

## **KENTUCKY DEPARTMENT OF EDUCATION**

### **STAFF NOTE**

#### **Action/Discussion Item:**

702 KAR 3:130, Internal accounting (Second Reading)

#### **Applicable Statutes or Regulation:**

KRS 156.070, 156.160, 156.200

#### **Action Question:**

Should the Kentucky Board of Education (KBE) approve 702 KAR 3:130, Internal Accounting, and the revisions to Accounting Procedures for Kentucky School Activity Funds, a handbook incorporated by reference in 702 KAR 3:130?

#### **History/Background:**

***Existing Policy:*** Accounting Procedures for Kentucky School Activity Funds is a handbook (known as the Redbook) incorporated by reference within 702 KAR 3:130 and provides a method of uniform accounting for school activity funds as mandated by 702 KAR 3:130 (3) and KRS 156.070. In light of the continuing demand for transparency in financial records of taxing authorities, many changes have been made to the document strengthening the accountability and financial oversight of the school activity funds. The current handbook has not been updated since 2008 and during the revision process the users of the manual requested a reorganization of the guide.

The system of safeguarding and accounting for school activity funds is dependent on the soundness and effectiveness of local board of education policies and guidelines. The local board has the responsibility of ensuring accurate accounting for all funds, as well as ensuring school activity funds are expended as intended.

Use of the procedures in this handbook provides reasonable assurance that schools have properly accounted for monies realized through student and school activities. All transactions shall, at a minimum, be in accordance with the guidelines of the Accounting Procedures for Kentucky School Activity Funds document, using the forms contained herein or an equivalent. Within the scope of its authority, a local board of education may enact a policy more restrictive than the procedures established in this handbook.

The regulation and the Accounting Procedures for Kentucky School Activity Funds were reviewed by the KBE in August and several changes have been made since that review as noted with strikethroughs and underlines. They are now ready for approval.

### **Policy Issues/Options:**

1. Should the Kentucky Board of Education strengthen the guidelines for External/Support Booster organizations?
2. Should the Kentucky Board of Education set clearer guidelines for allowable and disallowable expenditures from school activity funds?
3. Should the Kentucky Board of Education set more specific guidelines for school activity fund procedures to strengthen internal controls and more securely safeguard public funds and assets?

### **Options for the KBE include:**

1. Approve the amendments proposed by staff to 702 KAR 3:130 Internal Accounting and the Accounting Procedures for Kentucky School Activity Funds.
2. Approve some of the changes proposed by staff to 702 KAR 3:130 Internal Accounting and the Accounting Procedures for Kentucky School Activity Funds.
3. Ask staff to do further work on the regulation and handbook and bring it back to the next meeting.

### **Staff Recommendation and Rationale:**

Staff recommends approval of 702 KAR 3:130 and Accounting Procedures for Kentucky School Activity Funds. The changes to the handbook are necessary to provide clearer guidance to school, district, and external support/booster organization personnel. The changes will also ensure the Department of Education is responding to the continuing demand for transparency in public entity financial reporting by strengthening the accountability and financial oversight of the school activity funds.

### **Impact on Getting to Proficiency:**

Approval of 702 KAR 3:130, Internal Accounting will allow the Kentucky Department of Education to provide local school districts with consistent guidance needed to accurately report and monitor the school activity funds. It will require more financial oversight of the school activity funds and external support/booster organizations reflecting a determination to protect public funds and ensure they are used for the benefit of the students. This action will ensure the most efficient system of accounting for all funds received and expended through the school activity funds and contribute to the financial stability of the school district.

### **Groups Consulted and Brief Summary of Responses:**

Certified Public Accountants who conduct audits for school districts  
District Finance Officers  
Office of Education Accountability  
Office of Charitable Gaming  
Redbook Revision Task Force – including four CPAs, seven district finance officers, one OEA representative and seven KDE staff members  
Local Superintendents Advisory Council (LSAC)

The first four groups had several opportunities for suggesting changes to the document. The Task Force was instrumental in determining the new format of the handbook and held two in-depth meetings with discussions of key changes that had been suggested by the members of the first four groups. The Task Force was very supportive of the changes and clarifications included for topics that were previously not specific.

The regulation and Accounting Procedures for Kentucky School Activity Funds document was presented to LSAC at the July 2012 meeting for review. The updated document will be presented at the September 2012 LSAC for final review. LSAC will forward its advice on this regulation to the board prior to the October meeting.

**Contact Persons:**

Hiren Desai, Associate Commissioner  
Office of Administration and Support  
(502) 564-1976  
[hiren.desai@education.ky.gov](mailto:hiren.desai@education.ky.gov)

Kay Kennedy, Director  
Division of District Support  
(502) 564-3930  
[kay.kennedy@education.ky.gov](mailto:kay.kennedy@education.ky.gov)

---

Commissioner of Education

**Date:**

October 2012