

**KCTCS RESPONSE TO
EXAMINATION OF CERTAIN FINANCIAL OPERATIONS
AND INTERNAL POLICIES AND CONTROLS OF
KENTUCKY COMMUNITY AND TECHNICAL
COLLEGE SYSTEM**

DATE DELIVERED: FEBRUARY 1, 2024



February 1, 2024

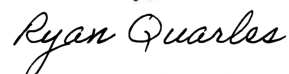
Hon. Allison Ball
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601
RE: Response to Special Audit Report

Dear Auditor Ball,

On December 7, 2023, your office provided the Kentucky Community and Technical College with the completed report of the Special Examination our Board of Regents requested in March 2023. KCTCS' initial response clearly stated our commitment to addressing all findings and recommendations. As such, please find attached the official response to your report as requested within the 60 day deadline set forth in the examination.

Because my presidency began on January 1, 2024, I was not part of the initial conversations or the audit plan decided upon in 2023. Additionally, I was not part of the actions or the omissions that led to the need for the state examination. Nonetheless, I want to take the opportunity to thank your staff for their courtesy and professionalism in working with KCTCS staff throughout this process. I intend to focus swiftly and keenly on the necessary remedies to move KCTCS forward with a clean slate so that the System, under my leadership, can provide the best education to the citizens of the Commonwealth of Kentucky. Please let me know if you have any additional questions as we continue to address the findings outlined in the audit.

Sincerely,



Dr. Ryan Quarles
KCTCS President

Finding 1: KCTCS System Office’s Unrestricted Carryforward Balance Is Not Accurately or Transparently Reported to the Board.

Recommendations

Given the significance of the carryforward balances and the potential impact to KCTCS’s financial statements, KCTCS must ensure its understanding of these balances as such matters place the agency at greater risk of a qualified opinion on its audited financial statements.

As such, we recommend:

KCTCS engage a forensic accounting firm to conduct further analysis of its historical use of Account 10001 to determine the true nature of the account and whether this account should be reconciled annually. Due to the nature and complexity of this proposed analysis, and it being a specialty within the field of accountancy, APA lacked the time and resources to perform this analysis within the scope of this engagement.

Response:

KCTCS is evaluating accounting firms for the purpose of conducting a forensic review of account 10001. An RFP will be issued in accordance with procedures; the timeline requires the audit to be completed no later than October 2024.

Issue Date of RFP: January 29, 2024

Deadline for Written Questions: February 5, 2024

RFP Due Date: February 29, 2024

Offeror Presentation: To be Scheduled as needed

KCTCS analyze the budgetary needs of its System Office and KCTCS as a whole, factoring in the strategic goals of the system, then in consultation with the Board determine the appropriate level of carryforward for each to maintain.

Response:

System Office staff are currently researching the appropriate amount of carryforward for the System Office and each of the 16 colleges, based on a few factors including but not limited to capital assets, payroll budgets, and student enrollment. The information will be presented to the Board at its March 2024 meeting, with a vote to occur at the June 2024 meeting.

Once the agency’s needs are understood, KCTCS develop comprehensive written policies and procedures for accumulation and management of fiscal year end carryforward balances. These policies and procedures should include a periodic reevaluation of the System Office needs to ensure the established carryforward balances are still appropriate based on current operations and any changes in KCTCS’s strategic goals.

Response:

Research is under way using higher education organizations such as the National Association of College and University Business Officers (NACUBO) to determine industry standards for an appropriate carryforward/fund balance. During the June 2024 KCTCS Board of Regents meeting, KCTCS administration will present a recommendation for approval. Policies and procedure will be in place and published as of August 1, 2024.

KCTCS establish routine reporting to its Board to include financial information relevant to the System Office carryforward.

Response:

This will be reported at each quarterly Board of Regents meeting as part of the financial report. During the December 8, 2023, meeting, administration presented relevant carryforward information.

