



REQUEST FOR PROPOSAL ADDENDUM

RFP NO.: RFP-0308
ADDENDUM NO.: 1
RFP ISSUE DATE: January 29, 2024
ADDENDUM DATE: February 13, 2024
OPENING DATE: February 29, 2024 @ 4:00pm EST
TITLE: Forensic Audit Services

The following information is being provided in response to questions received for this RFP:

1. Do you have a defined scope period for the forensic audit services listed in the Statement of Intent and Purpose?
 - a. **The defined scope may be different for particular parts of the forensic audit. For instance, the 421 million dollar defined period could be from 1998 to present. For other items, the defined period would be based on each of the occurrences or on the span of time involved with either contract or employee's tenure.**
2. One of the items in scope is as follows: **“Ensure that the financial reports provided to external entities for each college are sound and accurate, specifically those given to SACSCOC when the accrediting body reviews the fiscal viability of the institutions”**. Please provide a summary of the number of financial reports issued to external entities that are in scope.
 - a. **For SACSCOC, the request is for the last ten years for each of the 16 colleges.**
3. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2. It notes that the Kentucky Community and Technical College System (KCTCS) receive an audit report from the Kentucky Auditor of Public Accounts covering distinct areas of concern raised by the KCTCS Board. Can you provide a copy of that referenced Audit Report?
 - a. **See attachment B.**
4. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 3 – stating KCTCS engage the forensic account 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. Can you specify the period of the historical use or define when the account was opened? Can you specify the name and purpose of the fund that this account is associated with? If more than one, please clarify. Can you specify if the Account 10001 and the associated fund requested is a System account and fund, or is this a fund utilized by all sixteen colleges? Please describe the nature/use.
 - a. **Account 10001 was created on July 1, 2002, and is listed as Inter-Unit Offset. The first official entry to the ledger was entered on December 17, 2002. This account was officially used as a balancing entry when ledgers are between**

business units, funds and grant and gift accounts. The account is used for all business units and fund groups of KCTCS accounting system.

5. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 5, bullet 1 – stating From this recommendation, KCTCS is seeking the assistance of a qualified forensic auditor to: Statistically sample transactions in the 10001 account to determine whether the transactions are recorded in accordance with Generally Accepted Accounting Principles. Can you clarify what period of transactions you want this to include and how many transactions that may include? Can you provide clarity on the 10001 account if that is a System Account and what fund it is a part of? Can you clarify if the sixteen colleges can utilize this account or if it is restricted for System use only?
 - a. **The account was created on July 1, 2002, and is currently still in use as of February 6, 2024. As of February 6, 2024, we have an estimated 4,217,146 journals entered using account 10001. Account 10001 is a system account and can be used for any of our fund groups. The college business units are limited to account 10001, most of these entries for account 10001 are completed by System Office staff.**

6. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 5 bullet 3 – stating From this recommendation, KCTCS is seeking the assistance of a qualified forensic auditor to: Investigate the impact of this account with all fund groups, including fund 99 (referenced in the Auditor of Public Account report). Can you clarify how many fund groups KCTCS has, including fund 99? Can you provide a list of those funds which includes the name and fund purpose of those funds?
 - a. **See attachment A.**

7. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 5, bullet 4 – stating From this recommendation, KCTCS is seeking the assistance of a qualified forensic auditor to: Investigate the effect on the overall system audited financial statements and the reports of the sixteen accredited colleges within the System. Can you clarify how many fund groups KCTCS has including fund 99? Can you provide a list of those funds which includes the name and fund purpose of those funds? Can you please clarify if this is only for the sixteen colleges financial statements, or does this include additional reports? If additional reports, can you please clarify which reports and how many in total?
 - a. **Attached. This would be for 17 college audited financial statements.**

8. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 5, bullet 5 – stating From this recommendation, KCTCS is seeking the assistance of a qualified forensic auditor to: Determine whether fraud, theft, waste, abuse, or collusion occurred in any transactions or other aspects of the financial dealings with the account. Can you please clarify “any” within the specific account identified or the other areas noted within the bullets? Please specify which transactions for what accounts within what funds.
 - a. **The main journal in question listed in the state examination is attached. See attachment C.**

9. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 1 – In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: ensure that the financial reports provided to external entities for each college are sound and accurate, specifically those given to SACSCOC when the accrediting body reviews the fiscal viability of the institutions. Please clarify how many SACSCOC reports were filed and the period of the most recent filing.
 - a. **KCTCS has sixteen colleges that have all undergone the initial accreditation process and both five year and 10 year reviews. During this time, each college would need to certify the fiscal viability of their institutions to meet SACSCOC**

requirements. Given that, bidders should expect that the review could be as few as 16 and range upward to 48. These are estimates.

10. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 2 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Investigate practices relevant to procurement cards and other procurement processes for any uses not in compliance with policy or procedure and determine any internal changes that need implementation to avoid legal or fiscal repercussions. Was there a particular incident or audit report that initiated this request or services? Are Pcards managed and maintained at the System level or within each College? Are Pcards managed through an electronic system? If yes, what system is utilized? Are there liaisons within each College that report and reconcile Pcard activity to System account team? How many Pcards are currently being utilized? When is the last time the Pcard policy was updated?

a. As part of the state audit response, the Procurement Card practice is included in this scope of work. The procurement card program is administered from the System Office and managed at the college level with monthly audits conducted through the help of the Card Integrity audit platform. Procurement card spend is submitted through the KCTCS ERP and PNC platforms. Each college has a procurement card administrator with a higher level pcard program administrator at the System Office managing the overarching program. KCTCS utilizes approximately 500 pcards throughout the system. The KCTCS pcard procedure is updated on a regular basis with the latest revisions in August 2023.

11. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 3 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Review and advise on personnel and unit investigations to determine whether KCTCS has instituted the recommendations provided from the reports of investigation. Does KCTC utilize a hotline? Is there a formalized investigation process and who owns it or is responsible for it? Please describe who the key stakeholders are in the process. Is the investigation process, formal or informal, set at the System level or within each College?

KCTCS utilizes Ethics Point for our hotline. We use a formalized investigation process, and it is owned by General Counsel. Process is both set at the system level and college level with the KCTCS Board of Regents making the final decision. [EthicsPoint - Kentucky Community & Technical College System](#)

12. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 4 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Determine whether any fraud, waste, or abuse has occurred in Executive Compensation practices throughout the System. Is there a formalized structure in place at the System level? Is it in writing? If yes, who owns it and who is required to approve it?

a. We implemented a policy ([Executive Level Compensation Procedure | KCTCS](#)) -3/25/2022 and it is the responsibility of the KCTCS Board of Regents and KCTCS President.

13. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 5 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Review KCTCS uses of System and affiliated foundations to determine whether the foundations are sufficiently

independent and whether any use by KCTCS of the foundations has amounted to improper circumvention of legal requirements for the fundraising arm of KCTCS. How many foundations are there, please describe nature and name. Are the Foundations established as their own 501(c)3? Do the Foundations have a formal Board and/or Oversight structure, please describe. Do the Foundations have formal By-Laws; Charter; etc.?

a. There are currently 15 recognized independent system and college foundations, and one foundation which has not received 501(c)3 status yet, but does have an independent board and operates under the fiduciary governance of the KCTCS Foundation, Inc. Each of these Foundations is an independent and private foundation, and not a subsidiary, legal affiliate, partner, or joint venture of KCTCS or the respective college.

- **KCTCS Foundation, Inc.**
- **Community & Technical College Foundation of Ashland, Inc.**
- **Big Sandy College Educational Foundation, Inc.**
- **Bluegrass Community and Technical College**
- **Gateway Community & Technical College Foundation**
- **Hazard Independent College Foundation**
- **College Foundation, Inc. (Henderson)**
- **Hopkinsville Community College Foundation, Inc.**
- **Jefferson Community and Technical College Foundation, Inc.**
- **Maysville Community and Technical College Foundation**
- **Owensboro Community and Technical College Foundation, Inc.**
- **Somerset Community College Foundation, Inc.**
- **Southcentral Community and Technical College Foundation**
- **Southeast Education Foundation**
- **Paducah Junior College Foundation (West KY)**
- **Elizabethtown Community and Technical College Foundation - The ECTC Foundation Board of Directors serves the same function as an independent recognized college foundation, but is currently a part of, and subject to the oversight of, the KCTCS Foundation.**

Under IRS regulations, each recognized Foundation is an independent 501(c)3 organization with a totally independent Board of Trustees and each Foundation has an independent external audit and files an IRS 990 annually, aside from the Elizabethtown Community and Technical College Foundation which operates under the fiduciary governance of the KCTCS Foundation as a DBA.

Each of the recognized foundations has a formal Board of Directors/Trustees that manages the business and affairs of the Foundation as enumerated in KRA 273.11 and all subsections therein. The Chief Advancement/Development Officer at the system and at each college serves as the Executive Director of the respective foundation.

Each of the recognized foundations has formal by-laws.

The period of historic and current use would be from approximately 2000 to 2024. Fifteen colleges have independent or affiliated Foundations with one overarching KCTCS Foundation. Personnel are fully funded through the foundations and typically at the KCTCS Foundation work solely on Foundation work while at the colleges many of the "Advancement" officers are also marketing and public relations officers. Each affiliated Foundation should have a MOA that outlines their duties and responsibilities. That would be 14 affiliation agreements with possibly 2 agreements of varying type. They are all System employees and use System resources for the work they do for the Foundations. The question is whether the lines are blurred, and also whether the colleges and the System Office flow purchases, contracts, and other items through the foundations when the colleges and System do not want to follow policies and procedures required for procurement.

14. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 6 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Review of all marketing and public relations budgets to determine whether policies and procedures have been violated and whether fraud, waste, and/or abuse occurred historically. Is this System wide and for each of the Sixteen Colleges? Would this include the Foundations, some, or all?
- a. Systemwide and does not include Foundations.**
15. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 7 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Review historic and current use of Voluntary Separation Agreements by the System and determine any internal changes that need implementation to avoid legal or fiscal repercussions. Can you please define the period of “historic” and current use? If since inception, which did these begin? Please define how many agreements there may be. Please confirm that all employees of the Colleges are in fact employees of the System. Is that the same for the respective Foundations, if not, are you asking for those separation agreements to be included?
- a. Voluntary Separation Agreements (VSA) date back to 2002 and as of February 8, 2024 there are 240 employees paid via a VSA. Yes, they are all employees of the system. The Foundations are not part of this specific request.**
16. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 8 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Examine the relationship with Higher Education Innovation, LLC, and top executives, as well as the KCTCS relationship with The Superlative Group. Can you clarify over what period, if since inception, please note when they started? Are these relationships formalized in written agreements?
- a. Higher Education Innovation, LLC began their relationship with KCTCS through a former KCTCS President in approximately January of 2019 and did not have a formal contract or MOA with KCTCS and settled for “work done” on 12/3/2020. The period of review would be from 1/1/19 to present.**
17. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 9 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Audit and review of other areas as identified by administration during the forensic audit planning phase. Can you provide any context, if available regarding anticipated areas?
- a. At this time, KCTCS does not have any other anticipated areas for review.**
18. In the RFP Section 2. STATEMENT OF INTENT AND PURPOSE, pg. 2, paragraph 6, bullet 10 - In addition, beyond the scope of the recommendation from the Kentucky Auditor of Public Accounts, KCTCS leadership is seeking the assistance of a qualified forensic auditor to: Review the KCTCS Office of Financial Aid and historic FERPA compliance. Can you provide clarification on “historic” – if since inception, please confirm start date? If not, please provide period of years desired. When was the last internal or external financial aid audit? Please provide dates, by whom, and number of findings. Can you provide a description of the nature of findings in the desired period from any internal and/or external audits? Can you describe any findings that have not been resolved and why?
- a. Since 2015 with the Financial Aid Shared Service model KCTCS has encountered many compliance opportunities between the Office of Financial Aid and FERPA. The last external financial aid audit was June 2023, with no findings. The last internal financial aid audit was completed March 2023.**

