use of the Superintendent's personal car for travel completed for business purposes, as defined by District policy, both inside and outside the District. The Superintendent shall also be reimbursed for personal expenses incidental to the travel when an itemized statement of travel and expense is submitted to and approved by the Board.

Financial records at the District show that the former Superintendent received a monthly travel allowance throughout his tenure. Table 9 shows the chronological history of increases to the former Superintendent's monthly travel allowance.

Table 9: History of Increases to Former Superintendent's Monthly Travel Allowance

Time Period	Amount of Travel Allowance
July 1997 – September 2004	\$100/month
October 2004 – June 2005	\$452/month
July 2005 – June 2006	\$525/month
July 2006 – June 2007	\$677/month
July 2007	\$685.34/month
August 2007	\$777/month*
September 2007 – June 2012	\$727/month

Source: Auditor of Public Accounts based on the District's Payroll Detail Register.

* The amount paid in August 2007 appears to be an attempt to make up the difference between the amount paid in July 2007 and what was to be paid monthly moving forward in that fiscal year.

Findings and Recommendations

During the first six years and three months of his tenure, the former Superintendent received a \$100 monthly travel allowance in addition to the use of a Board-leased vehicle during much of that time. Between October 1997 and May 1999, the Board leased a 1997 Chevrolet Blazer for the former Superintendent at the cost of \$358.12 per month. Starting in September 1999, the Board began leasing a 1999 Chevrolet Tahoe for him at the cost of \$576.99 per month. As mentioned in Finding 5, the District terminated the lease for the second vehicle in June 2003 and the former Superintendent began using his personal vehicle the following month. Several current and former Board members, serving on the Board at the time when the lease for the vehicle being used by the former Superintendent was terminated, indicated that this action was an attempt to save the District money.

Despite this change in travel related benefits, the amount of the former Superintendent's monthly travel allowance remained at \$100 per month until October 2004, 15 months after the termination of the second lease. As depicted in Table 9, the monthly travel allowance then increased to \$452 for the remainder of the fiscal year. The monthly amounts increased again in each of the next three fiscal years until the \$727 amount continued for the last 58 months of his tenure. Table 10 shows the annual cost associated with the monthly travel allowance paid to the former Superintendent.

Table 10: Travel Benefits Provided to Former Superintendent by Fiscal Year

Fiscal Year	Total Amount Paid As Travel Allowance
1998	\$1,200.00
1999	1,200.00
2000	1,200.00
2001	1,200.00
2002	1,200.00
2003	1,200.00
2004	1,200.00
2005	4,368.00
2006	6,300.00
2007	8,124.00
2008	8,732.34
2009	8,724.00
2010	8,724.00
2011	8,724.00
2012	8,724.00
Total for Tenure	\$70,820.34

Source: Auditor of Public Accounts based on the District's Payroll Detail Register.

Since no such action was recorded in Board meeting minutes, the specific amounts do not appear to have been set or approved by the Board. When interviewed, several former and current Board members indicated that they were either unaware that the former Superintendent was receiving a travel allowance or were aware of the travel allowance, but unaware that he was still submitting requests for mileage reimbursement in addition to this benefit. Those interviewed did not realize that the travel allowance increased to a rate of \$627 more per month within four years of their vote to terminate the “expensive” \$576.99 lease on his Board paid vehicle, in effect, costing the District more money. One Board member said that not only did he not remember ever voting to raise the monthly travel allowance; he also did not remember even discussing the possibility because “the Board would not have approved it.”

Similarly to the situation in Finding 1, the former Superintendent inserted a budget line item allocating funding for the travel allowance in the working budgets he prepared for the Board. The travel allowance was coded to the Superintendent Office section for General Fund Expenditures within a 500 line-item document known as the Working Budget which routinely was reviewed by the Board. Originally coded as a part of “0581 TRAV INDST,” the travel allowance began to be coded separately as “0190 BD PERDIEM” in FY 2005, the year when the former Superintendent’s travel allowance began to increase. While still funded in FY 2005, the code “0581 TRAV INDST” was unfunded in all future budgets. However, while the former Superintendent was responsible for drafting a budget to present to the Board as part of his duties as executive agent, KRS 160.370 prohibits a superintendent from acting as executive agent when the superintendent’s salary is under consideration.

In addition, two former District Finance Officers have maintained they were told by the former Superintendent that the Board approved the benefits, but that it was in a closed session or was decided in a discussion after the meeting. According to one former District Finance Officer, the former Superintendent would provide her with an annual amount for him to be paid and she would divide that amount by 12 and enter it into the payroll system. The former Finance Officer believed that the amounts were most likely calculations created by the former Superintendent.

The former Finance Officer and another former District staff member both stated that reporting to the Board any issues related to the former Superintendent would likely have resulted in the loss of their jobs. If staff felt their employment would not be effected, such reporting may have occurred and the Board could have corrected the problem rather than relying on staff subordinate to the superintendent.

Findings and Recommendations

In retrospect, the extent and cost of the former Superintendent's travel allowance surprised many of the current and former Board members interviewed for multiple reasons. First, as seen in Finding 12, Board members claimed to have never seen the former Superintendent's contract or to have not seen the current contract since it was executed in 2004, so they were unaware that the benefit was a term of his contract. Second, despite KRS 160.290(1) stating that the Board shall fix the compensation of employees, the Board failed to clearly specify in the former Superintendent's contract either the amount of travel allowance the former Superintendent was to receive annually or to detail a method by which the annual amount should be calculated. By the Board not defining the amount of the travel allowance, the former Superintendent was allowed to take on the role of the Board by establishing the amount of travel allowance he was to receive each year. Third, the Board did not review the individual payroll records for the Superintendent, so they were unaware how much the former Superintendent was receiving as a travel allowance. Fourth, District staff felt uncomfortable discussing with the Board concerns they had with the former Superintendent's benefits.

Recommendations We recommend the Board ensure all intended salary and benefits for the Superintendent be clearly stated and approved in an open and public meeting. We recommend the approval be clearly documented each year in both Board meeting minutes and in the signed employment contract of the Superintendent. We also recommend that the Board's attorney review the Superintendent's proposed contract prior to being approved by the Board to ensure the contract clearly represents the salary, benefits, or other terms and conditions associated with the Superintendent's employment.

Given that the Superintendent, without specific approval of the Board, was responsible for increasing the original amount of the travel benefit for the Superintendent from \$100 to \$727 monthly, we recommend the Board, in consultation with the Board Attorney, determine whether any portion of the travel benefits paid to the Superintendent should attempt to be recouped.

We further recommend that the Board designate a Board member or Board committee to be responsible for presenting any documented changes to the Superintendent's contract to the financial oversight staff for actual implementation. We recommend that changes to the Superintendent's salary or benefits should only be made after District financial staff receives complete and signed documentation from the designated party of the Board.

Similar to Findings 7, 8, and 10, we recommend that the full Board, Board Chair, or a designated Board committee review the expenses of the Superintendent to ensure the transactions are reasonable, necessary, and compliant with the contract. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent.

Findings and Recommendations

As recommended in Finding 1, the Board should develop a process for staff to report concerns to the Board on issues related to the superintendent.

Finding 9: A review of a sample of transactions from the District’s Visa Credit Card showed 43 transactions to be deficient in one of three categories.

