Kentucky Community and Technical College System ("KCTCS")

Consolidated Report

October 2024

Contents

Project Background

Background & Scope

KPMG LLP was engaged by the Kentucky Community and Technical College System (KCTCS) to conduct a forensic audit in response to concerns highlighted in a report by the Auditor of Public Accounts of the Commonwealth of Kentucky. Those concerns revolved around the need for an in-depth investigation and analysis of financial transactions and practices within KCTCS to determine the existence of any fraudulent activities, inconsistencies in financial reporting, non-compliance with established policies and procedures, and potential inefficiencies or waste in the management and allocation of resources.

The forensic audit was designed to:

1. Verify the integrity and accuracy of financial transactions to ensure they adhere to Generally Accepted Accounting Principles (GAAP).

2. Assess the effectiveness of KCTCS's internal controls, risk management practices, and compliance with policies and procedures.

3. Identify and investigate any instances of fraud, theft, waste, abuse, or collusion that may have occurred within KCTCS's financial dealings.

4. Provide guidance and recommendations to remediate identified issues, enhance financial transparency, and improve governance and operational efficiencies.

This engagement aimed to restore confidence in KCTCS's financial systems and practices by addressing specific concerns raised in the external auditor's report, thereby providing KCTCS with recommendations to consider implementing that is both financially responsible and in compliance with regulatory requirements.

Areas in Scope

KPMG assessed the following 10 areas of the KCTCS business to meet the objectives of this audit:

01 – Account 10001	06 – Higher Ed Innovation LLC / Superlative Group
02 – Affiliated Foundations	07 – Marketing & PR
03 – Executive Compensation	08 – Personnel and Unit Investigation
04 – Family Educational Rights and Privacy Act (FERPA) Compliance	09 – Procards
05 – Financials	10 – Voluntary Separation Agreements (VSAs)

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Results

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Account 10001

SCOPE

Kentucky Community and Technical College System ("KCTCS") engaged KPMG to assess journal entry data provided for KCTCS Account 10001, determine the inflows and outflows of the Account, and ultimately reconcile Account 10001 on an annual basis for KCTCS fiscal years 2003 through 2023.

RISK

The primary risk was the potential for transactions to be inaccurately or inappropriately incurred and recorded, leading to noncompliance with policies, and exposing KCTCS to risks of fraud, waste, and abuse within these transactions.

Work Performed

- KPMG analyzed the Journal Entries provided by KCTCS over the scope period for Account 10001 and identified and isolated the inflows and outflows of transactions through Account 10001 into a database.
- KPMG performed a reconciliation of the journal entries provided by matching the debits and credits to determine the inflow and outflow accounts that were passed through Account 10001. Subsequently, KPMG performed horizontal and vertical analyses of the reconciliation to identify anomalies in the population.

Results

- Successfully reconciled all transactions for Account 10001 for all fiscal years (2003 – 2023).
- 656 accounts had activity flow through Account 10001 throughout the scope period.
- Account 12100 and Account 40010 had the most debit activity passing through Account 10001, totaling approximately $3.9 billion and $2 billion of debits, respectively.
- Identified the top 10 accounts by net activity during the scope period.
- Identified 108 accounts that had activity solely during a singular year across the entire scope period. Extracted a sampling of the lowest and highest total account activity accordingly.

Recommendations

- Review the list of 656 accounts that had activity in Account 10001 and determine which ones should not remain passing funds through the account.
- Perform a periodic (e.g., annual) review of the accounts that have activity in Account 10001 to assess which accounts should no longer interact with Account 10001.

Affiliated Foundations (refer to page 28 for full report)

SCOPE

KPMG assessed the Kentucky Community Technical College System (KCTCS) and its affiliated foundations to evaluate their independence and examine disbursements made by these foundations. The objective of the review was to assess the autonomy of these foundations, adherence to the necessary independence requirements, and alignment of foundation spending with designated purposes without misuse of funds.

RISK

The primary risk assessed was the potential for the foundations to not maintain sufficient independence from KCTCS, leading to conflicts of interest and the improper allocation or disbursement of foundation funds. This could result in legal implications and damage to KCTCS's reputation.

Work Performed

- Validated adherence to the KCTCS Recognition of Independent Foundations Policy by comparing independence documentation against policy.
- Assessed 25 disbursements made by the foundations to validate appropriate spending procedures were followed.
- Conducted process walkthroughs with the System and three college foundations to evaluate the uniformity of disbursement processes.