Finding 2: KCTCS Overcharged Community Colleges \$24 Million and Retained the Proceeds from the Overcharges as Part of the System Office's Unrestricted Carryforward Balance.

Recommendations:

KCTCS return all excess funds collected by the System Office as a result of its billing practices over the period of FY 2018 through FY 2023 to the CTCs.

Response:

To date all excess funds identified in the audit have been returned to their respective college. On Friday, January 12, 2024, the same allocation process used to pull back the funds from the colleges to the System Office was used to return the funds to the colleges. It is important to note these are one-time funds back to the colleges under fund 05. Funds not spent by June 30, 2024, will be included in the fund balance calculations for fiscal year 2025. The journal TRREC1823 was entered and posted. *See Appendix A (Email from KCTCS Interim CFO).*

KCTCS management ensure a year-end reconciliation between cost recovery charges and actual expenses incurred is performed annually and settlements are made in a timely manner.

Response:

A task force of business officers across the System will create a procedure and policy to allow for year-end reconciliation between recovery charges and actual expenses with timely settlements to the colleges. The timeline for the task force

action is April 15, 2024, in preparation of the KCTCS fiscal year 2025 budget. A yearly reconciliation will be completed. In addition, KCTCS will monitor the recovery charges each quarter to avoid any possible year end deficits or surplus.

KCTCS consider instituting a cost recovery methodology which would allow actual costs to be recovered throughout the year in real-time, reducing its reliance on budget estimates or prior year actuals.

Response:

KCTCS administration and the Virginia Community College CFO have discussed VCC's system office cost recovery methodology. Based on these conversations, KCTCS found that VCC's process is similar to KCTCS's budgeting procedures. However, VCC's process is different from KCTCS's in that VCC conducts quarterly reconciliations in order to more accurately reflect actual expenditures. Most years a credit is provided to the colleges, but VCC indicated in some years the budget requires additional expenditures from the colleges. This is one process that KCTCS will consider as the business officers work toward a resolution that more accurately reflects the real-time expenditures of the entire system. The timeline for this decision will be April 15, 2024 to be implemented with fiscal year 2025 budget planning.

Finding 3: KCTCS System Office Fund Balances Do Not Agree to Fund Balances Accounts Reported to Individual Community Colleges.

Recommendations:

KCTCS's System Office reconcile beginning carryforward balance amounts to ensure the amount reported is accurate on the annual letters sent to the CTCs.

Response:

Starting with the end of fiscal year 2023, KCTCS Budget and Financial Planning Office will use actual accounting information from our Enterprise Resource Planning (ERP) PeopleSoft to develop and send out our annual carryforward balances. The forensic audit will determine whether fund 99 is to be included with the calculation of carryforward balances. Timeline for completion is October 31, 2024.

KCTCS establish a fair and equitable policy for recapturing System Office service and contract costs. This process should include a reconciliation process to ensure true settlement of KCTCS accounts and to provide accurate reporting of each entity's financial activities throughout the year.

Response:

Please see KCTCS's response from finding #2. Additionally, KCTCS's Huron Project has identified the need to establish clear Service Level Agreements between the System Office

and all colleges. KCTCS will draft and accomplish those agreements based on the findings of the task force and the forensic audit.

Finding 4: KCTCS Did Not Use Its Accounting System to Track Accumulated Spending and Did Not Maintain All Relevant Procurement and Bid Documentation.

Recommendations:

KCTCS ensure staff follow its procurement policies and procedures by tracking expenditures by vendor and contract, monitor purchasing to prevent split purchases or circumvention of internal controls and obtain quotes or contract renewals/extensions necessary to ensure purchases are efficient, effective, and transparent.

Response:

In order to address aggregate spending, KCTCS will need to implement a process to track on-contract and off-contract spending. System Office staff will update the business procedure to move the monitoring of reports and queries from the Business Units to the KCTCS procurement team. Further, staff will work with our Financial Service Group (FSG) to implement and use tracking fields in the following forms: vouchers, requisition/purchase orders, and pro-cards.