19. Does KCTCS have an internal audit function? If so, is there a reason they are not performing these procedures?
- a. **KCTCS outsources the internal audit function.**
20. What percentage, if any, of the work considered under this RFP must be performed on-site? Or can most of the work be performed remotely?
- a. **KCTCS estimates 40% on site and 60% remote.**
21. Is KCTCS looking for hourly rates for key personnel in an RFP response or a not to exceed project rate?
- a. **Offerors should submit their best proposal for KCTCS to consider.**
22. What time period will be covered by the forensic audit of the 10001 account?
- a. **From July 1, 2002 to present.**
23. Approximately how many transactions flowed through the 10001 account during the time period that will be under the forensic audit?
- a. **As of February 6, 2024, 4,217,146 journals are entered using this account.**
24. Is documentation related to transactions and activity of KCTCS generally readily available and kept in an organized manner?
- a. **Generally, yes.**
25. Do prospective offerors need to register as a supplier prior to submitting a proposal? Or is this only completed by the winning firm?
- a. **Prospective offerors do not need to register as a supplier prior to submitting a proposal.**
26. Can you please confirm the link to the Bid Locker for proposal submissions? The link embedded in the RFP does not appear to take you to the correct Bid Locker.
- a. **The Bid Locker link is as follows:**
<https://bidlocker.us/a/kctcs/details/3996> Rfp 0308 Forensic Audit Services
27. Item 1 and 3 under proposal criteria have reference to software implementation. Can you confirm there is no software implementation aspect to this RFP for Forensic Audit Services?
- a. **KCTCS confirms there is no software implementation aspect to this RFP. However, knowledge of our ERP system (PeoppleSoft) is a plus.**
28. Proposal Criteria #3 requests an implementation schedule for software. Do you want a schedule provided for the requested Forensic Audit Services? Or should the offeror just supply competence and experience with Forensic Audit Services, along with innovative or proprietary mechanism/technology to fulfill the Forensic Audit Services?
- a. **KCTCS confirms there is no software implementation aspect to this RFP. Please demonstrate competence through explaining the experience your firm has with providing the requested services for higher educational institutions, particularly within a system of colleges, if available.**
29. What is KCTCS's budget for the Forensic Audit Services?

- a. **This information is not available. Please provide best offer in proposals.**
30. Should the offeror provide hourly fee rates for Forensic Audit Services by position (i.e., partner, manager, staff, etc.), or should the offeror's fee schedule be a total fee amount for the project?
- a. **Offerors should submit their best proposal for KCTCS consideration.**
31. What is KCTCS's expectations in regards to the selected firm's work being performed on-site at KCTCS location(s)?
- a. **Flexible with on-site work, recommend 40% on-site work and 60% remote work.**
32. Can you confirm that the sampling of transactions in Account 10001 should extend back 20 years? Also, statistical sampling is requested. What is the desired sample size or confidence level to be achieved?
- a. **Transactions to account 10001 began July 1, 2002 and KCTCS would rely on the awarded supplier's expertise to determine an appropriate sample size.**
33. The requested scope of work includes "determin[ing] whether fraud, theft, waste, abuse or collusion occurred in any transactions or other aspects of the financial dealings with the account [10001]." Is this limited to the sampled transactions? If not, this seems to imply that a review of every transaction in the account would be warranted to make this conclusion. Is there another method expected/anticipated to achieve this request?
- a. **It is not limited to sampled transactions and KCTCS would rely on the awarded supplier's expertise to determine the appropriate sample size and then determine if every transaction is warranted.**
34. The requested scope of work includes "ensur[ing] that the financial reports provided to external entities...are sound and accurate..." This seems to indicate the need for a full financial audit of the financial statements for each college. Please confirm this understanding and, if accurate, please specify which time periods the review would cover.
- a. **This in conjunction with reviewing account 10001 and fund 99 and howe they are reported on each college financial statement. For this review recommend reviewing fiscal years 2018 – 2023.**
35. For the investigation of procurement practices, what specific policies and procedures should be reviewed and analyzed?
- a. **Kentucky Revised Statutes 45A and KCTCS policies and procedures.**
36. When reviewing personnel and unit investigations, which specific "reports of investigation" are applicable and how many total recommendations need to be reviewed?
- a. **Three (3) to four (4) investigations will need to be reviewed with 2 of those investigations being major. Potentially 10 to 15 recommendations.**
37. The requested scope of work includes "determin[ing] whether any fraud, waste, or abuse has occurred in Executive Compensation practices throughout the System." What period of time should be covered by this scope of work? And this seems to indicate the need for a full review of all Executive Compensation arrangements in the System. Please confirm this understanding and, if accurate, please specify the number of unique executive compensation arrangements to be reviewed.
- a. **KCTCS recommends the last ten years or at least the last five. KCTCS**

implemented a policy ([Executive Level Compensation Procedure | KCTCS](#)) -3/25/2022, which is the responsibility of the KCTCS Board of Regents and KCTCS President.

38. Are there specific criteria or guidelines for assessing the sufficiency of independence for KCTCS-affiliated foundations? Please specify the “legal requirements” for the fundraising arm that are applicable.
- a. The legal requirements are mainly found in case law that sets out prongs of entanglement to determine whether fundraising and use of foundation monies is appropriately separated from KCTCS and its colleges. In other words, what cannot be done legally through public funds should not be funneled through the foundations to avoid the requirements surrounding procurement.**
39. The requested scope of work includes “review of all marketing and public relations budgets to determine whether policies and procedures have been violated and whether fraud, waste and/or abuse occurred historically.” What policies and procedures are applicable, and what period of time should be covered by this scope of work?
- a. Review the last ten years in this scope of work. Policies and procedures attached. See attachment D.**
40. The requested scope of work includes “review[ing] historic and current use of Voluntary Separation Agreements by the System [to] determine any internal changes that need implementation to avoid legal or fiscal repercussions.” Please specify which legal or fiscal repercussions would be included in the analysis, and confirm the number of Separation Agreements under review.
- a. The Voluntary Separation Agreement template has been periodically updated to reflect changes in the law. The VSA is a useful tool to ensure someone waiver and release, but have they been used efficiently and appropriately for fiscal reasons when policies could have been implemented to address some of the use. The earliest appears to have been offered in 2002, and the practice continues to 2024. A non-comprehensive database approximates 1.4 million dollars spent in VSAs throughout KCTCS history.**
41. Are there specific concerns or past issues to be examined when analyzing the relationships with Higher Education Innovation, LLC and The Superlative Group?
- a. The specific concerns surround conflicts of interest, lack of proper processes, and failure to follow sponsorship statutes.**
42. What time frame should be considered as "historic" when reviewing FERPA compliance of the KCTCS Office of Financial Aid?
- a. KCTCS Financial Aid Office was centralized in 2015, so the history of Financial Aid and FERPA compliance would be from 2015 until present.**
43. In general, many of the requested areas of scope appear broad and open-ended. Is KCTCS open to a proposal that is based on time and expenses incurred, so that the scope of work can be accomplished in full, or is the desire for a fixed fee?
- a. Offerors should submit their best proposal for KCTCS to consider.**
44. Item 16.C.3. in the RFP requests to “provide a detailed plan and schedule for the implementation of the software being offered.” Is this applicable for this RFP? There was not a reference to software in the scope of work requested.

a. **KCTCS confirms there is no software implementation aspect to this RFP.**

45. Is there an estimated budget for the scope of work?

a. **This information is not available. Please provide best offer in proposals.**

46. Is there an estimated number of hours that the scope of work will require?

a. **While there is not a good estimated amount of hours to provide to prospective Offerors, KCTCS expects a considerable amount of time to be spent on the scope of work. Please ensure this is taken into consideration in the proposals that are submitted in response to this RFP as well as the required timeframe.**

47. The expected completion date for services provided is October 31, 2024. Is there any flexibility with this date, as it seems the scope of work is quite large and could exceed that timeframe?

a. **There is no flexibility with this deadline for completion.**

All other terms, conditions & specifications remained unchanged.

Offerors must acknowledge receipt of this and any addenda either with proposal or by separate letter prior to award of contract. If by separate letter, the following information should be placed in the lower left-hand corner of the envelope:

RFP No.: RFP-0308
Title: Forensic Audit Services
Opening Date: February 29, 2024 @ 4:00pm EST

Name of Firm: _____

Signature: _____

ATTACHMENT A

Fund Code Value	Title	Description
01	General Fund	This fund contains activity related to general funds of the organization.
02	Auxiliary	This fund contains SFC source type transactions.
03	Food Services - Auxiliary	Last transaction in this fund was March 2010.
04	Bookstores - Auxiliary	This fund contains SF source type, AP source type, and ACR source type transactions.
05	Non-Recurring Expenses	This fund contains activity that is considered non-recurring but that is related to general funds of the organization.
06	Systemwide Operations	There was 1 transaction in 6.30.18 to zero out 10001 and 10005. Prior to that, the last activity occurred in 6.30.14 .
07	Unrelated Business Income	This fund contains activity that is considered unrelated business activity.
09	Virtual Learning Initiative	This fund contains activity related to the learn on demand initiative.
11	Private Gifts - Restricted	This fund contains gift transactions.
12	Grants/Contracts - Restricted	This fund contains grant transactions.
14	Systemwide Operations - Projects	There was 1 entry made in 6.30.18 which was posted and then unposted. Prior to that, the last activity occurred in 6.30.12.
15	KCTCS Mandatory Fees	This fund contains activity related to KCTCS' mandatory fees.
20	Agency Fund	There were KCTCSBATCH (AP, ACR) transactions in December 2022 for this fund. Prior to that, the last activity occurred in 6.30.10.
25	Self Supporting	The last transaction in this fund was March 2010.
31	True Endowment Funds	Endowment activity.
32	Quasi Endowment Fund	Quasi endowment activity.
33	Term Endowment Fund	Term endowment activity.
40	Loan Funds	This fund contains activity for loans which are made by the fire commission to volunteer fire departments.
45	College Loans	This fund contains activity for loans which are made by the system office to colleges.
50	Funds held in trust	This fund contains activity related to the fire commission escrow account. I believe this is for children of firefighters that died in the line of duty.
61	Unexpended - Plant Fund	This fund contains activity for capital projects.
62	Renewal & Replacement - Plant	The last activity in this fund was in 6.30.15. I'm not familiar with the activity. I'm wondering if Sandy would be able to help you with this one.
63	Retirement/Indebtedness	The last activity in this fund was in 6.30.05. I'm not familiar with the activity. I'm wondering if David would be able to help you with this one.
64	Investment in Plant	This fund contains capital activity.
99	Adjustment Fund Group	Since I have been working here, Fund 99 has been used to record pension, retirement, OPEB, and deferred inflows (related to sale-leaseback activity). When Wendell was here, this fund was also used to record cash adjustments for the colleges. There were a lot of transactions recorded in Fund 99 before I started working here. I can't tell you what that activity related to but I'm wondering if Dedre could help you with that.

ATTACHMENT B

EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND INTERNAL POLICIES AND CONTROLS OF KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

December 7, 2023

Barry K. Martin, Chairman
Board of Regents
Kentucky Community and Technical College System
300 North Main Street
Versailles, KY 40383

Dear Mr. Martin,

The Auditor of Public Accounts (APA) has completed its special examination of Kentucky Community and Technical College System (KCTCS). This report summarizes the procedures performed and communicates the results of those procedures.

The focus of the examination was to evaluate KCTCS's policies and procedures related to specific KCTCS System Office financial activities and operations. Our procedures included interviews with KCTCS employees, review of System Office practices and procedures, analysis of financial documents and contracts, and analysis of fund balances, ledgers, and trends.