During the examination period, the District did not have in place a strong, detailed policy specific to the use, by District employees or Board members, of credit cards issued in the name of the District. Only policy 4.31 and procedure 4.31 AP.2 in the District’s Policies and Procedures Handbook acknowledges the existence of District credit cards. While both the policy and the procedure mention that personal purchases on the District credit card are prohibited and the procedure offers personal items and spouse/family expenses as examples, neither criteria stipulates that receipts are required to be submitted for all purchases, let alone specifies the type of receipt to be submitted. District finance staff informally attempted to enforce the user to submit a receipt for each purchase in time for their review of monthly credit card statements.

During the five fiscal years of the examination period, the District utilized two charge accounts for purchases: 1) a Visa account, which had three different card numbers issued in the name of the District; and 2) an American Express account, which was issued in the name of the former Superintendent. The District also maintained charge accounts with Shell, primarily for gas for board-owned or leased vehicles, and with specific stores such as Staples, Kroger, Wal-Mart, Office Depot, and Lowes. See Finding 5 for further discussion concerning gas credit cards. The amount paid by the District to each of these vendors appears in Table 11.

Table 11: Vendor Payments by Fiscal Year

Vendor	FY08	FY09	FY10	FY11	FY12
American Express	\$1,695.84	\$2,185.33	\$2,086.88	\$1,071.90	\$1,618.99
Kroger	1,691.50	1,217.18	1,619.91	590.22	2,118.22
Lowes	4,428.95	2,032.26	1,957.35	4,644.00	1,021.40
Office Depot	13,116.07	3,913.57	4,400.85	2,199.85	2,377.85
Shell Fleet Plus	7,822.88	4,270.69	3,975.57	6,067.88	6,320.89
Staples	1,769.51	3,018.65	3,525.71	2,372.79	2,269.57
Visa	16,290.50	8,391.03	15,180.55	10,659.58	23,861.00
Wal-Mart	2,395.47	1,334.77	1,053.08	1,418.87	524.54

Source: Auditor of Public Accounts based on a review of the Vendor Payment Reports maintained by the District.

Due to the high usage of the Visa credit card by the District to make purchases, the auditors chose to test transactions from a sample of payments made to this account. By testing the transactions from four random payments from each fiscal year, the auditors were able to test \$26,808.96, or 36 percent, of the \$74,382.66 in payments made to Visa over the five fiscal year period. A breakdown of the sample is provided in Table 12.

Findings and Recommendations

Table 12: Breakdown of Visa Credit Card Payment Sample

	FY08	FY09	FY10	FY11	FY12
Amount of Payments Sampled	\$6,658.83	\$2,779.88	\$3,832.33	\$2,477.28	\$11,060.64
Number of Payments Sampled	4 of 11	4 of 14	4 of 13	4 of 12	4 of 12
Number of Transactions Sampled	46	27	35	15	73

Source: Auditor of Public Accounts based on a review of District Visa credit card records and Vendor Payment Reports maintained by the District.

While all 196 transactions reviewed were adequately approved, auditors found 43 transactions to be deficient in one of three categories: 1) “No Expense Purpose Stated;” 2) “Appeared Excessive;” or 3) “Inadequate Supporting Documentation Submitted.” These 43 transactions, totaling \$3,964.57, may have been acceptable expenditures; however, a clear determination could not be made by the auditors due to the lack of proper documentation.

The District financial staff did an excellent job of noting the purpose behind all charges placed on the District’s Visa card, usually either on the credit card statement itself or on an internally created spreadsheet that accompanies the supporting documentation for a particular statement. However, in cases where the original supporting documentation did not clearly state a related business purpose or in cases where notes from District financial staff did not make the purpose apparent, the auditors classified the transaction as having “No Expense Purpose Stated.”

Auditors noted only six transactions as having “No Expense Purpose Stated.” Those six transactions, totaling \$165.26, are listed in Table 13. It should be noted that transaction #2 included the purchase of a 22-ounce beer at the price of \$2.92.

Table 13: District Visa Credit Card Expenditures with No Expense Purpose Stated

#	Transaction Date	Vendor Name	Vendor Location		Expense Type	Amount Reimbursed with No Expense Purpose Stated
			City	State		
1	7/13/2007	Denny's	Lexington	KY	Restaurant	\$20.82
2	7/14/2007	Logan's Roadhouse	Lexington	KY	Restaurant	39.70
3	7/15/2007	Denny's	Lexington	KY	Restaurant	20.22
4	11/12/2008	Steak N Shake	Georgetown	KY	Restaurant	14.59
5	11/18/2008	DeSha's	Lexington	KY	Restaurant	32.62
6	11/21/2008	Rafferty's	Florence	KY	Restaurant	37.31
	Total					\$165.26

Source: Auditor of Public Accounts based on a review of District Visa credit card records.

Findings and Recommendations

Expenditures were classified as having “Appeared Excessive” based on the reasonableness of the expenditures. The auditors determined reasonableness based on factors such as expense type, itemized supporting documentation, total transaction amount, number of individuals involved, identities of those involved, and the purpose of the expenditure. Examples of unreasonable expenses include purchases for personal items not to be used by the District, high average meal costs based on total transaction amount divided by the number of individuals involved, and purchases made on behalf of individuals that were not District employees or Board members. Not having this type of information available during the review process hinders the auditors’ ability to classify transactions as excessive, even when undocumented circumstances and testimonial evidence leads one to believe it is.

As a result, the auditors noted only one transaction as having “Appeared Excessive.” Details for that transaction, which included meals for three unknown guests averaging \$40.96 each, appear in Table 14.

Table 14: District Visa Credit Card Expenditures that Appeared Excessive

#	Transaction Date	Vendor Name	Vendor Location		Expense Type	Amount Reimbursed that Appeared Excessive
			City	State		
1	11/5/2009	Merrick Inn	Lexington	KY	Restaurant	\$122.87
	Total					\$122.87

Source: Auditor of Public Accounts based on a review of District Visa credit card records.

To be classified as sufficient, the supporting documentation for a particular credit card transaction must be complete and detailed. When the supporting documentation provided does not identify, in detail, what was purchased, the location of the purchase, and when the purchase was made, the purchase is classified as having inadequate supporting documentation submitted.

Auditors noted 36 transactions classified as having “Inadequate Supporting Documentation Submitted.” Non-itemized receipts that did not directly identify what was purchased accounted for all of the transactions noted in this category. Details for those transactions, totaling \$3,676.44, are listed in Table 15.

Findings and Recommendations

Table 15: District Visa Credit Card Expenditures with Inadequate Supporting Documentation Submitted

#	Transaction Date	Vendor Name	Vendor Location		Expense Type	Amount Reimbursed with Inadequate Supporting Documentation Submitted
			City	State		
1	7/17/2007	TGI Friday's	Louisville	KY	Restaurant	\$8.84
2	7/17/2007	Mike Linnigs	Louisville	KY	Restaurant	86.70
3	7/18/2007	Hard Rock Café	Louisville	KY	Restaurant	17.78
4	7/20/2007	Claudia Sanders	Shelbyville	KY	Restaurant	32.29
5	7/21/2007	Fountain Room - Galt House	Louisville	KY	Restaurant	26.72
6	7/26/2007	Happy Dragon	Lexington	KY	Restaurant	24.79
7	8/6/2007	O'Charley's	Cold Spring	KY	Restaurant	28.70
8	1/17/2008	Max & Erma's	Louisville	KY	Restaurant	66.40
9	1/30/2009	Morton's The Steakhouse	Louisville	KY	Restaurant	577.04
10	1/30/2009	Galt House Hotel	Louisville	KY	Restaurant	26.27
11	1/31/2009	Wick's Pizza Parlor	Louisville	KY	Restaurant	123.28
12	2/4/2009	O'Charley's	Frankfort	KY	Restaurant	22.42
13	2/17/2009	The Cheesecake Factory	San Francisco	CA	Restaurant	41.67
14	2/18/2009	Cliff House	San Francisco	CA	Restaurant	89.85
15	2/19/2009	Scoma's	San Francisco	CA	Restaurant	102.34
16	2/19/2009	World Famous Sears	San Francisco	CA	Restaurant	32.61
17	2/20/2009	Lori's Diner	San Francisco	CA	Restaurant	29.52
18	2/20/2009	Lori's Diner	San Francisco	CA	Restaurant	14.36
19	2/21/2009	Perry's	San Francisco	CA	Restaurant	48.62
20	11/13/2009	Blu Restaurant	Louisville	KY	Restaurant	25.09
21	4/9/2010	Jake Melnicks	Chicago	IL	Restaurant	46.75
22	4/11/2010	L'Appetito	Chicago	IL	Restaurant	13.23
23	4/21/2010	Paddock Grille 2 (Embassy Suites)	Lexington	KY	Restaurant	43.69