There will be a reorganization of procurement teams to meet the demands of supporting 18 business units on the procurement side. The staff is currently researching the best practices for best value contract awards to implement a more concise evaluation process.

KCTCS maintain documentation related to the procurement of contracts in accordance with record retention guidelines.

Response:

KCTCS administration is reviewing the maintenance and retention of procurement contracts is in compliance with the Kentucky Department of Libraries and Archives University and Colleges Retention Schedule. Additionally, administration is working to review all policies and procedures specific to procurement to ensure they are legally compliant. This compliance review will ensure that non-disclosure forms, rating sheets, and other essential procurement documents are properly obtained and retained.

Finding 5: KCTCS Failed to Collect Feedback from Companies Involved In TRAINS Projects and \$10,778 in Duplicate Payments Were Identified.

Recommendations:

KCTCS ensure that internal controls are in place for supporting documentation to be reviewed and verified before reimbursements are processed.

Response:

After requesting the backup documentation for the Appalachian Tank project 45405EU, it was discovered that some charges were duplicated, and some additional Argon Gas tanks were submitted by mistake. Detailed below are the duplicated expenses and overcharges for the gas tanks.

Appalachian Tank			45405EU
	Incorrect	Amount reimbursed	Correction
IPR #2 6/22/22	Argon Gas tanks 5 to many	\$ 787.35	\$ (262.45)
IPR #2 6/22/22	Shipping amount entered wrong, to low	\$ 821.00	\$ 57.11
IPR #3 10/14/22	3/64" Wire Duplicate from IPR #2	\$ 2,067.60	\$ (2,067.60)
IPR #3 10/14/22	Aluminum Sheets, Extrusions, Pipe	\$ 8,177.64	\$ (8,177.64)
IPR #3 10/14/22	Argon Gas 6 to many	\$ 892.33	\$ (327.54)
			\$ (10,778.12)
		TRAINS Over Charge	\$ (8,083.59)
		Company 25% Over Charge	\$ (2,694.53)
		10% Over Charge	\$ (1,077.81)

This was an isolated incident, as the project manager who wrote and delivered this project was new and this was one of her first projects. The System Office team has reviewed this issue with her and stressed why we need to ensure request forms are accurate and verified with backup documentation kept in the file.

To correct this, in the current project open with the company, System Office will apply credit to their first reimbursement on the project as shown above. This will correct the overage on TRAINS, and the invoiced amount to the company for the 25% and 10% portions of the overcharge.

System Office has also established and immediately implements a Guideline/Procedural change as outlined: in looking at the 248 TRAINS projects in FY23, staff identified 7 projects that had approved consumables like the Appalachian Tank project. Given that this is less than 5% of total projects, the guideline changes were effective immediately that any approved consumables on a TRAINS project will need to have backup documentation to

accompany their reimbursement when submitted for verification of expenditures.

KCTCS develop a survey for companies who receive TRAINS-funding that will allow them to collect data to determine the effectiveness of the training provided. This information should be evaluated to ensure state funds are being used effectively to provide workforce training. To ensure the surveys are returned, KCTCS could make this a requirement of the program.

Response:

The division of Workforce and Economic Development plans to implement a new employer follow-up survey/interview, which will be built in Salesforce.com with input from the colleges. This will be a detailed in-person, phone or online meeting follow-up communication with the company to go over the outcomes of the project and allow the company to provide constructive feedback. This interview will include 8-10 open-ended and qualitative questions that include metrics related to both company satisfaction and constructive feedback. It will also include quantitative questions that will allow System Office to gage company-specific impact over time.

As a result of this new survey implementation, a report will be available within Salesforce.com that project managers will complete after conducting interviews with participating companies. To increase response rates, project managers will be required to have completed this step before future projects can be submitted for approval.