The purpose of this examination was not to provide an opinion on the financial statements, but to ensure appropriate processes are in place to provide accurate representations of fund balances, procedures, and internal controls. This is in addition to review of certain procurement processes that were brought to our attention by concerned parties, as well as analysis of the usage of the TRAINS funding allotted to KCTCS.

Detailed findings and recommendations based on our examination are presented in this report to assist KCTCS in implementing corrective actions. In summary, this examination found KCTCS lacked sufficient understanding of its System Office Unrestricted Carryforward balance and the financial activity within this balance, failed to perform reconciliations leading to over \$24 million in excess funds maintained by the System Office, performed inadequate reconciliations of fund balance amounts presented to the community colleges, had weaknesses in its internal control system, and failed to either establish or follow internal policies and procedures. Additionally, the examination identified opportunities for KCTCS to improve its oversight of contract spending and communication to the Board. Finally, given the lack of documentation and historical knowledge by KCTCS personnel we have identified the need for an in-depth forensic accounting review of KCTCS's Account 10001 which contributes to the significant carryforward balance. Due to the

Mr. Barry Martin, Chairman

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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.

We appreciate your assistance and the assistance of your staff throughout the examination and hope this report will help KCTCS make improvements to continue to be an instrumental part of the public college education community of Kentucky. If you have any questions or wish to discuss this report further, please contact me, or Tiffany Welch, Executive Director.

Sincerely,

A handwritten signature in cursive script that reads "Farrah Petter".

Farrah Petter

Assistant State Auditor of Public Accounts

CHAPTER 1: Introduction and Background

Examination Impetus and Scope

On May 15, 2023, the Auditor of Public Accounts (APA) initiated a limited-scope special examination of the Kentucky Community and Technical College System (KCTCS). This examination was requested by letter from the Acting President of KCTCS, who was empowered by the KCTCS Board of Regents (Board) to do so on their behalf. The purpose of this special examination was not to provide an opinion on KCTCS's financial statements or duplicate work of routine financial statement audits, but to review certain financial activity, policies, and procedures of the KCTCS's System Office (System Office). Unless otherwise specified, examination procedures focused primarily on activity between July 1, 2020, and April 30, 2023. Examining the KCTCS Foundation or individual Community & Technical Colleges (CTCs) was not part of the scope.

This limited-scope special examination focused on three main objectives. The first objective was to determine the purpose and utilization of the KCTCS System Office unrestricted carryforward balance. The second objective was to determine whether TRAINS funding received by the KCTCS System Office has been managed and spent in accordance with statutory and program restrictions. The third objective was to determine whether KCTCS has properly procured select goods and services in compliance with state statutes and KCTCS policies.

To address the objectives of the examination, the APA conducted interviews with staff from across the System Office, including its Administrative Services, Business Services, Financial Support Services, and Workforce and Economic Development administrative units. In addition to interviews, the APA also reviewed and analyzed documents, including, but not limited to, audit reports and working papers, bank statements, policies and procedures, budgets, contracts, emails, purchase orders, invoices, and Board meeting minutes.

KCTCS History

KCTCS was created by the 1997 Kentucky Postsecondary Education Improvement Act as an umbrella organization to manage the various community colleges in Kentucky. It became Kentucky's ninth public institution when the 14 community colleges of the University of Kentucky and the 15 technical institutes in the Kentucky Workforce Development Cabinet were combined. As of the end of fiscal year (FY) 2023, KCTCS consisted of 16 CTCs with more than 70 campuses, the Kentucky Board of Emergency Medical Services (KBEMS), the Kentucky Fire Commission, and the System Office.

In addition, KCTCS has approximately six personnel on staff, paid through a Memorandum of Agreement with the Kentucky Department of Corrections, to provide education in correctional facilities. Previously KCTCS had established a business unit specifically for this purpose with staff and faculty employed by KCTCS; however, the unit was moved to the Department of Corrections by action of the Kentucky General Assembly through passage of House Bill 164, and as reflected in KRS 196.167, during the 2010 Regular Session. This legislation also permitted current employees to remain under KCTCS for the purpose of payroll and benefits.

KCTCS Leadership

KCTCS Board of Regents

KCTCS is governed by a 14-member Board of Regents whose composition is prescribed by Kentucky state law. Kentucky Revised Statute (KRS) 164.321(1)(b), states:

The board of the Kentucky Community and Technical College System shall consist of eight (8) members appointed by the Governor, two (2) members of the teaching faculty, two (2) members of the nonteaching personnel, and two (2) members of the student body. The members appointed by the Governor shall be subject to confirmation by the Senate.

The Board is responsible for providing oversight to issues related to tuition, budget approval, new programs, credential approval, as well as the selection and yearly evaluation of the system president.

Presidential History

Dr. Jim Ramsey and Dr. Jeff Hockaday both served as interim KCTCS Presidents until Dr. Michael B. McCall was officially hired as the first president of KCTCS, serving from January 1999 to January 2015. Dr. Jay K. Box next served as KCTCS President from January 2015 until September 2020. He was then followed by Dr. Paul B. Czarapata, who first served as interim KCTCS President from October 2020 until May 2021, before being selected as the third KCTCS President. Dr. Czarapata served in that capacity from May 2021 until February 2023.

KCTCS is currently led by Dr. Larry Ferguson, who has served as Acting President since Dr. Czarapata left. In late September 2023, Dr. Ryan Quarles was selected to serve as KCTCS's fourth president by the KCTCS Board of Regents with an expected start date of January 1, 2024.

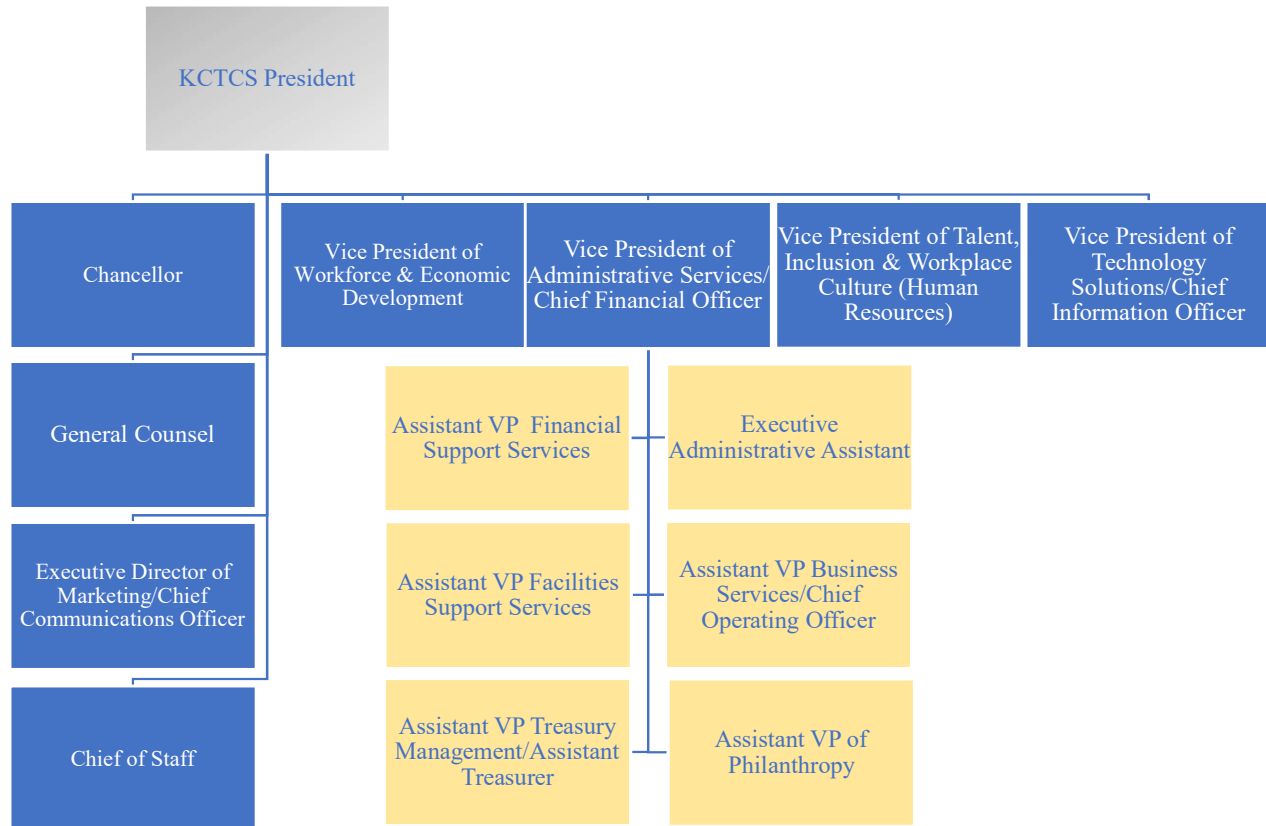
KCTCS System Office Administration & Staff

KCTCS leadership includes a system president and vice presidents who oversee specific areas of KCTCS operations. In addition, each individual CTC within KCTCS has a president, a leadership team, and a local board. The KCTCS President's Leadership Team is comprised of the college presidents and cabinet members. Cabinet members consist of the KCTCS President, General Counsel, Vice President of Technology Solutions and Chief Information Officer, Vice President of Administrative Services/Chief Financial Officer, Chief of Staff/Board and Government Relations, Vice President of Workforce and Economic Development, and Chancellor.

As of April 30, 2023, there were 345 positions at the System Office, with 28 of those positions vacant and 22 classified as temporary. Staff work for units such as the Office of the President, Office of the General Counsel, Chancellor's Office, Workforce and Economic Development, Technology Solutions, Talent, Inclusion, & Workplace Culture (Human Resources), and

Administrative Services. Figure 1 reflects KCTCS's System Office organizational structure as of this date.

Figure 1: Organization Chart for KCTCS Senior Administration and System Office, as of April 30, 2023



Source: APA, based on information provided by KCTCS.

Because the scope of this examination focused primarily on the areas of budgeting, finance, and procurement, it is important to note the turnover occurring in the Chief Financial Officer (CFO) position during the examination period. The former CFO left in March 2022, after serving in that position for approximately eight years. At that time, the Assistant Vice President (VP) of Financial Support Services filled the position until a replacement could be hired. That replacement served only six months, leaving in December 2022. Since that time, the Assistant VP of Financial Support Services again has filled the position as the interim VP of Administrative Services and CFO.

KCTCS Governance

Administrative Policies and Procedures

In addition to following state and federal legal guidance, KCTCS has also established its own set of administrative policies and procedures. The administrative policies and procedures include governance, human resources, equal opportunity, benefits, health and safety, academic and service, financial, student affairs, and independent foundations, grants, and contracts.

Board Policies, Procedures, Bylaws

As outlined in KRS 164.350, the government of KCTCS is vested in its Board and requires the Board to “adopt bylaws, rules, and regulations for the governance of its members, officers, agents, and employees.” The bylaws outline the Board’s basic internal operating rules. Specific to financial accountability and leadership, the bylaws include:

- Article I. Section 3. (H) states, “All actions of the Board of Regents shall ensure that budget processes are done in a manner consistent with the strategic agenda, the biennial budget, and the mission each college has manifestly adopted. (KRS 164.350(4)).”
- Article I. Section 3. (I) indicates that the Board must fulfill the duties of KRS 164.360 by appointing a President, as well as in exercising discretion in appointing faculty and employees and setting compensation and tenure of service.
- Article I. Section 3. (P) states, “The Board of Regents, having elected to perform in accordance with KRS 164A.555 to 164A.630, shall promulgate regulations to ensure the proper disbursement and use of state appropriations as well as all other monies collected and or received. (KRS 164A.560(1)-(2))”
- Article I. Section 3. (Q) states that the Board shall “further require the treasurer of KCTCS to account for and record all monies received and disbursed according to prescribed forms and accepted accounting. (KRS 164A.560(2)(b))”

System Office

System Office Responsibilities and Internal Accounting System

KCTCS’s System Office is responsible for management and organizational duties for every college in its purview. The System Office processes certain transactions made by each college, utilizing a series of Funds and Business Units to document them. In addition, the System Office makes payments for systemwide contracts and performs system services on behalf of CTCs. Systemwide contracts benefit the entire system and include such items as the ERP system for accounting, human resource management, and student administration, servers, IT software, marketing/media, and safety/maintenance contracts. System services include legal, financial, IT, academic support, student services, payroll, and facilities.

