

KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Review Item:

Audit Update and Review of the Commissioner's and Board's Expenses

Applicable Statute(s) or Regulation(s):

KRS 45.149

History/Background:

Existing Policy. Several audits have been completed or are currently in process. Some of the audits are conducted by the Office of the Auditor of Public Accounts ("APA") as part of their normal statutory functions. Others audits are conducted by federal program auditors reviewing certain federal grants. KDE staff will review the completed audits and answer questions as needed at the April meeting.

Additionally, updated information on the commissioner's expenses and board's expenses also is attached and will be discussed.

Updates on audits since October 2014 are as follows:

State Audits:

FY 2014 Statewide Single Audit of Kentucky (SSWAK) – Volume I

This volume contains financial reporting information based on the audit of the Consolidated Annual Financial Report (CAFR). It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements. The Audit reviews internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Generally Accepted Government Auditing Standards (GAGAS), and financial statement findings related to internal control and compliance. Specifically for KDE, this volume covers financial reporting and IT security governing the controls of MUNIS, SEEK and NHS. Volume I is complete and can be viewed at www.auditor.ky.gov.

Historical Summary of the Number of Annual Published SSWAK Findings

| Audit Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SSWAK Vol. I | 13 | 9 | 8 | 4 | 2 | 2 |
| SSWAK Vol. II | 1 | 0 | 4 | 4 | 3 | N/A |

FY 2014 SSWAK – Volume I

KDE has two findings as follows:

| Finding # | Finding Summary | KDE Response | Financial Impact Y/N | Repeat Finding Y/N | KDE Office |
|------------|--|--|----------------------|--------------------|------------|
| 14-KDE-027 | KDE was not compliant with KRS 157.410 in the calculation of first quarter fiscal year 2014 school district SEEK payments. | <p>KDE’s current process allows for more accurate, updated payments to districts. For example, a district anticipating growth of Adjusted Average Daily Attendance (AADA), would be able to capture that growth using the SEEK forecast, which would more accurately reflect the actual attendance levels, rather than waiting several months (until the October payment) to capture the updated data in the SEEK tentative calculation.</p> <p>The practice of utilizing the most recent data projections minimizes the fluctuation in monthly payments and allows for a more predictable revenue stream for districts.</p> <p>The difference between the two methodologies is the timing of the revenues for districts. Each district, under either payment methodology, receives the same total amount of SEEK funding to which they are entitled by the end of the year. It is merely a matter of when that revenue is received.</p> <p>Legislation to fix the issue, HB 499, passed the House and passed the Senate Education Committee. As of March 12, 2015, the bill is on the Senate’s consent agenda. The final outcome will be reported at the April meeting.</p> | N | Y | OAS |

| | | | | | |
|------------|--|--|---|---|-------|
| 14-KDE-028 | KDE did not ensure the student information system vendor met all contractual requirements. | KDE appreciates the feedback provided through this finding. We have great confidence in the industry-level security provided by our cloud service vendors, but recognize that there is always opportunity for improvement. The particular item which was identified during the vulnerability assessment was addressed fully and completely within 24 hours of notification in December 2013. Additionally, because of the capabilities of the cloud, the vendor was able to verify, within that same 24-hour time period in December 2013, the status of every installation across the state. KDE also will review the recommendations relating to contract management and vigilant monitoring as well as implementation of changes where practical and appropriate in order to facilitate continuous improvement. | N | N | OKIDS |
|------------|--|--|---|---|-------|

FY 2014 Statewide Single Audit of Kentucky (SSWAK) – Volume II

This Volume reviews elements required under OMB Circular A-133, including the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133, and the schedule of findings and questioned costs. Volume II fieldwork is in process.

FY14 A-133 School District Reviews

Desk reviews occur to assist KDE in ensuring that audit reports of school districts and other entities meet applicable reporting standards and Office of Management and Budget (OMB) Circular A-133 reporting requirement. The audit collection log is in process and will be available later this spring.

Impact on Getting to Proficiency:

Efficient and effective financial controls within the Kentucky Department of Education are essential to ensure that monies are used appropriately by KDE and by districts for the purpose of supporting schools and districts in reaching proficiency.

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Commissioner of Education

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