Results

- Gaps were identified in the completion of annual independence forms required by KCTCS procedures, with various documents missing across the foundations.
- Foundations generally have processes in place to ensure appropriate fund spending; however, implementing formal policies and procedures could benefit the foundations to ensure consistent documentation and compliance with disbursement policies.

Recommendations

- Reinforce the existing Recognition of Independent Foundations procedures to ensure all foundations comply with independence documentation requirements.
- Consider Implementing a centralized documentation process to track status of required independence documents for each foundation.
- Develop formal policies and procedures for spending to ensure all disbursements are properly documented and reviewed and approved in accordance with established guidelines and any donor-imposed restrictions.
- Create a disbursement request document that is utilized by the foundations to ensure proper procedures are followed and documented.

Executive Compensation

SCOPE

KPMG was engaged by the Kentucky Community and Technical College System (KCTCS) to assess the compensation of 40 executives from July 1, 2019, through June 30, 2024, across various positions, including College Presidents, Chancellor, System Vice Presidents, General Counsel, and Chief of Staff. This assessment aimed to ensure compliance with KCTCS's Executive Compensation Policy and Procedure over the last five fiscal years.

RISK

The primary risk identified concerned the potential for executive compensation arrangements that do not comply with KCTCS policies and procedures, potentially leading to legal and fiscal repercussions.

Work Performed

- Analyzed the compensation for 40 executives, with 19 chosen for detailed testing based on contracts, payroll data, and additional agreements.
- Interviewed two KCTCS system office members to understand the evolution of executive compensation policies and practices.
- Identified adherence to and deviations from the KCTCS Executive Compensation Policy within the individual's compensation.

Results

- While most of the 40 executives assessed adhered to the compensation policy, notable weaknesses exist in how the policy is implemented in practice.
- Issues included executive compensation not aligning with contract terms, improper payment ranges, and timeliness in signing contracts.
- Disparities were found between KCTCS's Executive Compensation Procedure pay bands and the PeopleSoft HRMS system's categorization, potentially resulting in compensation outside procedural limits.

Recommendations

- Align KCTCS's ERP system with the Executive Compensation Procedure to accurately enforce pay bands and salary limits.
- Incorporate new executive roles into the Executive Compensation Procedure
- Conduct annual reviews of market salary scales within pay bands using relevant data to ensure competitiveness.
- Clearly document the basis for Executive Supplementary Allowance determinations, including all influencing factors.
- Ensure timeliness in the signing of executive contracts and adherence to policy-based compensation limits for transparency and compliance.

Family Educational Rights and Privacy Act (FERPA) Compliance

SCOPE

KPMG conducted an assessment focused on the KCTCS Office of Financial Aid's adherence to the Family Educational Rights and Privacy Act (FERPA). This audit aimed to identify instances of non-compliance within the past five years and evaluate KCTCS's policies, procedures, and training programs against Federal Department of Educations data security protocols and best practices.

RISK

The primary risk identified was KCTCS having FERPA and Privacy practices inadequately providing safeguards for student's records, resulting in potential legal, financial, and reputational consequences.

Work Performed

- Distributed a questionnaire to the Registrar and Financial Aid contacts at all 16 colleges and the System Office to identify instances of FERPA non-compliance and documented the results.
- Compared KCTCS's FERPA policy against Federal Department of Educations data security protocols and best practices to determine whether all necessary requirements were captured.

Results

- Ten colleges reported no instances of FERPA non-compliance in the past five years.
- Six colleges and the System Office reported instances of FERPA non-compliance. Of these instances, all complied with Federal regulations, while two colleges and the System Office partially adhered to best practices.

Recommendations

- Centralize documentation of FERPA non-compliance instances to ensure required documentation is being recorded across all colleges.
- Implement a more comprehensive FERPA policy that includes specific guidelines on student data breach documentation, notification, employee access to student data, and training frequency.
- Communicate updates on the centralized documentation process and policy enhancements to each college to ensure awareness and compliance.

Financials

SCOPE

Kentucky Community and Technical College System ("KCTCS") engaged KPMG to perform journal entry (JE) analytics, designed to identify anomalies in the population and red-flags of potentially fraudulent activities, over the ledger population for the fiscal years 2000 through 2023.