Originally, all funding received through the Budget of the Commonwealth went directly to the System Office, but after the addition of performance funding to the state’s postsecondary education budget starting in 2018, as established by the Kentucky General Assembly through KRS 164.092,

such funding was sent directly to the individual CTCs. Subsequently, the System Office began initiating quarterly transfers from the CTCs to the System Office known as recovery transfers, which transferred the budgeted or anticipated amount that would be paid by the System Office on behalf of each CTC for systemwide contracts and system services from the CTC to the System Office. As expenses that benefit the entire system are paid or incurred, the System Office issues systemwide “recharges” or “chargebacks” to amounts previously collected from the CTCs to cover expenses incurred by the System Office on their behalf and to determine if additional funds should be transferred.

During the period covered by this examination, residual amounts from the recovery transfers were not returned to the CTCs at year end. Starting in FY 2024 the totals collected for systemwide contracts and system services are based on actual expenditures from the last audited year (2021-22), rather than the budgeted amounts for the current year.

Financial Information

External and Internal Budgets

KRS 164.092 outlines the comprehensive funding model for Kentucky’s public postsecondary education system, including KCTCS. Each year, KCTCS receives the state appropriation from the Commonwealth’s General Fund, Restricted Funds, and various federal funding sources, with most of the state funding derived from Restricted Funds. For FY 2022, the total revised budget for KCTCS as stated in the 2022-2024 Budget of the Commonwealth was \$1,071,642,600.

In addition to the budget enacted by the General Assembly, KCTCS leadership and staff internally develop and submit an annual budget for each fiscal year to their Board for approval prior to the start of the relevant fiscal year. During the examination period, the KCTCS annual budget contained the operating and the capital budgets for each CTC, the System Office, Fire Commission, Board of Emergency Medical Services, and systemwide operations.

KCTCS receives two basic types of revenue: 1) unrestricted, primarily comprised of state appropriations, tuition, and other charges for services; and 2) restricted, including federal funds for student financial aid and other sponsored projects. Unrestricted revenue is received without specific restrictions on its use and is used to support the education and general activities of KCTCS. These funds may be used at the discretion of the Board and management. Unrestricted revenues can be undesignated or designated for specific activities outside the current operating activities (this is for internal purposes only). Restricted revenue is revenue that is donated or granted to KCTCS for a specific purpose, and it can be temporarily or permanently restricted. Restricted funds are funds to be used for operating purposes, but with external restrictions attached to them. For FY 2022, the Board-approved budget anticipated total revenues and expenditures of \$1,066,642,600, of which \$616,231,400 was unrestricted and \$450,411,200 was restricted.

The KCTCS capital budget notes property leases and major capital projects (both authorized and planned) along with their associated funding sources. KCTCS is prohibited, with very few

exceptions, from undertaking any capital construction project in an amount that exceeds \$1,000,000 or acquiring any capital equipment item in an amount that exceeds \$200,000 without prior approval of the Kentucky General Assembly.

KCTCS's FY 2022 audited financial statement shows its net position increased by \$126,995,000 from the prior year.

External and Internal Audits

KCTCS is a component unit of the Commonwealth of Kentucky, and its financial reports are included in the Commonwealth's Annual Comprehensive Financial Report (ACFR). KCTCS's FY 2020 and FY 2021 annual financial statement audits were conducted by the same external firm. For its FY 2022 financial statement audit, KCTCS selected a new firm, who is currently also engaged to perform KCTCS's FY 2023 audit. No findings were reported in any of the three years.

In addition to annual financial statement audits, KCTCS has contracted with a third firm to provide year-round internal audit services. These audits cover topics such as Presidential expenditures, aspects of information technology, human resources, and pro-card usage.

CHAPTER 2: Findings and Recommendations

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

The KCTCS unrestricted carryforward balance, adjusted for pension liability (see Figure 2 below) as of June 30, 2022, was approximately \$157 million with almost \$83 million of that total attributed to the System Office. Lack of transparent communication with the KCTCS Board has allowed the System Office carryforward to build up over time and without the Board’s awareness of the System Office carryforward issue. Our work in this area was hindered by a failure of KCTCS to maintain adequate supporting documentation and rationalization for transactions that were processed over the past 20 years in an adjustment account, described later in this finding. As a result, we have presented an analysis of the information we were able to obtain, but this analysis is not a complete picture of the financial decisions and transactions that were made that led to the buildup of the carryforward balance.

On March 23, 2023, the acting President of KCTCS advised the Board of a “discovery” made by administrative services staff while performing research to address a question from the KCTCS Board Chair as to what funds were available at the System Office. The discovery was that the KCTCS System Office believed it had an unrestricted carryforward fund balance of over \$75 million at the time of the March 23 meeting. The acting President indicated this amount had not previously been transparently reported to the Board. Historically, financial reporting to the KCTCS Board focused on the finances of individual CTCs and KCTCS as an entire system, not the System Office individually. Therefore, while quarterly financial reporting to the Board would have incorporated this fund balance in financial statement totals, it would not have been readily identified in those quarterly reports as the carryforward for the System Office.

While the APA was reviewing KCTCS’s calculation to determine the System Office’s unrestricted carryforward balance, confusion and disagreement existed among KCTCS financial personnel as to whether the amounts used in the calculation represent cash or non-cash liabilities. KCTCS has no written policies and procedures pertaining to the development of the carryforward balances and no historical document to memorialize its creation or explain all aspects of this balance beyond the data retained in KCTCS’s accounting system. For this reason, KCTCS is uncertain of the System Office’s actual unrestricted fund balance.

The definition of unrestricted carryforward fund balances is unexpended funds that accumulate over time and then are available for use in subsequent years. Since these funds are nonrecurring, it is KCTCS policy that these funds are only used for nonrecurring expenses, such as asset preservation, initial start-up costs, maintenance, and construction costs. These funds may or may not be incorporated into an entity’s annual budget for spending. It is also important to note that unrestricted carryforward fund balances are not the same as a budget reserve.

Unrestricted carryforward is not the same as a budget reserve.

Budget Reserve

A budget reserve is funding set aside in a current year budget to meet unforeseen expenses that arise during the budget year, not a balance carried over into the next fiscal year. Prior to FY 2023,

KCTCS policy required the board to set a budget reserve annually. The board did this as part of the annual budget approval process. In FY 2023 this policy was updated to require the Board to annually set a budget reserve rate at “3%-5% of net public funds budgets.”

For FY 2023, KCTCS established a total systemwide budget reserve of approximately \$14 million, which is allocated between CTCs, related entities, and the System Office. Within KCTCS, each CTC and related entity, along with the System Office, has an unrestricted carryforward fund balance. For the system as a whole, these funds make up part of the system’s total net position as presented in its audited financial statements and in quarterly reporting to the Board.

System Office Carryforward

To determine the System Office carryforward in response to the Board Chair’s inquiry, the interim VP of Administrative Services/CFO, developed a spreadsheet using data from the KCTCS accounting system to show the operating carryforward from unrestricted funds for each business unit, along with the adjusted balance after factoring in net Pension and OPEB Liabilities. The spreadsheet created to determine the FY 2022 carryforward brought into FY 2023 is represented by Figure 2.

Explanation of Figure 2: The business unit column reflects a list of the community technical colleges, related entities, and the System Office that comprises KCTCS. The funds 01, 05, 07 and 09 are the unrestricted funds that KCTCS uses to record financial activities. The “operating total” column is the net of the funds shown in the figure. This is the amount of nonrecurring funds the CTCs and related entities are told is available for their operating use in the annual letter from the System Office. Adjustment Fund Group (Fund 99) is used to record liabilities for pension and other post-employment benefits and to record cash adjustments for the colleges. Per KCTCS, the last column shown in the figure represents the amount the CTCs, related entities and the System Office have after applying the pension and OPEB liabilities.

Figure 2: KCTCS Unrestricted Carryforward Calculations for Fiscal Year Ended June 30, 2022

Business Units	General Fund (Fund 01)	Non-Recurring Expenses (Fund 05)	Unrelated Business Income (Fund 07)	Virtual Learning Initiative (Fund 09)	Operating Total	Adjustment Fund Group (Fund 99)	Operating Total with Fund 99 Adjustment
Ashland	\$ 21,843,500	\$ (8,217,100)	\$ -	\$ -	\$ 13,626,400	\$ (7,563,000)	\$ 6,063,400
Big Sandy	6,734,200	(550,400)	-	44,700	6,228,500	(8,279,200)	(2,050,700)
Bluegrass	70,765,200	(38,176,500)	-	46,900	32,635,600	(17,603,100)	15,032,500
Elizabethtown	26,825,400	(10,202,700)	16,600	3,137,100	19,776,400	(7,262,800)	12,513,600
Gateway	12,689,900	(1,125,700)	35,000	-	11,599,200	(20,272,100)	(8,672,900)
Hazard	16,182,200	(7,031,300)	182,200	3,010,000	12,343,100	(4,874,100)	7,469,000
Henderson	1,124,100	3,294,600	72,700	-	4,491,400	1,555,100	6,046,500
Hopkinsville	9,161,300	1,392,400	11,700	414,900	10,980,300	(1,065,100)	9,915,200
Jefferson	23,836,000	(4,220,100)	304,000	4,570,500	24,490,400	(20,510,200)	3,980,200
Madisonville	15,846,600	(4,286,800)	(2,043,100)	-	9,516,700	(11,570,000)	(2,053,300)
Maysville	19,167,500	(8,311,200)	-	-	10,856,300	(14,828,100)	(3,971,800)
Owensboro	15,485,000	(4,259,300)	(269,600)	-	10,956,100	(8,587,000)	2,369,100
Somerset	18,267,000	(3,912,500)	-	1,584,300	15,938,800	(15,870,100)	68,700
Southcentral	17,463,400	(5,753,400)	(700)	-	11,709,300	(17,056,900)	(5,347,600)
Southeast	(252,200)	7,120,000	(421,900)	452,800	6,898,700	(7,113,900)	(215,200)
West Kentucky	7,117,200	5,559,900	(221,400)	2,013,100	14,468,800	(12,896,000)	1,572,800
Fire Commision	80,274,300	(40,189,100)	-	-	40,085,200	(5,345,900)	34,739,300
KBEMS	2,649,000	(1,081,400)	-	-	1,567,600	(1,515,600)	52,000
Corrections	228,000	(31,500)	-	-	196,500	(3,926,300)	(3,729,800)
System Office	334,608,100	(54,337,000)	-	3,860,300	284,131,400	(201,174,900)	82,956,500
Totals:	\$ 700,015,700	\$ (174,319,100)	\$ (2,334,500)	\$ 19,134,600	\$ 542,496,700	\$ (385,759,200)	\$ 156,737,500

Source: APA based on KCTCS's Fund Balance Spreadsheet.

As reflected in Figure 2 in the highlighted area, the System Office carryforward at the end of FY 2022 was estimated by the interim VP of Administrative Services/CFO as nearly \$83 million. This amount is the net of Funds 01, 05, 07, 09 and Fund 99. In an attempt to understand what comprises the System Office carryforward, auditors requested and reviewed a report of all transactions impacting the largest portion of this carryforward balance, which is the nearly \$335 million contained within the KCTCS General Fund (Fund 01).