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#	Transaction Date	Vendor Name	Vendor Location		Expense Type	Amount Reimbursed with Inadequate Supporting Documentation Submitted
			City	State		
24	7/22/2010	Joe Huber Family Restaurant	Starlight	IN	Restaurant	298.59
25	2/3/2011	Olive Garden	Louisville	KY	Restaurant	33.83
26	2/4/2011	Ruth's Chris	Louisville	KY	Restaurant	742.99
27	7/13/2011	Bristol Bar & Grille	Louisville	KY	Restaurant	276.79
28	7/14/2011	Joe Huber Family Restaurant	Starlight	IN	Restaurant	294.04
29	7/15/2011	Two Rivers General Butler State Park	Carrolton	KY	Restaurant	18.87
30	7/28/2011	Barleycorn's	Cold Spring	KY	Restaurant	51.02
31	2/8/2012	Cortland's (Clarion Hotel)	Lexington	KY	Restaurant	85.00
32	2/8/2012	Malone's	Lexington	KY	Restaurant	187.50
33	2/15/2012	Cheddar's	Florence	KY	Restaurant	45.08
34	3/15/2012	DeSha's	Lexington	KY	Restaurant	69.03
35	3/15/2012	Blue Fire Bar Food (Hyatt Regency)	Lexington	KY	Restaurant	24.09
36	3/16/2012	Blue Fire Bar Food (Hyatt Regency)	Lexington	KY	Restaurant	20.65
	Total					\$3,676.44

Source: Auditor of Public Accounts based on a review of District Visa credit card records.

It is possible that some of the transactions classified in Table 15 as having inadequate supporting documentation submitted could also be classified as appearing excessive in nature; however, because the supporting documentation available from the District was missing such detailed information as what items were purchased, how many guests were involved, and who were the guests, the auditors were unable to draw such conclusions from the circumstances.

More specifically, because the former Superintendent was not required to submit the itemized copy of the receipt for the meals he charged to the District's Visa credit card, he was able to submit, for at least one trip, the final receipts to the District as supporting documentation for his meal charges and the itemized versions of the receipts for the same meals to another organization as supporting documentation for his request for reimbursement from them.

Findings and Recommendations

In addition to the problem created by the receipts for the same meals being submitted as supporting documentation to two organizations, a second problem arose when the auditors discovered the itemized receipts during their review of organization related reimbursements made to the former Superintendent from the District and the organization. Despite the former Superintendent being the only District employee in attendance at the out-of-state conference that year, the itemized receipts showed two or three guests in attendance at each meal being charged to the District's Visa credit card.

During the previously mentioned review of organization related reimbursements to the former Superintendent, the auditors also observed that the spouse of the former Superintendent traveled with him to this conference and that the name of an employee of the organization was repeatedly listed as the name of the second guest on several receipts where three guests were noted on the itemized receipt as being in attendance. See Finding 6 for additional discussion concerning the review of organization related reimbursements.

Had the District received the itemized receipts for the meals charged to the District's Visa credit card instead of the final receipts which serve as inadequate supporting documentation, District financial staff could have reminded the former Superintendent of the policy regarding the prohibition of spouse/family expenses being charged to the District credit card and then required him to reimburse the District for the portion of the charge that was not applicable to his personal expense.

Recommendations

We recommend that the Board strengthen their policies and procedures related to the use of the District credit cards by specifying that adequate supporting documentation must be submitted for every purchase and then indicating what constitutes adequate supporting documentation. For example, expenditures should always be accompanied by a complete itemized receipt, identifying the date and location of the transaction, the number and names of those attending the activity or receiving the benefit, and the specific business related purpose of the expenditure. We further recommend that the Board specify the action that will be taken by the District for not providing adequate supporting documentation.

We recommend the District policies and procedures specifically state that all credit card transactions will be reviewed for appropriateness, reasonableness, and necessity. The policy should also identify the position of those responsible for reviewing the transaction activity.

Findings and Recommendations

In addition, we recommend that the full Board, Board Chair, or a designated Board committee should review the Superintendent’s credit card purchases to ensure the transactions are reasonable in amount, necessary, and properly supported by receipts or other appropriate documentation. This will strengthen internal controls by relieving a subordinate employee from the responsibility of potentially questioning the activity of the Superintendent.

**Finding 10:
Assistant
Superintendent
accumulated 16
more annual leave
days than was
allowable.**

According to District annual leave records, the Assistant Superintendent accumulated 176 annual leave days during the eight-year period from FY 2004 through FY 2012. Based on KRS 161.220(10), District policy, and the employment contract that made this annual leave available to the Assistant Superintendent, only a maximum of 160 days could have been accumulated during that period, assuming no leave was ever used. This resulted in the accumulation of 16 annual leave days beyond what was feasible. These 16 days have a current value of \$6,368.96 that the District will be required to pay for at the time the Assistant Superintendent leaves the District if these 16 days are not removed from the annual leave balance.

A review of the District’s leave records for the eight-year period that the Assistant Superintendent accumulated annual leave, indicate that the annual leave balance did not exceed the maximum allowable number of days until the former Superintendent directed District payroll staff to add a block of 70 annual leave days to the Assistant Superintendent’s leave totals in February 2012. According to District staff, the former Superintendent directed staff to add the 70 additional days in order to ensure the Assistant Superintendent received the same 20 days of annual leave per year that was included in his contract. While the intentions of the former Superintendent in directing the additional days appears to be based on generally accepted practices, the actual number of days added was not based on actual calculations to determine an accurate number of annual leave days that should have been added to the Assistant Superintendent’s leave balance.

At the time the former Superintendent decided to add annual leave days to the Assistant Superintendent’s balance, a determination of how many days had already been received should have been made. At the time the former Superintendent directed the addition of the 70 additional days, the Assistant Superintendent had already received 106 annual days. This would have required only an additional 54 days be added to the balance in order to equal the 160 days allowed under the former Superintendents employment contract. Table 16 contains the annual leave accumulated by the Assistant Superintendent by the date the days were added to her records.

Findings and Recommendations

Table 16: Assistant Superintendent Annual Leave Accumulation by Date

Fiscal Year	Accumulation Date	Days Accumulated
2005	8/6/04	16
2006	7/1/05	10
2006	8/10/05	12
2007	6/30/07	10
2009	7/1/08	10
2010	7/1/09	10
2010	8/18/09	10
2011	7/1/10	10
2011	6/30/11	8
2012	7/1/11	10
2012	2/29/12	70
	Total	176

Source: Auditor of Public Accounts based on District’s annual leave records.