RISK

The primary risk was the potential for journal entries to be inaccurately or inappropriately incurred and recorded, leading to noncompliance with policies, and exposing KCTCS to risks of fraud, waste, and abuse within these entries.

Work Performed

- KPMG prepared and analyzed manual journal entry (KDAT) reports over the ledger population and identified journal entries flagged with risk factors for further assessment. Reports were prepared for all years in scope.
- KPMG performed completeness testing procedures for all years by tying out ledger activity by account to the trial balance activity.
- KPMG developed routines to identify high-risk entries for journal entry testing procedures. KPMG requested support for 136 entries.

Results

- KPMG determined the journal entries which took place at the local college level had inadequate support. Per discussion with KCTCS, it is the responsibility of the local college poster to upload adequate support.
- KCTCS complied with state retention policy as journal entry support was not available for journal entries selected from 2000-2020. However, the support for 70% of the journal entries selected for 2021-2023 continued to be inadequate or not aligned with the journal entry details.
- KPMG identified two instances where AR was outstanding for over six (6) months and not written off for over a year in one case, and over four (4) years in another.

Recommendations

- Develop and provide training for relevant Finance and Accounting team members covering state requirements and internal policy obligations regarding requisite supporting documentation for journal entry postings.
- Develop internal policy requirements that align with all state requirements for journal entry supporting documentation.
- Manual controls for evaluating sufficiency of supporting documentation should be implemented.
- KCTCS should evaluate its system capabilities to determine if system controls can be implemented to identify instances where AR has been outstanding for over six (6) months to account for AR that has been outstanding over the AR write-off policy requirements.

Higher Ed Innovation LLC / Superlative Group

SCOPE

KPMG was engaged by the Kentucky Community Technical College System (KCTCS) to conduct a comprehensive assessment of its procurement procedures, particularly focusing on professional service contracts (PSCs) entered into by KCTCS and its 16 colleges. This evaluation aimed to assess compliance with federal and state procurement regulations and to identify areas for process enhancement.

RISK

The primary risk identified was the potential for insufficient or ineffective procurement procedures surrounding professional contracts. Such deficiencies could lead to inefficiencies, inadequate contract management, and financial overspend or penalties, impacting KCTCS's operations and financial integrity.

Work Performed

- Analyzed federal and Kentucky legislation related to procurement against KCTCS's procurement policies to assess whether all necessary requirements were captured.
- Interviewed the KCTCS Director of Procurement to understand current procurement processes and identify improvement opportunities.
- Assessed a random selection of 25 PSCs for procedural compliance and consistency across the System.

Results

- KCTCS's procurement processes were found to be effectively designed, with procedures appearing to align with procurement regulations.
- Based on the assessment of 25 PSCs, KCTCS's procurement processes appeared to be followed. However, KPMG determined KCTCS's procurement processes could be strengthened. See Recommendations section for details.

Recommendations

- Develop a detailed checklist that is utilized for each contract and contains the procurement requirements based on the contract value.
- Implement mandatory procurement process training for all employees involved in the procurement process.
- Adopt a more rigorous documentation process for signature approvals, including the use of printed names, titles, and dates, or electronic signatures.

Marketing & PR (refer to page 77 for full report)

SCOPE

KPMG was tasked by the Kentucky Community and Technical College System (KCTCS) to evaluate the Marketing & PR budgets and Procurement Card (Procard) transactions from July 1, 2018, through June 30, 2024. The objective was to assess compliance with KCTCS policies and procedures and to identify any instances of fraud, waste, or abuse in Marketing & PR expenditures.

RISK

The primary risk was the potential for Marketing & PR expenses to be inaccurately or inappropriately incurred and recorded, leading to noncompliance with policies, and exposing KCTCS to risks of fraud, waste, and abuse within these expenses.

Work Performed

- Analyzed six fiscal years of Marketing & PR budget data and extracted a sample of 24 transactions for detailed testing.
- Conducted interviews with three KCTCS system office members to understand the evolution and management of Marketing & PR at KCTCS.
- Assessed Procard transactions against KCTCS's Procurement Card Policy and examined the approval processes for Procard transactions.