Included in the General Fund's activity was a \$421 million journal entry posted in November 2003 increasing the carryforward balance. KCTCS financial personnel could not find additional supporting documentation in their system beyond record of the journal entry which described the entry as "to record SACS on top entries for June 02." Because KCTCS financial personnel were either not at KCTCS at the time of this entry or were not in their current roles, they were unable to produce an explanation for the journal entry. As the \$421 million was the most significant individual entry in the General Fund carryforward activity and given the lack of documentation and historical knowledge, further special examination procedures in this area were not performed.

KCTCS was unable to provide an explanation for a \$421 million journal entry posed to its General Fund carryforward

Fund 99

On a systemwide basis KCTCS established a fund called the Fund 99 Adjustment Fund Group to record liabilities to adjust for pension and other post-employment benefits for each CTC, related entity and System Office. Additionally, Fund 99 contains cash adjustments that are made between the individual CTCs, related entities, and the System Office. Cash adjustments are made to record the amount attributed to each CTC. This fund is netted with operating funds, including the general

fund, on the financial statement and is shown in the unrestricted line in the net position section of the financial statement. The interim VP of Administrative Services/CFO was not familiar with many of the transactions in the balance as the transactions in Fund 99 predated his time at KCTCS.

Looking specifically at the unrestricted carryforward balance for the System Office, further inquiry into Fund 99 found that the majority of the financial activity was recorded using an account called “inter-unit offset.” This account is also a cash account. See Figure 3 for detail of Fund 99 account for the System Office.

Figure 3: System Office Fund 99 Breakdown for Fiscal Year Ended June 30, 2022

Type	Unit	Account	Fund	Description	Sum Total Amt
ACCT BAL	21000	10001	99	Inter-Unit Offset	\$ (184,576,599)
ACCT BAL	21000	10005	99	Cash-Restricted Trust-NatlCity	(2,258,731)
ACCT BAL	21000	10405	99	Cash - Vendor - NatlCity	(189,515)
ACCT BAL	22000	10001	99	Inter-Unit Offset	0
ACCT BAL	22000	12800	99	Deferred outflows - KERS	376,441
ACCT BAL	22000	12810	99	Deferred Outflows OPEB KERS	346,339
ACCT BAL	22000	12850	99	Deferred outflows - KTRS	(167,122)
ACCT BAL	22000	12860	99	Deferred Outflows OPEB KTRS	48,197
ACCT BAL	22000	12870	99	Deferred Outflows OPEB Trust	132,913
ACCT BAL	22000	12875	99	Net OPEB Asset	5,739,866
ACCT BAL	22000	20255	99	Net pension liability- KERS	(12,450,559)
ACCT BAL	22000	20256	99	Net OPEB Liability KERS	(1,836,788)
ACCT BAL	22000	20260	99	Net pension liability- KTRS	2,806,725
ACCT BAL	22000	20261	99	Net OPEB Liability KTRS	86,305
ACCT BAL	22000	22200	99	Employee Benefits - Retirement	(53,619)
ACCT BAL	22000	25800	99	Deferred inflows - KERS	(3,029,339)
ACCT BAL	22000	25810	99	Deferred Inflows OPEB KERS	(993,958)
ACCT BAL	22000	25850	99	Deferred inflows - KTRS	(1,323,074)
ACCT BAL	22000	25860	99	Deferred Inflows OPEB KTRS	(262,178)
ACCT BAL	22000	25870	99	Deferred Inflows OPEB Trust	(3,244,412)
ACCT BAL	50100	12800	99	Deferred outflows - KERS	(13,106)
ACCT BAL	50100	12810	99	Deferred Outflows OPEB KERS	20,797
ACCT BAL	50100	12850	99	Deferred outflows - KTRS	(15,171)
ACCT BAL	50100	12860	99	Deferred Outflows OPEB KTRS	1,124
ACCT BAL	50100	20255	99	Net pension liability- KERS	(243,491)
ACCT BAL	50100	20256	99	Net OPEB Liability KERS	(104,673)
ACCT BAL	50100	20260	99	Net pension liability- KTRS	204,830
ACCT BAL	50100	20261	99	Net OPEB Liability KTRS	8,120
ACCT BAL	50100	25800	99	Deferred inflows - KERS	(91,289)
ACCT BAL	50100	25810	99	Deferred Inflows OPEB KERS	(41,016)
ACCT BAL	50100	25850	99	Deferred inflows - KTRS	(43,407)
ACCT BAL	50100	25860	99	Deferred Inflows OPEB KTRS	(8,558)
		Grand Total			\$ (201,174,947)

Source: APA based on KCTCS PeopleSoft Report.

Account 10001 in Fund 99

The \$201 million shown above for the System Office in Fund 99 was primarily derived from automated entries made within KCTCS’s accounting system. The largest amount of the \$201 million in Fund 99 is recorded under Account 10001 and totals \$185 million. Account 10001 is

an inter-unit offset that hits all funds and represents accounting entries made between different operational areas of KCTCS, which in total across the KCTCS system, nets to zero.

In the fall of 2022, the KCTCS Accounting Director began asking questions internally about the use of the 10001 account because there were significant large balances developing when looking at individual colleges, related entities, and the System Office. Per analysis by the KCTCS Accounting Director, the Account 10001 balance by business unit has been increasing for the last 20 years and in her opinion, contains a mixture of cash, inter-unit offset, and possibly transfers which should be hitting KCTCS's income statement. This may be happening because KCTCS personnel are not properly recording transfers and are allowing the transfers to accumulate in the Account 10001 balance without a reconciliation process.

Additionally, while amounts reported in Fund 99 for other business units appear to fluctuate each year, the Fund 99 balance of \$185 million in 10001 for the System Office has remained unchanged since 2017, indicating no transfer activity hitting this balance for over six years. The Accounting Director recommended KCTCS examine Account 10001 further and determine whether a reconciliation process to clear out the account on an annual basis would be appropriate to eliminate the growing balances in this account. Clearing out the account would involve investigating prior financial activities to ensure they were accurately recorded. Based on information we have obtained; this recommendation is valid to determine if cash is being held and not accurately reported to the Board.

The interim VP of Administrative Services/CFO advised that while KCTCS has not performed additional testing on account 10001, they have created a new account in a test database in an effort "to maybe sunset" or end the use of Account 10001. The interim VP of Administrative Services/CFO noted that the use of the new test account showed it worked the same way as Account 10001. Though the test account may be working as intended, it does not fully address the concern regarding the significant account balances permitted to grow over the last 20 years and uncertainty whether the automated transactions have been used appropriately in the past by staff. These concerns support that KCTCS needs to conduct an in-depth analysis of Account 10001 to ensure its reporting of cash to the Board is accurate. Undertaking such a complex analysis over a 20-year period will be a time-consuming and costly task. Given the lack of documentation and historical knowledge by KCTCS personnel further special examination procedures in this area were not performed.

In addition to not understanding what makes up its carryforward, KCTCS has not sufficiently considered its needs and established an expected range of carryforward necessary for it to maintain the System Office. While it is understandable for the System Office to maintain some level of carryforward to ensure continuity of operations, KCTCS must ensure the carryforward maintained by the System Office is appropriate and aligns with its strategic goals of the system as a whole.

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

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.

Based on a billing practice dating back to FY 2018, the KCTCS System Office has collected nearly \$24 million in additional funds from overcharges to CTCs. The \$24 million in excess funds is a result of KCTCS charging CTCs for expenses based on budgeted or anticipated costs (termed cost recovery transfers) on a quarterly basis and not reconciling to actual expenses to settle the balances at year end. Though these amounts resulted from unspent funds transferred from CTCs, the unexpended funds have been retained at the System Office and appear to have contributed, in part, to KCTCS’s significant unrestricted carryforward balance. KCTCS does not have a policy associated with recapturing System Office service and contract costs.

This cost recovery process began in FY 2018 with the System Office funding model changing as a result of performance funding established by the Kentucky General Assembly through KRS 164.092. Performance funding allocates funds directly to the colleges in an effort to align state funding with college completion and other student success metrics. Prior to performance funding, the state allocation was sent to KCTCS’s System Office to manage, consistent with the systemwide budget established by the KCTCS Board. With funds now directed toward the schools, KCTCS’s System Office charges individual colleges for their portion of legal, contract, and other centralized services provided by the System Office.

Figure 4 identifies by fiscal year the amount of System Office charges to CTCs, the actual costs incurred by the System Office, and the resulting excess funds retained by the System Office.

Figure 4: Excess Funds Retained by System Office Through Overcharges to Colleges Between Fiscal Years 2018 and 2023.

Fiscal Year	System Office Charges to Colleges	Actual Costs	Excess Funds Retained by System Office
2018	\$ 59,712,000	\$ 58,571,386	\$ 1,140,614
2019	57,697,200	52,250,328	\$ 5,446,872
2020	58,284,900	54,868,771	\$ 3,416,129
2021	58,284,900	52,353,509	\$ 5,931,391
2022	60,448,200	54,320,596	\$ 6,127,604
2023	63,650,700	61,927,838	\$ 1,722,862
Totals:	\$ 358,077,900	\$334,292,428	\$ 23,785,472

Source: APA based on KCTCS PeopleSoft Report.

The unexpended funds collected by the System Office from CTCs would have been returned to the CTCs if year-end reconciliations were performed. However, KCTCS has not performed annual year end reconciliations between the System Office charges and its actual costs. As such, the System Office has retained the excess \$24 million in funding as part of its carryforward at year end. KCTCS System Office financial personnel advised that beginning in FY 2024, year-end reconciliations will be performed. Furthermore, the interim VP of Administrative Services/CFO

advised the process for the cost recovery charges changed in FY 2024 to charge colleges based on actual expenditures from the last completed prior year, FY 2022.

In an effort to understand how other States' community and college systems may manage cost recovery charges, the APA reached out to Virginia State Community College System (VCCS). VCCS consists of 23 community colleges and, similar to KCTCS, has a systems office providing services to all colleges within its community college system. The VCCS Comptroller, indicated that charges to individual colleges are estimated at the beginning of the year and then reconciled at year-end.

Recommendations

We recommend:

- 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.
- 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.
- 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.

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

Each CTC and the System Office have their own unrestricted carryforward fund balance. This fund balance is the available money the college can use for nonrecurring expenses such as asset preservation, initial start-up costs, maintenance, and construction costs. This balance is calculated as the difference between revenues and expenses. The money in the fund can accumulate over time.

After the beginning of the fiscal year, the System Office sends each CTC and related entity a letter identifying their “ending unrestricted operating fund balance” (also known as their unrestricted carryforward balance). These funds are available for the CTCs use during that fiscal year for nonrecurring expenses. These letters are produced by the Director of Financial Analysis and signed by the KCTCS President. The November 1, 2022, letter sent to Ashland CTC is presented in Appendix A as a sample of the reporting made in FY 2023.

College presidents have a responsibility to make operating decisions based on the budget information provided in the letters from the System Office. Per KCTCS Budgetary Policies and Procedures Policy number 5.4.1, “each college president/chief executive officer is responsible for and may delegate the following: c. To operate within approved budget allocations.”

The CTCs consider this letter to be the actual amount available for the CTC to spend during the fiscal year. However, the letters are not accurate as can be seen in Figure 5 because reconciliations of budgeted expenses to actual expenses are not performed.

When preparing the letters for the current fiscal year, the Director of Financial Analysis rolls forward the prior year ending balance reported to each entity in the previous year’s letter and presents that as the beginning balance for that fiscal year. The Director then applies the net of prior year revenues to expenditures for each business unit to the beginning balance as reported in KCTCS’s accounting system to calculate each entity’s carryforward balance. As shown in Figure 5, the carryforward reported to CTCs and related entities through these letters still do not agree with KCTCS’s accounting system. Furthermore, because KCTCS does not reconcile the cost recovery transfers to actual expenses, the net revenue to expenditure amounts used in the carryforward calculation are not accurate, as actual expenses are overstated.

As reflected in Figure 5, a comparison of the FY 2022 carryforward amounts reported to each CTC in FY 2023 to a spreadsheet created by KCTCS from accounting system reports, identified a net difference of \$14.3 million.