As seen in Table 16, the Assistant Superintendent’s annual leave records indicate the number of annual leave days accumulated were added erratically and the days added were not always consistent. The records also show that the Assistant Superintendent never actually earned the same amount of annual leave as the former Superintendent at any time. This is likely due to the confusion of how the Assistant Superintendent was receiving the annual leave to begin with, and the lack of communication to the Board, which did not allow for better guidance.

There is no provision in the Assistant Superintendent’s employment contract to receive annual leave days. This benefit was made available to her by the District due to a KTRS statutory requirement that compensation made available by a District to one member must also be made available to others in the District for the leave to be included in the calculation of a member’s retirement benefit. Specifically, KRS 161.220(10) states,

“Annual compensation” means the total salary received by a member as compensation for all services performed in employment covered by the retirement system during a fiscal year. Annual compensation shall not include payment for any benefit or salary adjustments made by the public board, institution, or agency to the member or on behalf of the member which is not available as a benefit or salary adjustment to other members employed by that public board, institution, or agency.

Annual leave is considered part of an employee's annual compensation. Since the Board had approved an employment contract with the former Superintendent with the provision that he receive 20 annual days per year starting in July 2004, the District was obligated to offer the same benefit to other staff that are members of KTRS. According to KTRS, it is typically understood that this would only apply to those staff employed for the same number or more work days as the employee given the original benefit. On July 28, 2004, the Board set the District's criteria for the annual leave to be made available to other staff by adopting a provision in Board Policy 03.122 that states,

Certified personnel who are employed for more than 240 days annually shall be entitled to accumulate a maximum of sixty (60) days of annual leave.

This policy was later amended in July 2006 to remove the maximum accumulation of 60 days of annual leave and allowed for unlimited accumulation of this leave. The value of a maximum of 60 days of unused annual leave can be considered as compensation used in calculating a members retirement. According to KRS 161.540(d), "...not more than sixty (60) days of unused accrued annual leave shall be considered as part of the member's annual compensation, and shall be used only for the member's final year of service." Therefore, the Board policy allowing an unlimited number of unused annual leave days to accumulate potentially increase the amount the District would be required to pay an employee upon termination; however, allowing over 60 days of annual leave to accumulate would not increase the employee's retirement benefit.

Being employed for 240 days or more annually, the Assistant Superintendent was apparently qualified to receive annual leave. According to current and former Board members, they were aware that the former Superintendent was earning annual leave, but were not aware that the Assistant Superintendent was earning it as well. This appears to be due to the Board never being informed, prior to adopting the policy that authorized granting the annual leave, of the consequences that providing annual leave to the former Superintendent may also make the benefit available to others. This resulted in the Board unknowingly approving annual leave to the Assistant Superintendent as well.

Considering the lack of knowledge that the Board members had regarding the annual leave that was provided to the Assistant Superintendent, it is clear the former Superintendent was not sufficiently performing his statutorily required duties as executive agent and professional advisor to the Board. See Finding 2 for further discussion on the importance of reporting the liabilities of annual and sick leave balances.

Findings and Recommendations

Recommendations We recommend the District reduce the Assistant Superintendent’s annual leave balance by a minimum of 16 days.

We recommend that the Board determine if it will continue to offer annual leave as an employment benefit in the future. If it does not intend to do so, Board Policy 03.122 should be amended to remove the section related to annual leave.

We also recommend that the Board ensure District financial staff account for the liabilities of all types of leave accumulated by District staff that could result in payments from the District. These amounts should be reported to the Board at least annually by staff and included in the Annual Financial Report.

We further recommend the Kentucky State Committee for School District Audits consider including a provision in guidelines to school district auditors that requires annual leave to be included in a district’s annual financial statement audit.

**Finding 11:
Former
Superintendent’s
annual evaluations
were not
consistently
performed
according to his
contract and
District policy.**

Section 6, of the former Superintendent’s 2004 employment contract, which continued from 2004 through 2012, states that the Board shall annually provide the Superintendent with an evaluation. The contract did not require the evaluation to be in writing. The contract language was also repeated in District policy. Though auditors requested the former Superintendent’s evaluations for this period, no evaluations could be located for the auditors to review. Despite this long-standing contract term and District policy, two Board members interviewed informed auditors that an evaluation of the former Superintendent’s performance had not been performed for the last couple of years. One of these Board members stated that the last superintendent evaluation was performed by the Board in 2009.

According to current and former Board members, the evaluations have historically been conducted verbally and during a closed session of the Board. Board members could not recall whether the results of the evaluations were reported in an open meeting or documented in meeting minutes.

Through a review of Board meeting minutes from 2004 through 2011, auditors found one reference to the former Superintendent’s evaluation. Meeting minutes for the July 20, 2009, special meeting of the Board document that the Board “conducted a review of the Superintendent’s evaluation;” however, according to the meeting minutes no action was taken by the Board.

While it is unknown exactly why the former Superintendent apparently did not receive an evaluation after 2009, auditors noted that the last Board action to formally extend the former Superintendent's contract was taken on July 22, 2009, two days after the special Board meeting when, according to meeting minutes, an evaluation of the former Superintendent was reviewed. According to one Board member, once the former Superintendent's intent to retire at the end of the contract period in 2012 was known, the Board no longer performed his annual evaluations.

The issue of superintendent evaluations by Kentucky school districts and whether those evaluations may be performed in open or closed session of the local school boards was considered by the Office of the Kentucky Attorney General (OAG) in 2008 and again in 2009. After the 2009 OAG decision, 09-OMD-115, an appeal was made to the Jefferson Circuit Court in 2009. In each of these decisions, the OAG and the Jefferson Circuit Court agreed that the open meetings laws should be narrowly construed, and as such, agreed that the evaluation of the Superintendent in those situations did not meet the criteria to allow an exception to the open meetings law. Based on these decisions, it appears that the board's evaluation of its Superintendent should be performed in an open meeting.

Following the decisions by the OAG and the Jefferson Circuit Court, the Kentucky Legislature, in 2010, revised KRS 156.557 by adding specific language to address the issue of superintendent evaluations and open meetings.

The new language found in KRS 156.557 (4) states:

- (a) Each superintendent shall be evaluated according to a policy and procedures developed by the local board of education and approved by the department.
- (b) The summative evaluation of the superintendent shall be discussed and adopted in an open meeting of the board and reflected in the minutes.
- (c) If the local board policy requires a written evaluation of the superintendent, it shall be made available to the public upon request.
- (d) Any preliminary discussions relating to the evaluation of the superintendent by the board or between the board and the superintendent prior to the summative evaluation shall be conducted in closed session.

District policy 02.14, pertaining to the evaluation of the superintendent, was amended on June 23, 2010 to reflect the language of KRS 156.557. Considering the revised policy and language within KRS 156.557, the Board had not only an obligation to conduct an evaluation of the former Superintendent by its own policy and contract terms, but also by state law.

Findings and Recommendations

Recommendations

We recommend the Board ensure its compliance with District policy 02.14 and with KRS 156.557. This will require the Board to not only perform the Superintendent’s evaluation annually but to also present a summative evaluation in an open meeting and document its action in the official minutes of the meeting. Furthermore, since District Policy 02.14 was revised on October 30, 2012 to require the superintendent evaluation to be in writing, the Board should ensure that the written evaluations are performed in accordance with policy and that the evaluation is available to the public upon request in accordance with KRS 165.557(4)c.

Finding 12: The Board continued to extend the former Superintendent’s contract without reviewing the actual contract or the cost of benefits provided.