Results

- KCTCS generally aligns with its Procurement Card Policy; however, the process for Procard transactions and approval was found unclear.
- Identified issues include difficulties in tracking Marketing & PR expenditures due to undefined budget chart strings and a lack of regular vendor reassessment.
- Noted a significant portion of Procard transactions (86.4%) were approved after purchases were made, and several merchants could not be clearly identified online.

Recommendations

- Reassess and reclassify budget chart strings for Marketing & PR to simplify expenditure tracking.
- Establish regular assessments of merchants/vendors to ensure KCTCS benefits from the best available services and competitive pricing.
- Implement a new procedure for Marketing & PR Procard expenditures outlining clear transaction and approval processes to enhance compliance and efficiency.
- Ensure Procard statement review documentation is available for audit purposes as per KCTCS Procurement Card Procedure.

Personnel and Unit Investigation

SCOPE

KCTCS underwent multiple investigation by external firms, resulting in numerous recommendations to enhance their HR and Legal departments. KPMG assessed the recommendations implementation status to determine outstanding actions.

RISK

The primary risk assessed was improper handling or resolution of personnel complaints and unit investigations, resulting in potential legal and fiscal repercussions.

Work Performed

- Organized the recommendations into 15 distinct themes from investigative reports for detailed examination.
- Conducted interviews with four members of the KCTCS System Office to gain an understanding of the background and implementation status for each recommendation.
- Evaluated the status of each recommendation as fully, partially, or not implemented, identifying necessary actions for those not fully implemented.

Results

- Nine recommendation themes were found to be fully implemented, requiring no further action.
- Five themes were determined to be partially implemented, and one theme was determined to not be implemented, requiring KCTCS to address open actions to fully implement these recommendations.
- Identified gaps pertained to the Health Insurance Proposal, Supplemental/Overload Assignments, Employee Demographic Review, Policy Review and Communication, HR Expectations/Trainings, and Annual Policy and Procedure Review.

Recommendations

- KCTCS is reviewing and updating all policies to address gaps. A training / overview should be provided for new / updated policies. Consider reviewing policies regularly based on importance set by legal and department heads.
- Consider performing a detailed analysis of health insurance providers to determine their selection of insurance plans.
- Consider implementing a formal review of pay by demographics. KCTCS is in the RFP process for a new pay system, which can perform this review.
- KCTCS should consider establishing a formal pre-hire and onboarding process with proper controls, ensure employment is contingent upon credential verification, and create policies, procedures, and training documents to support these changes.

Procards (refer to page 100 for full report)

SCOPE

Kentucky Community and Technical College System ("KCTCS") engaged KPMG to perform analytics on KCTCS Procurement Card ("P-Card") data, tasked to identify anomalies in the population and potential fraudulent activities over the population of transactions from July 1, 2018 through June 30, 2024 (FY 2019 – FY 2024).

RISK

The primary risk was the potential for procurement transactions to be inaccurately or inappropriately incurred and recorded, leading to noncompliance with policies, and exposing KCTCS to risks of fraud, waste, and abuse within these transactions.

Work Performed

- KPMG ingested and prepared time and expense trending dashboards over the transaction population and identified transactions flagged with risk factors for further assessment.
- KPMG developed a trending analysis over activity for the following criteria; username, merchant category code ("MCC"), keyword, department, day of the week, holidays, and week of the year.
- KPMG developed routines to identify high-risk transactions and extracted a sample of 16 transactions for detailed testing.

Results

- KCTCS complied with state retention policy as supporting documentation was not available for 50% of the selected transactions (i.e., transactions prior to 2020).
- Noted a significant portion of transactions (62.5%) were approved after purchases were made.
- A late payment was made to vendors for 37.5% of the transactions.
- The transaction requester did not match the Procard holder for half (50%) of the transactions.

Recommendations

- Consider adding a flag into the PeopleSoft system that would require budgetary supervisor approval prior to the purchase of large Procard transactions.
- Consider implementing a rule for KCTCS Procard holders to ensure all receipts and merchant transaction details are accurate prior to uploading documentation to PeopleSoft.
- Consider implementing a step plan from initiation of a Procard purchase through the payment of the transaction to ensure KCTCS is making payments in good faith to merchants.
- Consider implementing a procedure for how Procard transactions are to be made and when supervisory approval is to be obtained as to have a clear structure for business transactions.