Figure 5: Comparison of KCTCS Fund Balance Spreadsheet to CTC Budget Letters for Fiscal Year 2023

Colleges	Carry-Forward Per KCTCS Internal Spreadsheet	Carry-Forward Per Budget Letters to Community College	Difference
Ashland	\$ 13,626,400	\$ 13,597,578	\$ 28,822
Big Sandy	6,228,500	6,141,577	86,923
Bluegrass	32,635,600	30,461,023	2,174,577
Elizabethtown	19,776,400	19,829,433	(53,033)
Gateway	11,599,200	7,908,756	3,690,444
Hazard	12,343,100	12,191,149	151,951
Henderson	4,491,400	4,325,546	165,854
Hopkinsville	10,980,300	10,321,879	658,421
Jefferson	24,490,400	20,752,364	3,738,036
Madisonville	9,516,700	10,095,319	(578,619)
Maysville	10,856,300	10,968,765	(112,465)
Owensboro	10,956,100	10,149,551	806,549
Somerset	15,938,800	14,160,388	1,778,412
Southcentral	11,709,300	11,054,780	654,520
Southeast	6,898,700	5,794,514	1,104,186
West Kentucky	14,468,800	14,510,287	(41,487)
Totals:	\$ 216,516,000	\$ 202,262,909	\$ 14,253,091

Source: APA based on KCTCS Fund Balance Spreadsheet and FY 2023 CTC and Related Entity Letters.

As reflected in Figure 6, differences in the year-end carryforwards were also noted for FY 2021 and FY 2020 when comparing the KCTCS internal spreadsheet to the letters sent to each CTC in FY 2022 and FY 2021.

Figure 6: Differences of KCTCS Internal Spreadsheets to CTC Budget Letters for Reporting of FYs 2022, 2021, and 2020 Carryforward

Colleges	Difference in FY 2022 Carryforward	Difference in FY 2021 Carryforward	Difference in FY 2020 Carryforward
Ashland	\$ 28,822	\$ 28,867	\$ 28,957
Big Sandy	86,923	87,041	86,947
Bluegrass	2,174,577	2,174,620	2,174,565
Elizabethtown	(53,033)	(52,945)	(52,983)
Gateway	3,690,444	3,690,434	3,690,427
Hazard	151,951	151,931	152,020
Henderson	165,854	165,830	165,913
Hopkinsville	658,421	658,380	658,475
Jefferson	3,738,036	3,738,049	3,738,146
Madisonville	(578,619)	(578,637)	(578,620)
Maysville	(112,465)	(112,504)	(112,449)
Owensboro	806,549	806,534	806,570
Somerset	1,778,412	1,778,350	1,778,392
Southcentral	654,520	654,480	654,440
Southeast	1,104,186	1,122,314	1,140,500
West Kentucky	(41,487)	(41,566)	(41,436)
Totals:	\$ 14,253,091	\$ 14,271,178	\$ 14,289,864

Source: APA based on KCTCS Fund Balance Spreadsheet and FY 2022, 2021, and 2020 CTC and Related Entity Letters.

KCTCS's failure to reconcile beginning balances to its accounting system has led to speculative reporting of carryforward balances to individual CTCs and related entities. Reconciliation at year-end to true up the accounts of the individual CTCs and related entities is not performed, meaning these funds are retained as part of the System Office carryforward and not returned to the individual community colleges.

Recommendations

We recommend:

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

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

KCTCS's Administrative Procedures emphasize the procurement of goods and services based on a systemwide accumulated spend amount, meaning total spending by KCTCS across its system. These procedures also require business units to monitor procurement activity using reports and queries available within its accounting system. Review of select KCTCS procurement activity found KCTCS underutilized available resources to track accumulated spending. KCTCS also failed to maintain all required documentation for procurement of contracts. These weaknesses in KCTCS's internal control system limit its operating efficiency and transparency.

During the time period examined, KCTCS Administrative Procedure 5.4.11-P required that procurement of like items from suppliers with a systemwide total accumulated spend greater than a specified threshold was not to be considered small purchases. At the beginning of the special examination time period that threshold was \$20,000, but then increased to \$30,000 on July 1, 2021. Additionally, Section 6.1 of Administrative Procedure 5.4.3-P states, "Procurement requirements will not be parceled, split, divided, or ordered separately over a period of time in order to undermine the intent of KCTCS finance-related administrative procedures." Furthermore, Section 4.1 of Administrative Procedures 5.4.4-P states, "Business units should monitor procurement activity using reports and queries available through PeopleSoft Financials." However, with the exception of Personal Service Contracts (PSC), KCTCS does not connect or cross-reference all contract-related vendor payments to an associated vendor contract or agreement in its accounting system (PeopleSoft), even though that would allow KCTCS to track all contract spending.

KCTCS has not required colleges to tie non-PSC contract spending to vouchers since at least 2017

KRS 45A.695 requires PSCs to be presented before the Government Contract Review Committee before payment can be made on the contract. Due to the legislature's Government Contract Review Committee requirements, spending tied to personal service contracts is tracked and connected across the pool of PSCs in the entire system. KCTCS policy notwithstanding, all other spending is not tracked/tied/connected in this manner. Per the interim VP of Administrative Services/CFO, KCTCS has not required colleges to tie non-PSC contract spending to vouchers since at least 2017. Although the interim VP of Administrative Services/CFO advised that the feature has provided some challenges in the past, the accounting system has the functionality to allow payments to be connected to a particular contract when they are related. KCTCS policy 5.4.1-P establishes the System Office's Procurement to Payment Services as the sole authority for procurement of all goods and services for the system, but KCTCS has multiple methods of procurement, such as procurement cards, vouchers, requisitions, and purchase orders, making it difficult for KCTCS to determine in total how much is paid to a single vendor.

To address a specific concern shared by KCTCS, auditors reviewed 15 expenditures related to one vendor. From review of the initial documentation provided, nine of the 15 expenditures totaling \$41,124 were identified by the KCTCS Director of Procurement to Payment Services as unrelated to an established vendor contract. Of these nine expenditures, one expenditure totaling over \$22,000, also did not have an approved purchase order to document the approval for the purchase. After additional inquiry, the Director of Procurement to Payment Services reached out to the

department to which the vendor's services were provided and confirmed that the purchase was made in association with two established contracts. The Director of Procurement to Payment Services stated that when she pulled the records requested, she only saw an invoice in the system and no notes or writing about a contract, as such she reported the payments as not being associated with a contract. Had KCTCS required all procurement activity to be linked to an associated contract or requisition, the KCTCS Director of Procurement to Payment Services could more readily identify the authority under which these expenditures occurred.

Additionally, auditors reviewed KCTCS contract procurement of five vendor contracts during the exam period and found no clear evidence to document that three of the contracts reviewed were evaluated based on their respective RFPs. For example, the real estate appraisal services RFP reviewed by auditors stated, "proposals will be evaluated using a predetermined method to ascertain which proposer best meets the needs of KCTCS. The evaluation will be based on:

1. Offeror Qualifications
2. Program Plan – Services Defined
3. References and Past Experience
4. Optional Services
5. Financial Proposal"

Although KCTCS Administrative Procedures require the evaluation to be based on evaluation factors included in the RFP, the only documentation maintained to support the selection of the winning bid were forms identifying the ranking of each bidder (ie. 1, 2, 3, etc.), along with the vendor's name and a comment section that each evaluator may complete. The forms do not clearly identify grading by each evaluator based on each stated RFP requirement. Instead, the forms used by KCTCS are reliant upon the individual evaluator to document the basis for their ranking of each bid. Furthermore, two contracts reviewed did not have documentation of non-disclosure forms signed by all committee members.

The *State University Model Records Retention Schedule*, approved by the Kentucky State Libraries, Archives, and Records Commission, "governs retention and disposal of records created, used and maintained by Kentucky's public colleges and universities." Within this retention schedule, *Series U0247 Invitation for Bid/Request for Proposal File* identifies the college is to retain records regarding RFPs, including but not limited to: original RFP and any addendums, Questions and Answers, copy of vendor's technical and financial response, copy of vendor list, Award Letter of Recommendation from Chairperson, and signed confidentiality statements for a period of "three (3) years or until after audit, whichever is longer." Additionally, Section 3.5 of KCTCS Administrative Procedure 5.4.10-P regarding Purchase Recordkeeping, KCTCS's records retention briefly mentions requests for bids, which states:

KCTCS System Office of Procurement to Payment Services will maintain records necessary to support each purchasing transaction based on a business unit requisition. The files will contain the following where applicable:

- A. Copy of each Request for Bid or Request for Quotation when applicable.
- B. Each bid or quotation received.
- C. Bid tabulation.
- D. Copy of each contract document, including attachments, which shall be made part of the contract.

- E. Documentation concerning the determination of award of contract for Requests for Bids unless award was made to the low bidder.

Recommendations

We recommend:

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

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

During the examination period, KCTCS spent \$10,557,596 in state appropriations to fund 502 TRAINS projects (which are now closed); however, they failed to collect company feedback for any of the projects. TRAINS projects provide customized employee training for eligible companies to help build a more educated, skilled, and talented workforce in Kentucky and are conducted by KCTCS colleges and funded by a portion of their state appropriations. TRAINS guidelines established by KCTCS require that colleges provide company feedback within 60 days of project closeout to gauge training outcomes and effectiveness. According to KCTCS, the previous practice of sending a survey to the companies was discontinued a few years ago due to a lack of response. By not following its own policies and evaluating project outcomes, KCTCS limited its ability to fully determine if state funds were used effectively to achieve the desired outcome.

The lack of company feedback violates KCTCS's TRAINS guidelines that contain the following requirement regarding accountability:

Within 60 days of project close out, colleges will be asked to provide company feedback via KCTCS's Salesforce platform. This information should be collected in a follow up call with the company representative and will allow KCTCS to gauge training outcomes and effectiveness.

The KCTCS TRAINS program originated through HB1 of the 1997 General Assembly, as funding from the postsecondary workforce development trust fund. KCTCS named the training program provided through the use of these funds as KY WINS (Kentucky Workforce Investment Network System) until June 2014, when it rebranded as KCTCS-TRAINS. These funds are allocated to KCTCS through the Budget of the Commonwealth. To receive TRAINS funding, KCTCS colleges work with eligible companies to develop and propose customized training projects. Once the college's project is approved by KCTCS's Workforce Solutions, training is provided by the colleges. The colleges will then submit reimbursement requests to KCTCS's Workforce Solutions to access these funds. Any unused project balances will go back to the TRAINS fund at the end of the project. See Appendix B for the complete TRAINS guidelines used by KCTCS to administer these projects.

On June 29, 2023, KCTCS provided a list of TRAINS projects started on and after July 1, 2020. This listing was used to select ten closed TRAINS projects for review based on the guidelines established by KCTCS. In addition, this listing was used to determine the statistics presented in Figure 7 related to TRAINS projects closed during the past three fiscal years:

Figure 7: Summary of TRAINS Data for Projects Closed during FY 2021 and FY 2023

Categories	FY 2021	FY 2022	FY 2023
Number of Closed Projects	57	161	284
Actual TRAINS Funding Used	\$ 1,188,819	\$ 3,205,567	\$ 6,163,210
Budgeted TRAINS Funding	\$ 1,623,583	\$ 4,310,487	\$ 9,133,908
Actual Number Trained	3,118	7,669	13,318
Projected Number Trained	5,898	14,899	26,777

Source: APA, based on documentation provided by KCTCS.

The review found no evidence that company feedback was being collected for TRAINS projects that have closed. Since KCTCS discontinued its efforts to survey companies following the completion of a project, no information was collected from the companies that would allow KCTCS to determine whether these state-funded projects were effective and achieving the desired outcomes.