In early January 2024, the System Office Team will collect input from the colleges, build the new interview-based survey, and create the accountability reports within Salesforce.com. In March, KCTCS will host a statewide convening of workforce project managers and leaders to conduct training on the new process, with a tentative go-live date of April 2024.

Observation

Observation 1: Misunderstanding Regarding Workforce Training Funding Led to Concerns About a Transfer to the KCTCS General Fund.

Recommendations:

To improve communication and accountability regarding its workforce training program, the KCTCS Board should request that budget numbers as to workforce could be discreetly presented information for presentation to the Board or alternatively, Policy 5.4.1 could be amended to require the inclusion of this information going forward. This presentation should allow the Board to monitor the program's fund balance and training projects to ensure it is achieving its desired goals.

Response:

Beginning at the March 2023 Board of Regents meeting, an update on Workforce and Economic Development finances, including TRAINS funds, will be presented quarterly as part of the Finance Report.

Observation 2: KCTCS Nepotism Disclosures Were Not Completed as Required by Policy.

Recommendations:

KCTCS ensure nepotism disclosures are completed and maintained as required by agency policy. The work responsibilities of those identified in the disclosure should be reviewed periodically by management to ensure duties of those involved are properly separated to prevent even the appearance of a conflict of interest.

Response: During the application process for the hires in question, KCTCS did not contain a question on the application to disclose the relationship status of the applicant.

Our current applications include disclosure of relationships, specifically it states:

“For employees related by blood or marriage to work at Kentucky Community & Technical College System in the same department or division, we require specific approval from the Chancellor or KCTCS President as appropriate. Also, in most cases where we employ you and a person related to you by blood or marriage, neither of you can have supervisory or line authority over the other. Do you have any relatives employed by any KCTCS location?”

With this recommendation, KCTCS identified other familial relationships. These forms are now complete and will be kept on file in HR. Effective January 2024 Versailles office HR staff included acknowledgment of our nepotism policy during the onboarding process for new staff and the requirement of completed forms from all parties. College training will begin in February 2024, to ensure consistent application through the System.

KCTCS strengthen internal controls to ensure employees with personal relationships do not oversee or approve the work of the other person.

Response:

System Office staff will work with all KCTCS HR officers to comply with the current policies and procedures for nepotism. Additionally, KCTCS will review consensual relationship and nepotism policies and procedures to avoid any conflicts of interests in the workplace.

APPENDIX A

From: [Combs, Buddy \(KCTCS\)](#)
To: [SO KCTCS President's Leadership Team](#); [SO KCTCS College Business Officers](#)
Subject: State Examination Finding #2
Date: Friday, January 12, 2024 8:31:41 AM
Attachments: [image001.png](#)
[Journal TRREC1823.pdf](#)
[2023KCTCSSpecialExam.pdf](#)
[KCTCS System Recovery Overage Distribution Calculation.xlsx](#)

Hello,

Dr. Quarles approved the transfer of the \$23,785,472 overage from the system cost recovery process identified in the State Examination Finding #2. The journal TRREC1823 was entered and posted. The same allocation process used to pull back the cost recovery for the fiscal years identified was used to distribute the overage back to the colleges. We have attached a copy of the State Examination, the distribution calculation, and the journal for your records.

Please remember these funds are **non-recurring** and any funds not expended in fiscal year 2024 will roll into your college carryforward/fund balance for fiscal year 2025. If your college opts to expend any of these funds during fiscal year 2024, please remember our policy and procedures for budget revisions and our 2% (two percent) change rule for both the college and the system as a whole.

[KCTCS Budgetary Policies and Procedures | KCTCS](#)

If you have any questions, please let us know.

Thanks Buddy

Buddy Combs

Assistant Vice President Financial Support Services
Kentucky Community and Technical College System
300 N Main St
Versailles KY 40383
(859)256-3239 Office
(859)256-3123 Fax

Your success equals our success.