Voluntary Separation Agreements (VSAs)

SCOPE

KPMG evaluated KCTCS's procedures and practices surrounding Voluntary Separation Agreements (VSAs) to assess consistency and legal compliance and to mitigate any potential fiscal and legal risks.

RISK

The primary risk assessed was KCTCS's current VSA practices not fully aligning with legal and tax regulations, potentially resulting in significant legal, financial, and reputational consequences.

Work Performed

- Conducted a comparative analysis between KCTCS's VSA FAQs and Federal and Kentucky VSA legislation to determine whether all necessary requirements were captured.
- Assessed a selection of 25 VSAs to validate procedural adherence and consistency across the KCTCS system.
- Performed process walkthroughs with HR representatives from three colleges to assess uniformity and compliance in VSA procedures.

Results

- Inconsistent VSA procedures were identified across the colleges, resulting in potential legal risk.
- Based on the assessment of 25 VSAs, the following were noted:
    - VSA was not routed through HR, Legal, or Payroll
    - Payout amount did not agree to the approved VSA
    - Inadequate approvals based on value of VSA
    - Failure to demonstrate a 21-day consideration and 7-day revocation period
- Lack of standard eligibility and payouts for VSA, which are considered industry best practice.

Recommendations

- Develop and implement a comprehensive VSA policy including key compliance requirements and standard procedures to ensure uniform application across all KCTCS colleges.
- Set clear timelines for the VSA process, define and document approval processes, standardize eligibility requirements and payout calculations, and centralize documentation for VSAs.
- Conduct adverse impact analyses for each VSA and provide targeted training to ensure system-wide adherence to the updated policies and procedures.
- Implement standard eligibility and payouts for VSAs that are utilized throughout the colleges.

Final Reports

04

Account 10001

01

Contents

Executive summary

Background & Scope

❑ **Background & Scope:** Kentucky Community and Technical College System ("KCTCS") engaged KPMG to assess journal entry data provided for KCTCS Account 10001, determine the inflows and outflows of the Account, and ultimately reconcile Account 10001 on an annual basis for KCTCS fiscal years 2003 through 2023.

Testing Approach & Results

KPMG analyzed the Journal Entries provided by KCTCS over the scope period for Account 10001 and identified and isolated the inflows and outflows of transactions through Account 10001 into a database.

KPMG performed a reconciliation of the journal entries provided by matching the debits and credits to determine the inflow and outflow accounts that were passed through Account 10001. Subsequently, KPMG performed horizontal and vertical analyses of the reconciliation to identify anomalies in the population.

Analytic Results & Observations

Based on the analyses performed, KPMG noted:

- Successfully reconciled all transactions for Account 10001 for all fiscal years (2003 – 2023).
- 656 accounts had activity flow through Account 10001 throughout the scope period.
- Account 12100 and Account 40010 had the most debit activity passing through Account 10001, totaling approximately $3.9 billion and $2 billion of debits, respectively (refer to slides 7 – 9).
- Identified the top 10 accounts by net activity during the scope period (refer to slide 10).
- Identified 108 accounts that had activity solely during a singular year across the entire scope period. Included the lowest and highest total account activity accordingly (refer to slide 11).