In addition, KCTCS's Workforce Solutions staff failed to notice \$10,778 in duplicate charges to one TRAINS project until documentation was requested by our auditors. The project, which ran from November 29, 2021 until December 13, 2022, received \$121,436 in state funding from KCTCS that included expenditures for consumable supplies such as gas tanks and aluminum sheets. After discovery of the duplication, KCTCS staff stated that a procedural change would be made effective immediately that "any approved consumables on a TRAINS project will need to have backup documentation accompany their reimbursement when submitted for verification of expenditures." While KCTCS reported that only seven TRAINS projects in FY 2023 involved approved consumables, this error is evidence that improved internal controls in reviewing supporting documentation is needed.

Recommendations

We recommend:

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

CHAPTER 3: Observations

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

During this special examination, current KCTCS personnel reported concerns that a FY 2015 transfer of nearly \$11.6 million of workforce training funds to KCTCS's general fund was inappropriate because they believe this money was statutorily restricted for this purpose. Some expressed hope that this money will be returned to the workforce training program. According to the State Budget Director, the workforce training funds were part of the State General Funds allocation to KCTCS and not considered restricted. One reason for this misunderstanding by KCTCS personnel could be that workforce training funds were incorporated into the restricted funds within KCTCS's budget until FY 2017. Starting in FY 2017, KCTCS revised its budget report to include workforce training funds within the unrestricted category. Due to a lack of institutional knowledge from this time period, it is not known why these funds were budgeted as restricted prior to 2017.

Additionally, the KCTCS Chief of Staff was concerned because the budget provides a high-level overview, but no specific information about the workforce training funds. While the workforce training funds are incorporated into the budget amounts, the budget document provided to the Board does not provide any financial details specific to the workforce training funds or its fund balance. As such, this transfer would not have come to the Board's attention.

According to KCTCS Administrative Policy 5.4.1, the responsibility for the management of KCTCS funds rests with the KCTCS President, not the Board. While the Board's awareness of this fund does not appear to have been required, better communication and transparency could alleviate these concerns and prevent such misunderstandings from occurring.

Recommendation

We recommend:

- 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.

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

While conducting interviews, auditors became aware of multiple instances in which one spouse approved financial transactions initiated by the other spouse. Although the journal entries were routine and the couple does not work in the same department or division, this can give the appearance of a conflict of interest. Proper internal controls include efforts to ensure employees with personal relationships do not oversee or approve the work of the other person. KCTCS administrative policy for nepotism requires persons related by blood or marriage to disclose the blood or marriage relationship with other employees at the same college on the KCTCS nepotism disclosure form. Further inquiry determined that the nepotism disclosure forms required by Administrative Policy 3.3.2 were not on file for either employee prior to the APA's inquiry. In addition, KCTCS acknowledged the employment of four other couples at the System Office who also did not have forms on file, all of whom they intended to have sign nepotism disclosure forms as well.

Recommendations

We recommend:

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

Appendices

Appendix A: Fiscal Year 2023 Operating Fund Balance Reconciliation Letter to Ashland Community and Technical College



November 1, 2022

Dr. Larry Ferguson
President / Chief Executive Officer
Ashland Community and Technical College
1400 College Drive
Ashland, KY 41101

Dear Dr. Ferguson:

This letter is an analysis of the unrestricted operating fund balance for FY2022 of Ashland Community and Technical College. The reconciliation shows an operating budget fund balance of \$13,597,578 as of June 30, 2022. This balance includes the funds held in reserve as required by the KCTCS Board of Regents and results in an unrestricted operating budget fund balance of \$13,129,178.

As you know these are nonrecurring funds, and in general, should only be used for nonrecurring expenses. If you plan to expend any of these funds in FY2023, please work with Interim Vice President Malloy and System Budget staff, as necessary.

If you have any questions or need clarification about this analysis, please contact Interim Vice President Malloy.

Operating Fund Balance Reconciliation

FY2022 beginning unrestricted operating fund balance (Funds 01 – 09)	\$ 12,275,833
FY2022 net difference (revenue less expenses)	<u>1,321,745</u>
FY2022 ending unrestricted operating fund balance (Funds 01 – 09)	13,597,578
FY2022 funds held in reserve as required by the KCTCS Board of Regents	<u>(468,400)</u>
Fund balance available for FY2023 expense	<u>\$ 13,129,178</u>

Sincerely,

A handwritten signature in blue ink, appearing to read "P. Czarapata".

Paul B. Czarapata, Ed.D.
President

Enclosure
C: Beverly D. Malloy



Dr. Paul Czarapata
President

300 North Main Street • Versailles, KY 40383
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kctcs.edu

Appendix A (continued)

Fund Balance Report	68010
	Ashland Community and Technical College
FY 2022 Unrestricted Revenue	17,007,237
FY 2022 Unrestricted Recurring Expenses (Funds 01, 07, 09)	-14,922,151
Current Funds Balance	2,085,087
FY 2022 Unrestricted Nonrecurring Expenses (Fund 05)	-763,342
Total Change in Balance	1,321,745
Prior Year Fund Balance	12,275,833
FY 2022 Operating Fund Balance	13,597,578
Less BOR Required Reserve	-468,400
Available for FY 2023 Expenditure	13,129,178

Appendix B: KCTCS-TRAINS Guidelines

Kentucky Community and Technical College System KCTCS-TRAINS Guidelines

To attract and relocate new business and industry to the Commonwealth of Kentucky, and retain existing business and industry, the Governor of Kentucky issued an order for the education, workforce, and economic development entities across the state to streamline and combine efforts to meet the growing need for better and high paying jobs in the state.

As part of Kentucky's workforce development efforts, KCTCS-TRAINS was created to **build a more educated, skilled, and talented workforce in Kentucky**. TRAINS funding models include the following:

- I. Support customized training for eligible companies to offset the cost of their incumbent, new hire, or pre-employment training programs up to 75%.
- II. Provide seed funding to develop New Industry Driven Programs, allowing KCTCS to rapidly respond to local labor market demands.
- III. In collaboration with state and local economic development partners, KCTCS-TRAINS funds will be awarded as part of incentive packages to newly located or expanding companies in the Commonwealth.

KCTCS-TRAINS will benefit the Commonwealth by:

- Providing Kentucky workers with world-class transferable skills
- Recruiting and retaining companies requiring high skills
- Supporting the creation of high-wage, high-demand jobs
- Increasing the productivity of its workforce
- Reducing turnover
- Improving the employability of Kentucky's citizens
- Strengthening and improving state and local economies
- Preparing Kentucky for the future of work

Eligible Companies

KCTCS-TRAINS projects will focus on providing services to business and industry that **have an economic impact on Kentucky**. KCTCS-TRAINS will support projects for:

- Existing Kentucky companies requiring employees to learn new skills for job retention
- Companies that are contributing to Kentucky's economic development

Ineligible Companies

The following businesses are not eligible for KCTCS- TRAINS:

- Government agencies
- Educational institutions
- Non-profit organizations

Appendix B (continued)

Special waivers may be issued for organizations such as non-profit hospitals that are major employers in the area and have a **significant economic impact on the community**. Waivers will be granted to organizations that can **document that a KCTCS-TRAINS project has an economic impact on the community**. The request for a waiver must be submitted to System Office Workforce Solution for approval prior to submitting the KCTCS-TRAINS application.

Individuals who live in contiguous states and **work for a Kentucky company** are eligible to participate in KCTCS-TRAINS projects. **A Kentucky employee is defined as a full-time employee working in the Commonwealth of Kentucky and paying Kentucky income tax.**

- Employees at companies without a physical location in Kentucky who do not work in KY, part-time employees, and high school students are not eligible for inclusion in TRAINS projects.

Pre-Employment Training

KCTCS-TRAINS funds may be used for pre-employment training programs and assessments. Pre-employment projects must have a commitment from the business applicant to hire 50% of the individuals enrolled in the training. If an individual from the program enrolls as a full-time student to pursue a credential at any KCTCS college, they can be counted toward the 50% placement requirement. So long as the company offers individual employment, the 50% requirement will be satisfied. KCTCS cannot require that the individual take the job offer once awarded and therefore companies will not be penalized if the trainee decides to pursue a different employment opportunity. **When closing out your project, please include your report of employment outcomes including the number of trainees hired by the company.**

If a company does not offer/hire the minimum of 50% of those trained on the project, the TRAINS funding will be prorated to reflect the percentage hired and the company would be responsible for the difference in amount upon project closeout.

Eligible/Non-Eligible Services and Expenses

Services provided through KCTCS-TRAINS include:

- Instruction
- Purchased training materials
- In-house-produced training materials
- Assessments
- Job Profiling
- Travel (Based on KCTCS travel policy)
- Equipment

The project narrative should be detailed, describing what, why, and expected outcomes of the training project. When delivering a project with stand-alone safety training or Microsoft Office (ex.: Word, Excel, PowerPoint, Access) the project narrative should include a strong justification as to how the training will increase the skillset of workers trained and impact the company's effectiveness, efficiency, and productivity. Specific goals should be detailed in the narrative.

Appendix B (continued)

KCTCS-TRAINS will not reimburse:

- Training required to maintain licensure or certification
- State/federally mandated regulatory (ex: Harassment or HR onboarding)
- In-house training provided by company representatives
- On-the-job training (OJT)
- Equipment for a company
- Equipment that students will retain (ex: work boots, uniforms, tools, etc.)
- Employee wages
- Train-the-Trainer as defined by Bluegrass State Skills Corporation
- General education courses not directly related to the industry
- Tuition-based classes

Awarding Credit

TRAINS courses should award credit when there is a direct benefit to the student and the company. Fractional credit hours should only be considered if the training is relevant to an academic pathway that students are considering pursuing in the future. Colleges should consider how awarding credit will impact the student's future funding opportunities.

Application/Approval Process

All requests for project funding will be submitted using the appropriate KCTCS-TRAINS application. These applications will be completed by trained and certified college staff of KCTCS-TRAINS and submitted to the System Office Workforce and Economic Development department for approval.

Applications will be reviewed weekly by the System Office Workforce Solutions upon submission and the college will be notified as soon as the project has been approved. If there are extenuating circumstances such as staff vacation, the project approval timeline may take up to two weeks. Please allow for those two weeks as a buffer. **Colleges are not authorized to begin delivering services funded through KCTCS-TRAINS until the application has been signed by the Vice President of Workforce and Economic Development and the company representative.** Final project approval is contingent on the college sending the signature page to the System Office Workforce Solutions. Upon project approval, the System Office Workforce Solutions will forward signed applications to the college. The KCTCS-TRAINS project contact will obtain the company's signature and provide the company with a copy of the application package. This will serve as the official notification of KCTCS' commitment to the project.

Funding Guidelines

KCTCS will manage all KCTCS-TRAINS funds, and funds will be paid directly to the college. Companies will not receive any KCTCS-TRAINS funds directly from KCTCS. **The commitment of funds for KCTCS-TRAINS projects will be valid for up to one year, based on the start date of the application.**

KCTCS will add a ten percent (10%) administrative fee to all projects based on the total cost of the services delivered. The System Office Workforce Solutions will be responsible for invoicing the company for the cash match and 10% administrative fee.

Appendix B (continued)

A third party may provide funding for the company's portion of the services delivered by the college. For all projects with a third-party provider, KCTCS-TRAINS will cover up to 75% of the funding and the third party will pay the remainder. The company will be responsible for paying the 10% KCTCS administrative fee.

Companies will be limited to a **fiscal year maximum of \$225,000 at 75/25/10 covered by TRAINS (\$300,000 total project cost)**. Once this limit has been reached the project would close out and the college would **submit any additional training within one year of the original project start date on a 50/50/10 application**. Colleges can apply for special approval for projects over \$300,000 when there is evidence of **significant economic impact and justification**. Colleges should work with the system office to determine a company's eligibility prior to submitting.

A company may only have one project open at any given time. They may also be part of one open multi-company project while having an open stand-alone project. The total amount funded in the multi-company project at 75/25 does NOT impact their ability to access up to \$300,000 on a stand-alone project if they are not the only company benefiting from a specific course.

