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January 28, 2026

MANAGEMENT LETTER

Kentucky State Committee for School District Audits
Board of Education of the Anchorage Independent School District
Anchorage, KY

In planning and performing our audit of the basic financial statements of the Anchorage Independent School District (the District) for the year ended June 30, 2025, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters we consider to be opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. Comments included in the prior year management letter have been included in the memorandum, along with the current year status of each finding. A separate report dated January 28, 2026, contains our report on the District's internal control. This letter does not affect our report dated January 28, 2026, on the financial statements of the Anchorage Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and the implementation of suggested procedures is currently being reviewed. We will be pleased to discuss these in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the members of the Anchorage Independent School District, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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MEMORANDUM – SUMMARY OF COMMENTS AND RECOMMENDATIONS

Prior Year Comments and Recommendations

There were no findings noted during the prior year audit.

Current Year Comments and Recommendations

The District Did Not Have Proper Segregation Of Duties Over Payroll Processes

CONDITION: The District did not have proper segregation of duties between the employees responsible for the entry and maintenance of personnel information related to changes to employee pay rates and those employees responsible for the payroll processing and payments as well as the reconciliation process. The former chief financial officer had the ability to modify employee pay rates within the payroll system, process payroll and payments as well as reconcile the payroll transactions to the bank and ledgers.

CRITERIA: Proper segregation of duties over the payroll functions of the preparation of payroll checks, changes to employee pay rates, disbursements posting and the reconciliation of bank records to source documents or implementation of compensating controls when limited staff size is essential for providing protection from asset misappropriation and or fraudulent financial reporting.

CAUSE OF CONDITION: The district had one person handling incompatible duties over payroll due to a limited budget and limited staff. Management oversight and review was completed but controls were circumvented.

EFFECT OF CONDITION: This lack of segregation of duties allowed the former chief financial officer the opportunity to incorrectly enter her pay rate and subsequently increase her rate of pay during the year which led to possible salary overpayments totaling \$6,802.66 during FYE 2025.

RECOMMENDATION: We recommend the district implement controls that require the entry and maintenance of employee pay rates be performed by separate employees not associated with the payroll process. We further recommend that all changes to employee pay rates should be approved and documented by appropriate district personnel prior to the change being entered into the payroll accounting system.

CLIENT RESPONSE: The Board and superintendent began making proactive changes (policy and procedure revisions) prior to the audit. Personnel changes were made by the superintendent in 2025. As of January 2026, the district has established controls to ensure separation of duties by separate employees in the human resources department, finance department and superintendent's office.

MEMORANDUM – SUMMARY OF COMMENTS AND SUGGESTIONS (Continued)

Current Year Comments and Recommendations (Continued)

The District Did Not Pay Certain Invoices Within 30 Days

CONDITION: The District did not process and pay all invoices within 30 days of receipt of the invoice. 10 of the 30 invoices selected for testing were not paid within 30 days of being received.

CRITERIA: Per applicable compliance requirements and board policies all invoices should be paid within 30 days of receipt.

CAUSE: Lack of internal controls and staff training regarding this requirement.

EFFECT: The board is not in compliance with applicable laws and their board policies. Late payment of invoices could cause the board to incur late payment fees and penalties.

RECOMMENDATION: We recommend the board ensure all staff are informed and trained regarding this compliance and policy requirement and implement policies and procedures to ensure invoices are paid within 30 days of receipt.

CLIENT RESPONSE: Personnel changes were made in 2025 before the audit occurred. As of January 2026, all district staff will be properly informed and trained regarding compliance and policy requirements to ensure invoices are paid within 30 days of receipt.