Recommendations

- Review the list of 656 accounts that had activity in Account 10001 and determine which ones should not remain passing funds through the account.
- Perform a periodic (e.g., annual) review of the accounts that have activity in Account 10001 to assess which accounts should no longer interact with Account 10001.
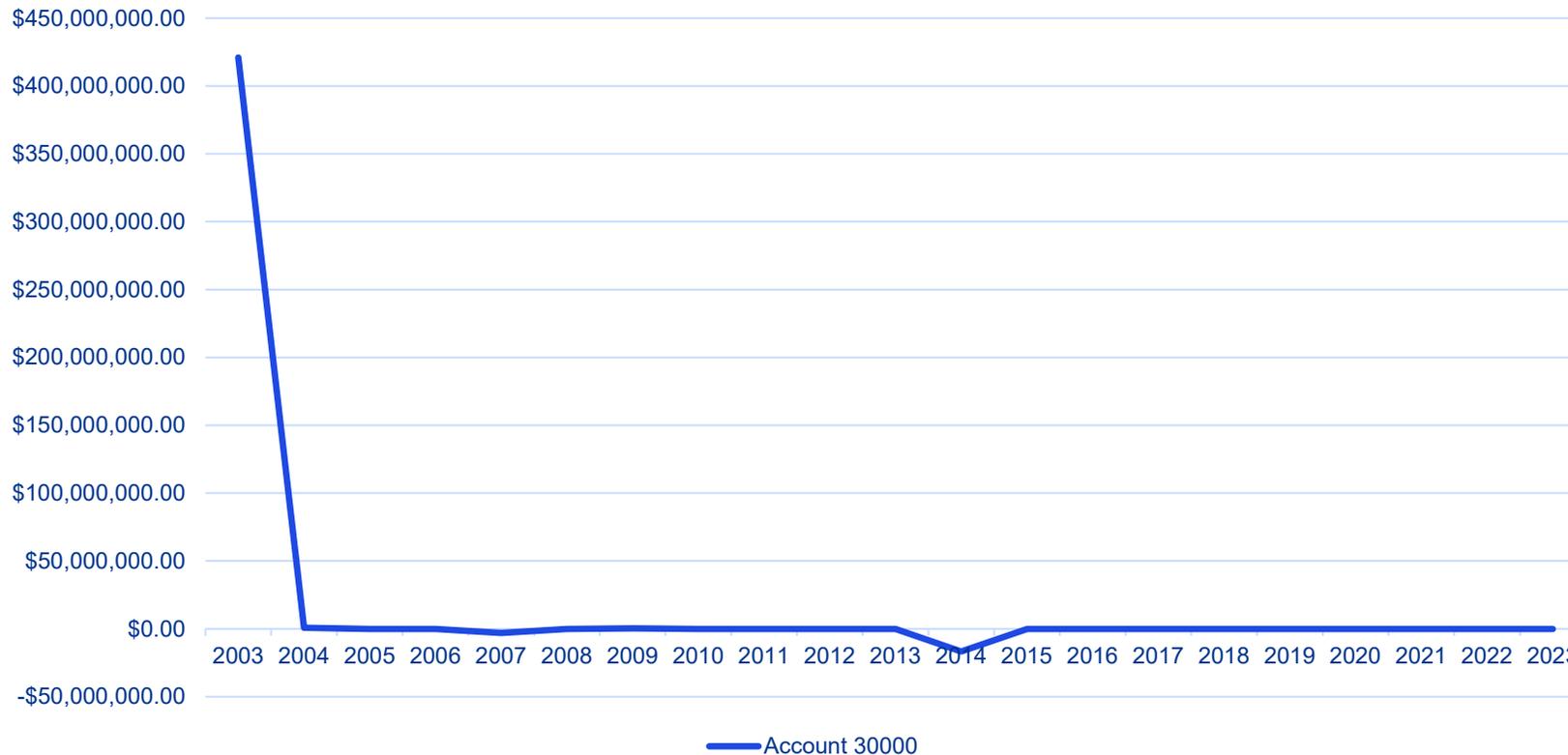
$421 Million Dollar Journal Entry Transaction

The table to the right shows the transactions for the 2003 fiscal year-end journal entry (ONTOPSACS). KPMG assessed the $421 million dollar transaction from the June 2003 journal entry. From our assessment, this transaction did not hit Account 10001 and appears to have been part of a year-end top-end entry, which occurs every year. The $421 million was an adjustment that credits against the restricted cash account and applies it against the expense accounts for the funds related to that year.

Based on the assessment of the 30000 account related to this transaction (see next page), there has been a similar year-end adjusting entry annually.

Account	Line Description	Sum of Debit	Sum of Credit
10000	Cash - Restricted Trust	$ 66,061,757.00	$ 190,214,138.00
13000	Inventory - Bookstores	$ -	$ 143,466.00
14000	P,P & E – Land	$ -	$ 92,146.00
14100	P,P & E – Land Improvements	$ -	$ 11,080,133.64
14300	P,P & E – Equipment	$ 44,600.00	$ -
14600	P,P & E – Accum. Depreciation	$ -	$ 941,172.00
21020	Year End Payables	$ 1,788,879.00	$ -
24000	Sales Tax Payable	$ 31,599.00	$ -
25000	Deferred Revenues	$ -	$ 93,610.00
30000	Fund Balance	$ 200,562,157.64	$ 65,924,327.00
	Subtotal	$ 268,488,992.64	$ 268,488,992.64
10000	Cash - Restricted Trust	$ -	$ 421,007,370.00
30000	Fund Balance	$ 421,007,370.00	$ -
	Grand Total	$ 689,496,362.64	$ 689,496,362.64

$421 Million Dollar Journal Entry Transaction (continued)

Trial Balance Data For Account 30000

The above chart represents KCTCS Account 30000 (a fund balance expense account) mapped over the scope period. The $421 million dollar journal entry can be seen in 2003, and the subsequent year-end adjustments can be noted with the account decreasing to zero or not appearing in the trial balance that year.