After the former Superintendent’s third employment contract was presented to the Board in 2004 for initial approval, it does not appear that the actual contract was ever provided to the Board for review, yet the Board continued to extend this contract in subsequent years until the former Superintendent’s retirement in June 2012. In our interviews of five current and two former Board members, auditors were told that the former Superintendent’s contract was extended based on discussions in a closed meeting but none of these Board members recalled actually seeing the contract after 2004. These Board members were never given, nor did they request, a copy of the contract that they were extending. A contract review should be conducted, prior to its extension, to prompt questions about contract compliance and any concerns of non-compliance. Monitoring the former Superintendent’s contract is the responsibility of the Board, yet it did not appear that the contract was maintained by the Board in a manner that allowed for its members to perform an annual review when extensions were discussed.

Per KRS 160.350, a superintendent’s contract can be extended, no later than June 30, for one additional year beyond the current term of employment after the completion of a superintendent's first contract or after four (4) years, whichever comes last. This law became effective in July 2004, which coincided with the creation of a 2004 employment contract with the former Superintendent. Therefore, the Board was not required to establish a new contract because the former Superintendent met both of these criteria by holding this position with the Board since 1997. As a result, the Board was only required to annually renew the former Superintendent’s existing contract, unless the Board decided to alter the terms of the contract.

However, KRS 160.290 requires that a school board will control and manage all school funds to promote public education. The statute specifically states that each board is responsible for the administration of its public school system, the appointment of the superintendent of schools, and the compensation of employees.

To meet their statutory responsibilities, the Board was required to monitor the employment contract of the former Superintendent regardless of whether it was a new contract or an extended contract. The contract should have been reviewed and questions asked to ensure that the compensation and any other benefits provided to the former Superintendent complied with the contract. Therefore, reviewing the contract is the first step needed to meet this responsibility.

Findings and Recommendations

All four of the Board members interviewed that were on the Board in 2004 and after stated that they did not see a contract after 2004. One of these Board members stated that the former Superintendent told them that a new law had been passed that allowed them to simply roll the contract over year by year. Another former Board member from this time period stated that, even though the contract was not provided, the school's financial information along with outside audit information was provided for the Board members to review. However, the Board member affirmed that only total amounts were provided in this information and that no specific costs of benefits for the former Superintendent was evident.

The other three Board members interviewed that joined the Board after 2004 stated that they were never provided a contract to review. When the contract extension came up for discussion in closed meetings, the newer members were told that the contract was the same as the one in 2004, yet they were never provided any information about this contract.

The former Superintendent's employment contract was maintained in his personnel file, but it was not provided to the Board for review. It is not clear as to whether the Board's attorney maintained a copy of this contract as well. Without knowledge of the contract, questions related to the benefits provided to the former Superintendent would be limited. Without questions related to the former Superintendent's benefits, the determination of compliance with contract terms would not be possible. In addition, any issues of non-compliance, either intentional or non-intentional, would not have the opportunity to be discovered.

Recommendations

We recommend that the Board maintain multiple copies of the superintendent's contract for an annual review by all members. In addition, we recommend one copy of the contract be maintained by the Board's attorney to ensure that it is available for review. Any superintendent contract extension should include a review of the actual contract and a determination of the cost associated with the benefits provided, as well as inquiring of the District Finance Officer of actual benefit costs and whether other benefits are being provided that are not included in the actual employment contract.

EXHIBITS

SUPERINTENDENT'S CONTRACT
KRS 160.350

THIS CONTRACT is entered into by and between the Board of Education (hereinafter referred to as "The Board") of the Dayton Independent School District, located in Campbell County, Kentucky (hereinafter "the district"), and William Gary Rye (hereinafter, "the Superintendent"), for the position of superintendent of schools of the District.

The Board hereby agrees to employ the Superintendent for a period of 3 years, to begin on July 1, 2004. The Superintendent agrees to the terms of employment under the following conditions.

1. The annual salary paid to the Superintendent shall be \$119, 324.00 per contract year during the first year of the contract. Annual salary modifications shall be mutually agreed to in each of the remaining years of this contract, provided said salary in each subsequent year shall not be less than the salary paid in the preceding year, and provided that the Superintendent shall receive an increase each year no less than the increase provided to other certified employees of the District.
2. This contract requires the services of the Superintendent for two hundred forty (240) days per year.
3. The Superintendent agrees to perform well and faithfully the duties of the Superintendent and to serve as chief executive agent of the Board, having such powers and duties as may be prescribed by law or by the Board from time to time.
4. The Superintendent shall furnish throughout the life of this Contract a valid and appropriate license to act as superintendent in the state of Kentucky.
5. The Superintendent agrees to devote the Superintendent's time, skill, labor, and attention to said employment during the term of this Contract. However, the Superintendent, with the prior approval of the Board, may undertake consultative work, speaking engagements, writing, lecturing, or other professional duties and obligations, which do not impede or conflict with the Superintendent's duties.
6. The Board shall annually provide the Superintendent with an evaluation based upon a mutually agreed upon evaluation process, with periodic opportunities to review and discuss Superintendent/Board relationships and the Superintendent's personnel records and performance at reasonable times as set by the Board.

7. The Superintendent shall receive 20 days of annual leave, which shall accrue without limit, exclusive of legal holidays and other school vacations. In the event this contract is terminated by mutual agreement prior to its expiration date, the Board shall compensate the Superintendent for any unused vacation days accrued from the previous year and on a pro rata basis for the current year. The Board shall compensate the Superintendent for all accrued leave at the time of retirement or separation. This payment is made pursuant to KRS 160.291.
8. The Superintendent shall be entitled to ONE (1) day(s) of leave per month for illness, which may accrue without limit.
9. The Board shall provide the Superintendent a travel allowance each month for the use of the Superintendent's personal car for travel completed for business purposes, as defined by District policy, both inside and outside the District. The Superintendent shall also be reimbursed for personal expenses incidental to the travel when an itemized statement of travel and expense is submitted to and approved by the Board.
10. The Superintendent shall attend appropriate professional meetings and conferences at the local, regional, state, and national levels. The Board shall reimburse the Superintendent for actual expenses incurred in carrying out the Superintendent's professional activities when an authorized statement is submitted to and approved by the Board.
11. The Board shall provide the Superintendent, at District expense, disability insurance, and a life insurance policy in a face amount not less than 2 time(s) the Superintendent's annual salary.
12. To the extent that any employer paid group life, accident, or health plan benefits, employer contributions to tax-sheltered annuities, or employer contributions to deferred compensation plans become taxable to the Superintendent, the District shall pay additional compensation to the Superintendent at a rate determined to be in compliance with Internal Revenue Service regulations to maintain the contracted level of compensation to the Superintendent of the value of the Employer-paid benefits or contributions subjected to the tax.
13. The Superintendent shall, to the best of the Superintendent's ability, secure capable and qualified candidates for various positions within the District, which are subject to appointment by the Superintendent.

14. It is understood and agreed that the Superintendent, as chief executive officer of the District, shall be in charge of the District affairs, and the Board, individually and collectively, will refer matters before the Board to the Superintendent for study and recommendation. However, this shall not prevent the Board from taking action on matters before the Board if the Board desires.
15. The Board shall fairly consider releasing the Superintendent from this contract should the opportunity arise for professional advancement.
16. In the absence of mutual agreement, this contract may only be terminated by the Board upon a showing of legal cause and in accordance with procedures established by Kentucky law.
17. The Board agrees that it shall defend, hold harmless, and indemnify the Superintendent from any and all demands, claims, suits, actions, and legal proceedings brought against the Superintendent in his individual capacity or in his official capacity as agent and employee of the District, provided the incident arose while the Superintendent was acting within the scope of his employment. If in the good faith opinion of the Superintendent a conflict exists as regards the defense to such claim between the legal position of the Superintendent and the legal position of the Board and/or District, the Superintendent may engage counsel in which event the District shall indemnify the Superintendent for the cost of legal defense.