Project Extensions

If an extension of the training is needed, it can be granted for a **maximum of three months**. If there are remaining funds at the end of the approved training period, they will revert to KCTCS-TRAINS.

To qualify for an extension, projects must meet the following criteria:

- Utilization of 60% of prior committed funds
- Concrete schedule of courses to be delivered during the extension
- Reimbursements will need to be up to date

Accountability

Within 60 days of project closeout, colleges will be asked to provide company feedback via KCTCS's Salesforce platform. This information should be collected in a follow-up call with the company representative and will allow KCTCS to gauge training outcomes and effectiveness.

Exceptions to Guidelines

Any exceptions or modifications to the KCTCS-TRAINS guidelines must be approved by the Vice President of Workforce and Economic Development of KCTCS.

Appendix D: KCTCS Quarterly Financial Report as of June 30, 2015

**UPDATE:
KCTCS QUARTERLY FINANCIAL REPORT**

**Agenda Item J-5
September 18, 2015**

The financial statements depict activity through the fourth quarter of fiscal year 2014-15; the quarter ending June 30, 2015. Information for these statements was derived from the KCTCS Administrative Financial System.

The Statement of Revenues and Expenses (Attachment A) reflects actual program and operational expenditures compared to the 2014-15 budget approved by the KCTCS Board of Regents, June 13, 2014. This report reflects total revenues of \$826 million, 89 percent of the budgeted revenue and appropriated funds. The Statement of Revenues and Expenses also reflects current fund expenses and budget reserve of \$837 million, 91 percent of the expenses budgeted for the year. The Statement of Net Assets (Attachment B) reflects the overall financial position of the System and includes assets, liabilities, and net position.

Background

The Annual Budget Adoption Resolution (adopted by the Board of Regents at its annual June meeting) states, "The KCTCS Quarterly Financial Report shall contain sections that reflect the KCTCS July 1 operating budget, amendments to the operating budget, and expenditures to date." Attachment A, the Statement of Current Funds Revenues and Expenses, is designed to fulfill this requirement.

Attachment B, the Statement of Net Position (Balance Sheet), although not specifically required in the Board's Annual Budget Adoption Resolution, has also been included in the Quarterly Financial Report to give the Board a periodic "snapshot" of the KCTCS financial position using the most common accounting-based schedule.

Appendix D (continued)

Attachment A

**STATEMENT OF CURRENT FUNDS REVENUES AND EXPENSES
06/30/2015**

(in thousands)	2014-15			2013-14	
	ORIGINAL BUDGET	REALIZED TO DATE	%	PRIOR YEAR REALIZED	%
REVENUES					
General Fund					
State Appropriations	\$ 190,162	\$ 190,162	100	\$ 191,456	100
Tuition and Charges	233,090	219,594	94	228,481	95
Noncredit Tuition	4,904	5,723	117	4,856	103
Investment Income	2,150	1,342	62	2,901	161
Governmental Grants and Contracts	41,470	32,519	78	33,054	84
Sales and Services	17,672	50,420	285	42,894	229
Other	93,804	0	0	0	0
Budget Reserve (Nonrecurring)	21,151	21,151	100	21,151	100
Total General Fund	604,403	520,911	86	524,793	91
Restricted Funds	319,715	305,089	95	281,099	81
Total Revenues and Appropriated Fund Balances	\$ 924,118	\$ 826,000	89	\$ 805,892	87
EXPENSES BY PROGRAM					
Instruction	\$ 260,333	\$ 227,026	87	\$ 227,185	78
Public Service	47,196	36,483	77	38,099	83
Academic Support	48,287	44,464	92	39,485	82
Student Services	68,790	61,549	89	60,981	92
Institutional Support	112,582	109,080	97	108,792	104
Student Financial Aid	260,226	229,166	88	238,374	91
Operations & Maintenance	105,553	108,049	102	78,280	88
Total Expenditures by Program	902,967	815,817	90	791,196	87
Budget Reserve (Nonrecurring)	21,151	21,151	100	21,151	100
Total Expenditures and Budget Reserve	\$ 924,118	\$ 836,968	91	\$ 812,347	87
Revenues in Excess of Expenditures		\$ -10,968		\$ -6,455	

Appendix D (continued)

Attachment B

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statement of Net Position (unaudited)
As of June - Comparative
(in thousands)

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 190,254	\$ 210,543
Loans, accounts and gifts receivable, net	27,279	25,105
Deferred outflows - KERS	11,722	0
Deferred outflows - KTRS	6,668	0
Other current assets	4,694	2,732
Total current assets	240,617	238,380
Noncurrent Assets		
Restricted cash and cash equivalents	26,690	15,224
Loans and other receivables	6,209	4,529
Endowment investments	51,423	49,474
Prepaid OPEB	0	1,679
Other long-term investments	16,800	16,634
Capital assets, net	604,581	605,298
Total noncurrent assets	705,783	692,838
Total assets	946,400	931,218
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	10,631	6,236
Employee withholdings and deposits	16,231	16,305
Compensated absences - current	1,214	1,594
Unearned revenue	9,631	27,982
Deferred inflows - KERS	2,247	0
Deferred inflows - KTRS	15,439	0
Leases payable - current portion	3,034	3,153
Total current liabilities	58,427	55,270
Noncurrent Liabilities		
Leases payable - noncurrent portion	24,252	17,490
Compensated absences - noncurrent	10,928	14,349
Net pension liability - KERS	174,855	0
Net pension liability - KTRS	209,139	0
Other long-term obligations	846	1,301
Total noncurrent liabilities	420,020	33,140
Total liabilities	478,447	88,410
NET POSITION		
Net Investment in capital	577,295	584,655
Restricted	107,610	93,808
Unrestricted	(216,952)	164,345
Total net assets	\$ 467,953	\$ 842,808

KCTCS Response



Farrah Petter
Assistant State Auditor
Kentucky Auditor of Public Accounts
209 Saint Clair Street
Frankfort, KY 40601

RE: Examination of Certain Financial Operations and Internal Policies and Controls of Kentucky Community and Technical College System

Dear Ms. Petter:

The Kentucky Community and Technical College System (KCTCS) is committed to providing education and training to enhance the quality of life and economic vitality of the Commonwealth. To ensure the System and its sixteen colleges are meeting the needs of its students, faculty, and staff, KCTCS leaders must wisely steward its resources and must do so in a transparent manner.

To that effect, upon the completion of an internal audit at KCTCS in March of 2023, the KCTCS Board of Regents (BoR) learned previous administrators were not forthright with the BoR, the governing body that oversees the fiscal and organizational well-being of the System. Swiftly and unanimously, the BoR voted to seek a special examination from the Kentucky State Auditor. This vote represents the System's commitment to examine all past actions, processes and procedures that could benefit from revisions to ensure full compliance with the fiscal and regulatory duties of KCTCS administrators and the Board of Regents.

Upon receiving the State Auditor's report, the Chair of the BoR, Mr. Barry Martin, and the KCTCS General Counsel, Ms. Pamela M. Duncan promptly reviewed all findings and recommendations – and the current BoR and administration are committed to fully briefing Dr. Ryan Quarles, KCTCS President-Select, on the history that led to this analysis. In addition, Dr. Quarles has expressed his intent to act quickly and decisively to correct any deficiencies in business and accounting practices that predate his assumption of the KCTCS Presidency on January 1, 2024.

We greatly appreciate the State Auditor and staff for their diligent work, confirming our suspicions and profound disappointment in previous administrators. In anticipation of this report, the System began creating and implementing new policies and procedures to promote transparency and clear oversight. Our students' tuition dollars and Kentuckians' taxpayer dollars must be applied with utmost transparency and accountability.

We look forward to working with state lawmakers, regulatory agencies and the Council on Postsecondary Education to ensure appropriated funds entrusted to the System by the General Assembly are used efficiently in furtherance of our state-mandated mission to equip the next generation of Kentucky students and workforce leaders.



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kctcs.edu

KCTCS is an equal educational and employment opportunity institution.



Moreover, the current administration and that of Dr. Ryan Quarles, KCTCS President-Select, will ensure the standards reflected throughout the System are the highest and that all actions taken on behalf of the Commonwealth are sound, clear, and ethical.

A handwritten signature in blue ink that reads "Barry Martin".

Barry Martin, Chair
KCTCS Board of Regents

A handwritten signature in blue ink that reads "Pamela M. Duncan".

Pamela M. Duncan
KCTCS VP and General Counsel



KENTUCKY COMMUNITY & TECHNICAL COLLEGE SYSTEM

Journal Entry Detail Report

Report Definition: K_GLX7501

Unit	21000	Ledger Group:	ACTUALS	Reversal:	N
Journal ID:	ONTOPSACS	Source:	ONL	Reversal Date:	
Journal Date:	06-30-2003				
Description:	to record SACS on top entries for June 02				

ATTACHMENT C

Unit: 21000		Ledger: ACTUALS		Unpost Sequence: 0				
Journal Line - Description	Account	Fund	Department	Program	Class	Project	Affiliate	Amount
1 Cash - Restricted Trust	10000	01	9999999999	99999	00			-421,007,370.00
2 Cash - Restricted Trust	10000	01	9999999999	99999	00			-31,599.00
3 Cash - Restricted Trust	10000	01	9999999999	99999	00			-1,788,879.00
4 Cash - Restricted Trust	10000	01	9999999999	99999	00			70,629.00
5 Cash - Restricted Trust	10000	04	9999999999	99999	00			75,908.00
6 Cash - Restricted Trust	10000	11	9999999999	99999	00	GFT99999		-323,199.00
7 Cash - Restricted Trust	10000	31	9999999999	99999	00	GFT99999		3,000.00
8 Cash - Restricted Trust	10000	32	9999999999	99999	00	GFT99999		12,106,226.00
9 Cash - Restricted Trust	10000	40	9999999999	99999	00			800.00
10 Cash - Restricted Trust	10000	61	9999999999	99999	00	CAP99999		53,624,296.00
11 Cash - Restricted Trust	10000	62	9999999999	99999	00			180,898.00
12 Cash - Restricted Trust	10000	64	9999999999	99999	00			-188,070,461.00
13 Inventory - Bookstores	13000	04	9999999999	99999	00			-75,908.00
14 Inventory - Bookstores	13000	04	9999999999	99999	00			-67,558.00
15 P, P & E - Land	14000	64	9999999999	99999	00			-92,146.00
16 P, P & E - Land Improvements	14100	64	9999999999	99999	00			-11,080,133.64
17 P, P & E - Equipment	14300	64	9999999999	99999	00			44,600.00
18 P, P & E - Accum. Depreciation	14600	64	9999999999	99999	00			-941,172.00
19 Year End Payables	21020	01	9999999999	99999	00			1,788,879.00
20 Sales Tax Payable	24000	01	9999999999	99999	00			31,599.00

Journal Entry Detail Report

Report Definition: K_GLX7501

Unit	21000	Ledger Group:	ACTUALS	Reversal:	N
Journal ID:	ONTOPSACS	Source:	ONL	Reversal Date:	
Journal Date:	06-30-2003				
Description:	to record SACS on top entries for June 02				

ATTACHMENT D

Marketing Published Policy and Procedures

[KCTCS Web Services Policies | KCTCS](#)

[Media Relations Procedure | KCTCS](#)

[Brand Standards Procedure | KCTCS](#)

[Crisis Communication Procedure | KCTCS](#)

[Live Animals on Campus | KCTCS](#)

[KCTCS HUMAN RESEARCH PROTECTION PROGRAM | KCTCS](#)

[Procedures for Out-of-State Tuition Waiver Policy | KCTCS](#)

[KCTCS Board of Regents Policies | KCTCS](#)

SharePoint site (only accessible by KCTCS employees)

[Marketing & Web - Home \(sharepoint.com\)](#)