Account Analysis

The below table represents the consolidated final results across the scope period against account type. Refer to Excel workbook files in the KCTCS Account 10001 Final Analysis Workbooks zip folder for the yearly analysis.

Consolidated Results Per Account Type

Account Type	Total Debit	Total Credit	Total
Asset	$23,877,116,312.75	$21,679,346,821.98	$2,197,769,490.77
Liability	$5,041,536,444.68	$4,486,543,799.12	$554,992,645.56
Revenue	$3,201,112,888.77	$2,391,758,341.98	$809,354,546.79
Expense	$1,907,539,105.08	$5,487,504,395.33	-$3,579,965,290.25
Equity	$62,512,587.56	$61,505,280.83	$1,007,306.73
Grand Total	$34,089,817,338.84	$34,106,658,639.24	-$16,841,300.40

Account Analysis (continued)

Largest Accounts by Percent Share
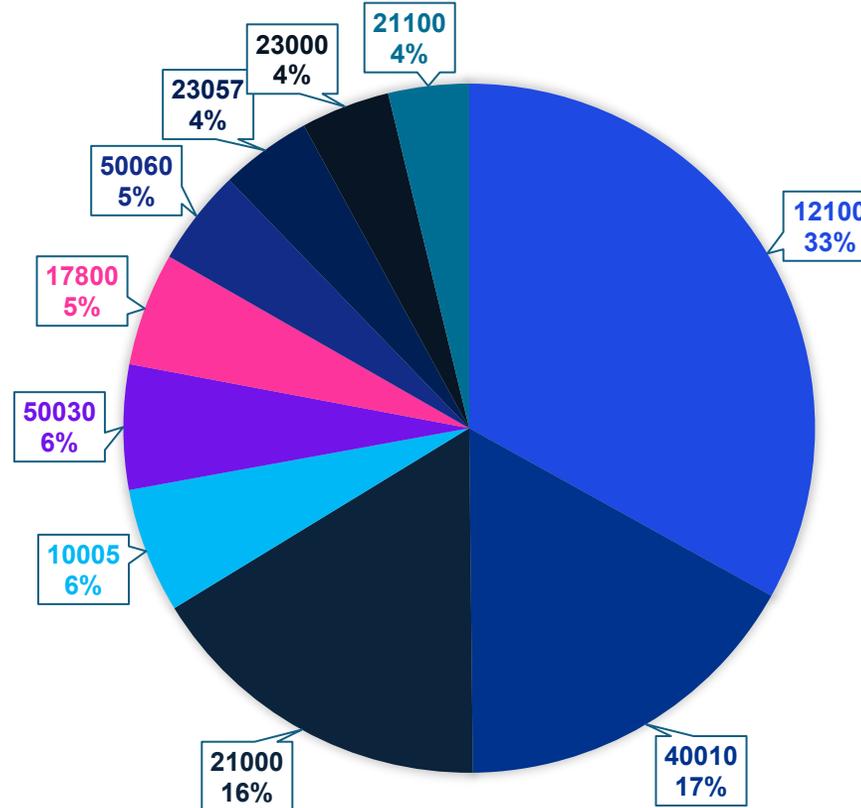
Legend	
Account	**Description**
12100	**Student Receivables**
40010	**Gov't Appropriations - State**
21000	**Accounts Payable - General**
10005	**Cash-Restricted Trust-NatlCity**
50030	**Benefits - Health**
17800	**Financial Aid Offset SF**
50060	**Benefits - Retirement**
23057	**Health – HUM – ER**
23000	**Employer Contr. – Retire Match**
21100	**Withholdings – Federal**

Pie chart values:
- 12100: 33%
- 40010: 17%
- 21000: 16%
- 10005: 6%
- 50030: 6%
- 17800: 5%
- 50060: 5%
- 23057: 4%
- 23000: 4%
- 21100: 4%

The above chart represents the largest KCTCS accounts identified by percent share of debits across the scope period. As Accounts 12100 and 40010 are roughly half of debit activity, we performed isolated analyses on these two accounts and removed them from other analyses conducted.