THIS CONTRACT shall be invalid if the Superintendent is under contract with another Board of Education in this state covering the same period of time, until such contract is terminated or the Superintendent is released therefrom.

Dated this 27th day of August, 2003.

By Wm. Gary Bye
Superintendent

Dated this 27 day of August, 2003.

By Michael Con

Chairman, Board of Education

2005 WORKING ANALYSIS REPORT

THE WORKING BUDGET IS BASED ON THE INFORMATION WE HAVE RECEIVED SO FAR. THE SEEK FORECAST IS THE LATEST WE HAVE RECEIVED. IT ALSO REFLECTS THE ADDITIONAL .5% AS DIRECTED BY THE GOVERNOR.

YOU WILL ALSO NOTICE THAT SOME OF THE CODES & WHERE THEY FALL IN THE BUDGET HAS CHANGED. THESE ARE THE NEW DATA INTEGRITY CODES. THE REASON WE WERE GIVEN FOR THIS IS TO MORE REPRESENT WHERE THE EXPENSES ARE USED, SUCH AS THE SCHOOLS. THIS WAY WE WILL GIVE A TRUER PICTURE FOR REPORTS, SUCH AS THE SCHOOL REPORT CARDS.

REVENUES

PG. 1

110 0999 BEGINNING BALANCE

I HAVE INCREASED THE BEGINNING BALANCE TO MATCH OUR ENDING BALANCE FOR 2003-04.

110 0111 GENERAL PROPERTY TAX
110 0113 PSC FRANCHISE TAX
110 0115 DELINQUENT TAX
110 0117 MOTOR VEHICLE TAX

THESE FOUR TAXES HAVE BEEN ADJUSTED TO REFLECT WHAT WE HAVE RECEIVED IN PREVIOUS TWO YEARS.

110 1510 – INTEREST

THIS REPRESENTS LOWER INTEREST RATES

110 3111 – SEEK PAYMENT

THIS REPRESENTS THE KY DEPT. OF EDUCATION LATEST FORECAST. IT IS A REDUCTION OF \$95,235 FROM THIS YEARS' TENTATIVE FORCAST & \$193,663 LESS THAN WHAT WE RECEIVED IN 2004-05.

EXPENSES

THIS BUDGET IS IN A DIFFERENT FORMAT THAN THE PREVIOUS ONES. THE STATE DEPT. REQUIRED CHANGES IN THE CODINGS. THIS WAS TO CONFORM TO THE DATA INTEGRITY FORMAT. ALL KY SCHOOLS NOW HAVE TO CODE TO THE ACTUAL USE OF THE EXPENSE, WHETHER OR NOT IT IS BOARD PAID. THE REASONING FOR THESE CHANGES IS TO SHOW HOW MUCH IS ACTUALLY SPENT AT THE SCHOOLS, DISTRICT WIDE AND CENTRAL OFFICE. TRANSPORTATION HAS BEEN BROKEN DOWN BY REGULAR BUS ROUTES, SCHOOL FIELD TRIPS, ATHLETIC TRIPS, BAND TRIPS, PRESCHOOL ROUTE & SPECIAL EDUCATION. THIS IS TO HAVE MORE ACCURATE DATA FOR SUCH REPORTS AS THE 'SCHOOL/DISTRICT REPORT CARD'. THEREFORE I CANNOT PRESENT MY USUAL CODE COMPARRISON. AFTER THE WORKING BUDGET & NEXT YEAR'S DRAFT BUDGET, I SHOULD BE ABLE TO GO BACK TO THE COMPARRISONS.

ALL SALARY CODES 0110-0130 & 0140 (overtime) REFLECT A 2.0% INCREASE PLUS STEP FOR CERTIFIED. IT ALSO REFLECTS A \$1.00 PER HOUR INCREASED FOR CLASSIFIED.

THE SCHOOL SITE BASED BUDGETS HAVE STAYED THE SAME, UNTIL I GET THE END OF THE 2ND MONTH FIGURES.

YOU WILL NOTICE, I NOW HAVE PROJECTS WITHIN THE GENERAL FUND. THESE ARE AS FOLLOWS 130X (GIFTED & TALENTED) FUND 1 BOARD PAID PORTION & CATS - TO SHOW THE COST OF THE CATS TESTING.

WE HAD TO BACK OUT ALL INSURANCES, WORKERS COMP. & UNEMPLOYEMNT FROM THE SUPERINTENDENT'S OFFICE TO BE REDISTRIBUTED ACCORDING TO THE BY % TO THE DIFFERENT SCHOOLS & CENTRAL OFFICE & DISTRICT WIDE.

BECAUSE OF OUR BEGINNING BALANCE, WE WERE ABLE TO GIVE ALL CERTIFIED THE REQUIRED 2% RAISE + STEP & CLASSIFIED THEIR \$1 PER HOUR RAISE; WE HAVE ALSO MET OUR 2% CONTINGENCY.

BECAUSE OF THE SEEK CUT OF \$193,663 FROM LAST YEAR, WE DO NOT HAVE AS MUCH ROOM TO DO ALL WE WOULD LIKE TO DO. SUPERINTENDENT RYE & I WILL KEEP A CLOSE WATCH ON OUR SPENDING AGAIN THIS YEAR.

Earned Leave
 District-Wide
 240 Days or More

<u>School Year</u>	<u>Sick Leave</u>	<u>Emergency Leave</u>	<u>Personal Leave</u>	<u>Total</u>
1997-1998	10	0	0	10.0
1998-1999	10	0	0	10.0
1999-2000	10	2	1	13.0
2000-2001	10	2	1	13.0
2001-2002	10	2	1	13.0
2002-2003	10	2	1	13.0
2003-2004	10	2	1	13.0
2004-2005	10	2	1	13.0
2005-2006	12	2	1	15.0
2006-2007	12	2	1	15.0
2007-2008	12	2	1	15.0
2008-2009	12	2	1	15.0
2009-2010	12	2	1	15.0
2010-2011	12	2	1	15.0
2011-2012	12	2	1	15.0
Total	<u>164.0</u>	<u>26</u>	<u>13</u>	<u>203.0</u>
Transferred From Russellville (Includes Days From Harrodsburg, Metcalfe Co., and West Point) 07-09-97.				107.5
Total				<u>310.5</u>

DAYTON INDEPENDENT SCHOOL DISTRICT BOARD RESPONSE

DAYTON INDEPENDENT SCHOOLS

February 28, 2013

Adam H. Edelen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

RE: Examination of Certain Policies, Procedures, Controls and Financial
Activity of the Dayton Independent School District

Dear Auditor Edelen:

It is very much appreciated that you accepted the invitation of the Dayton Independent School District to enter our District and perform an examination of the District's Policies, Procedures, Controls and Financial Activity. The Board of Education of the Dayton Independent Schools has reviewed the draft Report prepared by your office. Please accept this letter as the response of the School District from the Board.

The Board will be carefully considering all of the recommendations of your office.

Many of the recommendations in your Report relate to the need for increased Board oversight into the office of the Superintendent and into other District affairs. Your Report fails to mention that during every year covered by your Report the School Board hired an independent auditor to conduct an audit of the financial statements of the District. The independent auditor is [] of []

[]. The former superintendent was the acting superintendent of the District for 15 years. Within two months of the former superintendent's retirement, the new superintendent became aware that issues may exist as to the former superintendent's compensation and other benefits. The concerns of the current superintendent were expressed to the CPA [] on August 23, 2012. [] indicated that he had some similar concerns while performing his past audits and that he merely contacted the former superintendent and informed him of the CPA's concerns. []

[] indicated that the former superintendent provided [] an explanation as to why the former superintendent was receiving reimbursement for the former superintendent's retirement even though such reimbursement was not in the

200 Clay Street Dayton, Kentucky 41074

former superintendent's contract. [] also stated that [] did not keep notes as to the conversation that he had with the former superintendent and that [] did not obtain any documentation from the former superintendent that supported the assertions of the former superintendent that reimbursement for retirement contributions was approved by the Board. Despite this, [] never once reported any of his concerns to his client. His client was the Board of Education of the Dayton Independent School District.

The Board hired an auditor every year to audit the financial statements of the School District. The auditor that was hired failed to inform the Board of the significant issues that existed. Your audit has now uncovered many issues. Please be aware that the school board relied upon its auditor in the past to conduct a sufficient audit. Please also be aware that the Board has already presented claims against its former auditor to recoup the funds which are referenced in your Report. The Board has also contacted the Federal Bureau of Investigation and the U.S. Attorney's office to report the actions of the former superintendent which are mentioned in your Report.

In Finding 1 of your Report you indicate that the former superintendent received payment of \$146,276.00 in retirement related benefits that were not authorized by the Board. You also indicate that the former finance officers indicated that the former superintendent always maintained that the Board approved the retirement benefit in closed session. Please be aware that this Board has never approved the retirement benefits discussed in your Report for the former superintendent during any closed session. During interviews with former Board members and current Board members it was also revealed that no Board has approved such benefits.

On Page 10 of your Report it is indicated that the consent agenda approved by the Board specifically stated "authorization for payment of all school board employees as per schedule and when due". It should be noted that all of the payments that were remitted to the former superintendent that are the subject of your Report were never scheduled and were never due. Therefore, the consent agenda item provided for the Board authorizing only the payments that were scheduled and were due did not provide Board approval for the unscheduled payments and the payments that were not due to be paid to the former superintendent. In fact, the school board specifically passed a motion at its August 22, 2012 meeting that clarified the approval of the consent agenda at the July 25, 2012 meeting under Paragraph 5B of the agenda which indicated on the consent agenda "authorization for payment of school board employees as scheduled and when due" specifically did not include any consent or authorization for Board approval for the payroll general fund check numbers 88735, 88736, 88737 and 88738 which were paid to the order of the former superintendent on June 29, 2012, and which contained the signature stamp of the former superintendent and the current finance officer. The Board's Motion also indicated that the Board did not consider or approve any expenditures whatsoever relating

to claimed vacation days and/or sick days of the former superintendent. The Motion also stated that the Board further did not consider or approve any expenditures whatsoever relating to any claimed retirement reimbursement of the former superintendent. The Motion that the Board passed on August 22, 2012 provides clarity as to the school board's intentions relating to some of the funds received by the former superintendent. Specifically the Board never intended the former superintendent to obtain any of the subject funds.

On Page 10 of your Report it is stated that the oversight process established by the Board must include monitoring of the superintendent's use of funds. Please note that the Board does monitor and always has monitored the superintendent's use of funds through the school board's independent auditor. The Board was paying the independent auditor to monitor. Unfortunately, the independent auditor did not bring any of the former superintendent's unauthorized use of funds to the attention of the Board.

On Page 11 you recommend that the school board recoup \$146,276.00 in unapproved payments made to the former superintendent as reimbursement for his personal retirement contributions and non-qualified service credit purchases. The Board accepts your recommendation and will be engaging in efforts to recoup the funds. This Board will continue to strive to be a good steward of tax payer money and all funds held by the District and, therefore, will be seeking the recoupment of the unauthorized payments that the former superintendent took from the District.

Your remaining three recommendations on Page 11 of your Report will be accepted by the Board and the Board will draft policies that are aimed at implementing your Report's recommendations.

On Page 14, your Report recommends that the Board recoup \$36,237.00 that was paid to the former superintendent for the 62 additional days applied to the former superintendent's leave balance that were accumulated without Board approval. The Board will seek recoupment of every penny that was paid for the 62 additional days. As for your remaining recommendation on Page 14, the Board will be evaluating whether it will continue the provision of annual leave to certain staff and, if it continues, then the Board will work toward implementing your recommendation.

The Board will follow your recommendation on Page 16 and will seek recoupment of \$7,101.68 that was paid to the former superintendent for 40.5 sick leave days that should have been deducted from the final sick leave balance. The Board will also reevaluate its fraud prevention policy and will evaluate the nature of training that may be necessary for certain staff within the District and the Board will increase requirements of the acting superintendent relating to notification of the Board relating to sick leave and scheduled contract work days.

Page 17 of the Report states that if Central Office staff noticed the former superintendent had been out of the office and suggested that he complete a leave slip that he would become angry to staff and that it appeared the staff was intimidated and stopped questioning the former superintendent's use of leave. It should be noted that the internal investigation of the District has revealed that the former superintendent was out of the office for many days for which he did not complete leave slips. The internal investigation has revealed that the former superintendent was paid for vacation days that were in fact used by the former superintendent. The Board will follow your recommendation on Page 18 that the Board seek recoupment of \$4,091.00 paid to the former superintendent for the seven annual leave days that were not deducted from his final annual leave balance. However, the Board will also be seeking recoupment of all funds paid to the former superintendent for all of the leave days which the former superintendent used but did not report to the District. The internal investigation of the District has revealed that the former superintendent's use of vacation days was prevalent. The District's investigation also showed that the former superintendent's representation through leave slips that he only utilized seven leave days over a 15-year period is inaccurate. The Board will be seeking recoupment of more than \$4,091.00.

The Board recognizes that your Report indicates that District staff members were intimidated by the former superintendent and therefore the staff members did not report any issues to the Board. For this reason, the Board believes that it would be advantageous and prudent for the Kentucky General Assembly to consider legislation that permits school boards to directly hire finance officers. The Board believes such legislation would be beneficial due to the particular importance of the finance officer's position and would assist in preventing potential wrong doing of superintendents. Legislation of this nature would in effect provide an additional checks and balances mechanism.

The Board will be evaluating its District Fraud Prevention Policy as recommended on Page 18 of the Report and the Board will evaluate the establishment of an annual work calendar for the superintendent and the requirement of the superintendent to notify the Board when the acting superintendent takes annual leave for a scheduled contract work day.

On Page 19, the Report contains Finding 5, which indicates the former superintendent used the District gas card to purchase \$21,464.53 in fuel without Board approval. The Report indicates on Page 19 that the District records show the former superintendent continued to use the District gas card without authorization from the Board. That is true. It should further be noted that the District's internal investigation has not revealed any approval for the former superintendent to use any gas card from July 1997 to June 2012.

As stated above, the School Board relied upon its independent auditor to properly audit the financial statements of the District. The Report indicates on

Page 21 that the former finance officer stated that the independent auditor contracted by the District was told of the problem relating to the gas card but the former finance officer was not aware of any action taken by the independent auditor. The Board is unaware of any reason why the independent auditor retained by the Board would not report to the Board issues relating to the gas card. The independent auditor was being paid by the Board to do just that.

The Board will follow the recommendation in the Report on Page 21 that the District recoup \$21,464.53 in funds expended on unauthorized fuel purchases by the former superintendent. The Board will seek recoupment from the former superintendent. The Board will also evaluate policies and procedures relating to District gas cards and relating to Board review of the superintendent's benefits and relating to issues of taxation of gas card expenditures of the former superintendent.

The Board would further like to note that it finds it rather shocking that the former superintendent was receiving funds in four different forms of payment for the same mileage. For example, there are miles where the former superintendent received the following funds:

1. Travel allowance (which is addressed in Finding 8 of the Report and in some years was as high as \$727.00 per month).
2. The former superintendent would pay for his gas for the same mile with a District gas card.
3. The former superintendent would submit mileage reimbursement requests to the school district for the same mile.
4. The former superintendent would submit mileage reimbursement requests to other organizations for the same mile (an example of such an organization is the Kentucky Association of School Administrators (KASA)).

The Report contains Table 5 on Page 24. The Board agrees with your Report that the former superintendent received excessive reimbursement for mileage. The Board believes it is important to add that the mileage submissions of the former superintendent are inaccurate in his favor. For example, Table 5 on Page 24 includes the former superintendent's submission of miles for his trips to Frankfort, Kentucky. He submitted that a round trip from Dayton, Kentucky to Frankfort, Kentucky was 250 miles. In fact, a round trip from Dayton to Frankfort is less than 170 miles. The Report recommends on Page 26 that the Board recoup \$5,323.48 that was reimbursed to the former superintendent. The Board will be seeking that recoupment. The Board will also be seeking recoupment for the difference between the mileage the former superintendent claimed and the actual true mileage of the round trip. The Board will also evaluate the Board procedures relating to reimbursement requests. The Board will also be seeking recoupment for all funds paid to the former superintendent which were paid in 4 duplicate methods. In other words, if the former superintendent received reimbursement

from KASA, then the Board will seek recoupment of the payments remitted pursuant to numerical paragraphs 1, 2 and 3 above.

Page 29 of the Report recommends that the Board recoup \$3,178.40 that was paid to the former superintendent for meetings that he did not attend or for meetings that did not occur. The Board will be seeking the recoupment. However, the Board is further concerned with the failure of the former superintendent to submit leave slips for the days when he was not working and not at the non-existent meetings. On Page 29 the Report states "such action was a loss to the District because the former superintendent was apparently not working in the District and was not receiving the benefit derived from attending the meetings in question." Therefore, the Board will be seeking recoupment of the 30 leave days for which the former superintendent received compensation even though the former superintendent was not working for the District for those 30 days. The compensation the former superintendent received was \$584.47 per day. Since, according to your Report, payment for at least 30 days was wrongfully received by the former superintendent, the Board will be seeking recoupment of at least \$17,534.10. The Board will also be evaluating its policies and procedures relating to the remaining recommendations in the Report on Page 29 relating to the superintendent's attendance at meetings.

Finding 8 on Page 30 of the Report indicates that vague terms in the former superintendent's final contract and insufficient Board oversight allowed the former superintendent to repeatedly increase his monthly travel allowance. The Board believes that the insufficiency and oversight is due to the failure of the Board's independent auditor to recognize that the former superintendent was increasing his travel allowance without Board approval. During the August 23, 2012 meeting with the auditor, [], [] provided his notes on the salary sheet of employment of the former superintendent for the school years 2008-2009 and 2009-2010. On both salary sheets [] noted the travel expenses being paid to the former superintendent. [] never once raised the issue relating to the travel allowances to the school Board. During the aforementioned August 23, 2012 meeting with [], he indicated that when he discovered issues relating to the payments to the former superintendent that [] sole action was to discuss the matter with the former superintendent. The Board is concerned as to why an auditor would discuss overpayment to an employee with the employee that is receiving the overpayment. The Board believes it would have been more prudent for the auditor to raise the issue with the auditor's client. The auditor's client was the Board. The Board no longer utilizes the services of []. The Board has presented a claim against [] and will be pursuing such claim to a lawsuit if the claim is not resolved by [] firm.

The Report indicates on Page 31 that several current and former Board members serving at the time the former superintendent's car leases were terminated indicated that the termination of the car leases was an attempt to save

the District money. Despite the Board's attempt to save the District money the former superintendent unilaterally began increasing his travel allowance. The Report recommends on Page 33 that the Board determined whether any portion of the travel benefits paid to the former superintendent should attempt to be recouped. The superintendent was entitled to \$100.00 per month as a travel allowance. The Board never agreed to increase the travel allowance. Therefore, all funds paid to the former superintendent from 2005-2012 which were in excess of \$100.00 per month will be attempted to be recouped by the Board from the former superintendent. The Board will further evaluate its policies and procedures relating to the intended salary and benefits of the superintendent.

Page 39 of the Report states that the former superintendent was the only District employee at an out-of-state conference but the itemized receipts of the former superintendent showed two or three guests at attendance at each meal being charged to the District's Visa credit card. This is an example of credit card charges that the School Board will be seeking recoupment of the funds charged to the Visa credit card and the American Express credit card by the former superintendent. Finding 6 and Finding 9 relate to the former superintendent's unauthorized use of District credit cards. The Board will seek recoupment of the portions of the charges that were unauthorized and the entirety of charges that represent duplicate benefits to the former superintendent because of the former superintendent seeking reimbursement from KASA while using a District credit card. The Board will be evaluating its policies relating to the use of District credit cards.

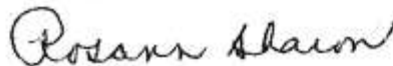
Finding 10 of the Report relates to the assistant superintendent accumulating annual leave days. The accumulation of annual leave days by the assistant superintendent relates to the former superintendent's retirement benefits as controlled by KRS 161.220. The Board never intended nor approved the administrative leave of the former superintendent applying to retirement benefits and, therefore, the application of KRS 161.220 does not apply to the assistant superintendent. The Report is correct on Page 41 where it indicates that there is no provision in the assistant superintendent's employment contract for the assistant superintendent to receive annual leave days. The benefit was not made available to the assistant superintendent by the District because KRS 161.220 does not require it be made available unless it was made available to another employee (here the former superintendent). Seeing that it was never intended to be made available to the former superintendent, then it in turn was not available to the assistant superintendent. The Report is accurate on Page 42 in stating that the former superintendent was not sufficiently performing his statutorily required duties as executive agent and professional advisor to the Board.

The Report makes recommendations on Page 43 relating to annual leave. The Board will amend the assistant superintendent's annual leave balance, but the resulting accumulation is yet to be determined. The Board will also consider

policies and procedures relating to annual leave. It is the Board's understanding that the final recommendation on Page 43 is not a recommendation directed to the Board. On Page 46 the Report recommends that the Board maintain multiple copies of the superintendent's contract in the future. The Board will follow this recommendation. The Board's attorney will also maintain a copy. The superintendent's contract will be reviewed during any process of consideration of a possible extension.

The Board again wants to extend its appreciation to your office for conducting the examination of the financial activity of the school district. As you know, the Board formally extended a request to your office in October, 2012 to conduct the examination. The Board intends to pursue all funds that were paid to the former superintendent without Board authorization. Not only has the Board contacted you and requested your examination, but the Board has also contacted law enforcement officials and has presented a claim against the Board's former independent auditor, []. The taxpayers of the Dayton Independent School District can rest assured that the school board will seek reimbursement of all funds which were paid to the former superintendent without authorization.

Sincerely,



Rosann Sharon
Chairperson,
Dayton Independent School District
Board of Education

cc: Vice-Chairperson Jeff Volter
Board Member John Hall
Board Member Bernie Pfeffer
Board Member Diane Huff
Superintendent Jay Brewer
Board Attorney Matthew DeMarcus