Account Analysis (continued)

Account 12100 By Year
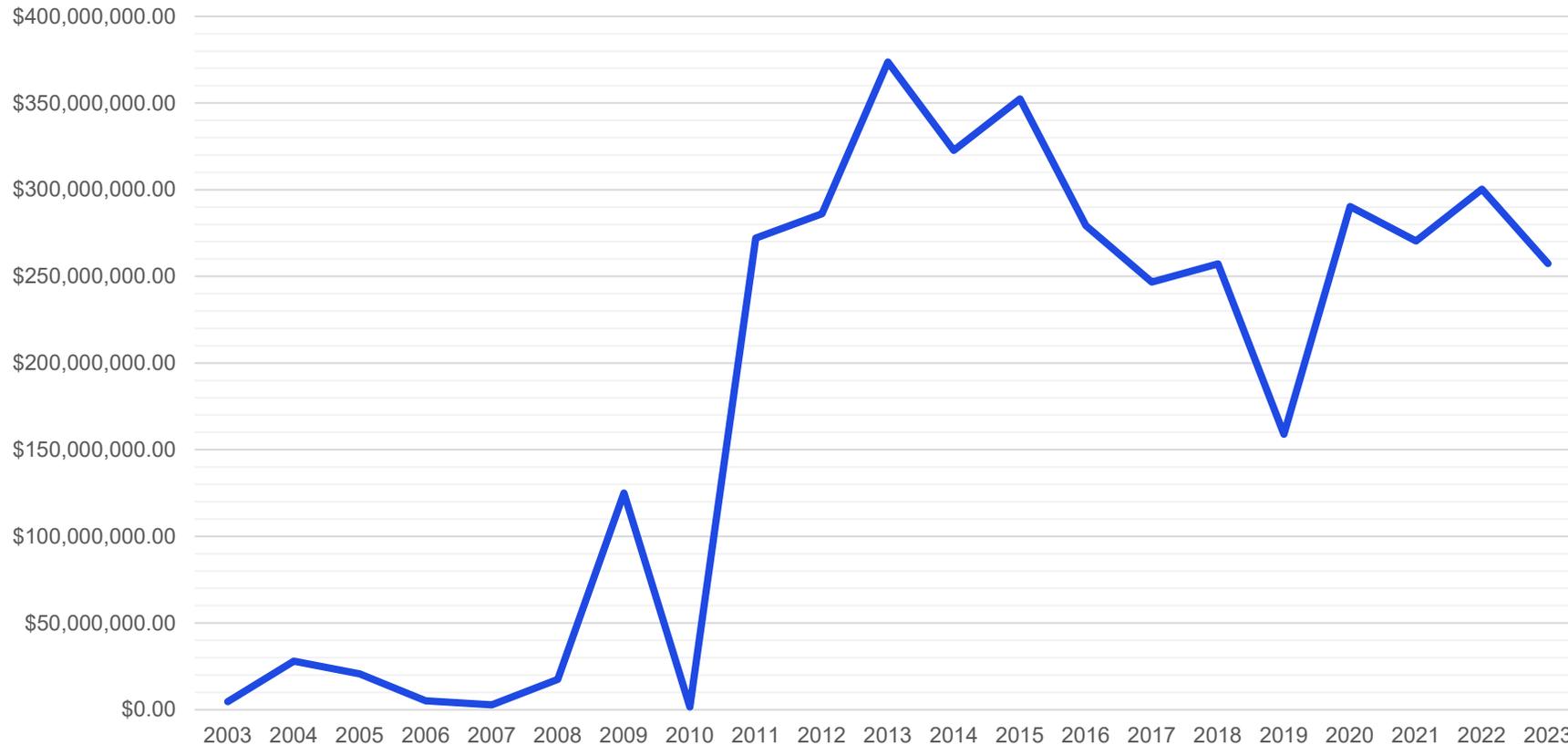
The above line graph represents the debit totals of Account 12100 ("Student Receivables") over the scope period.
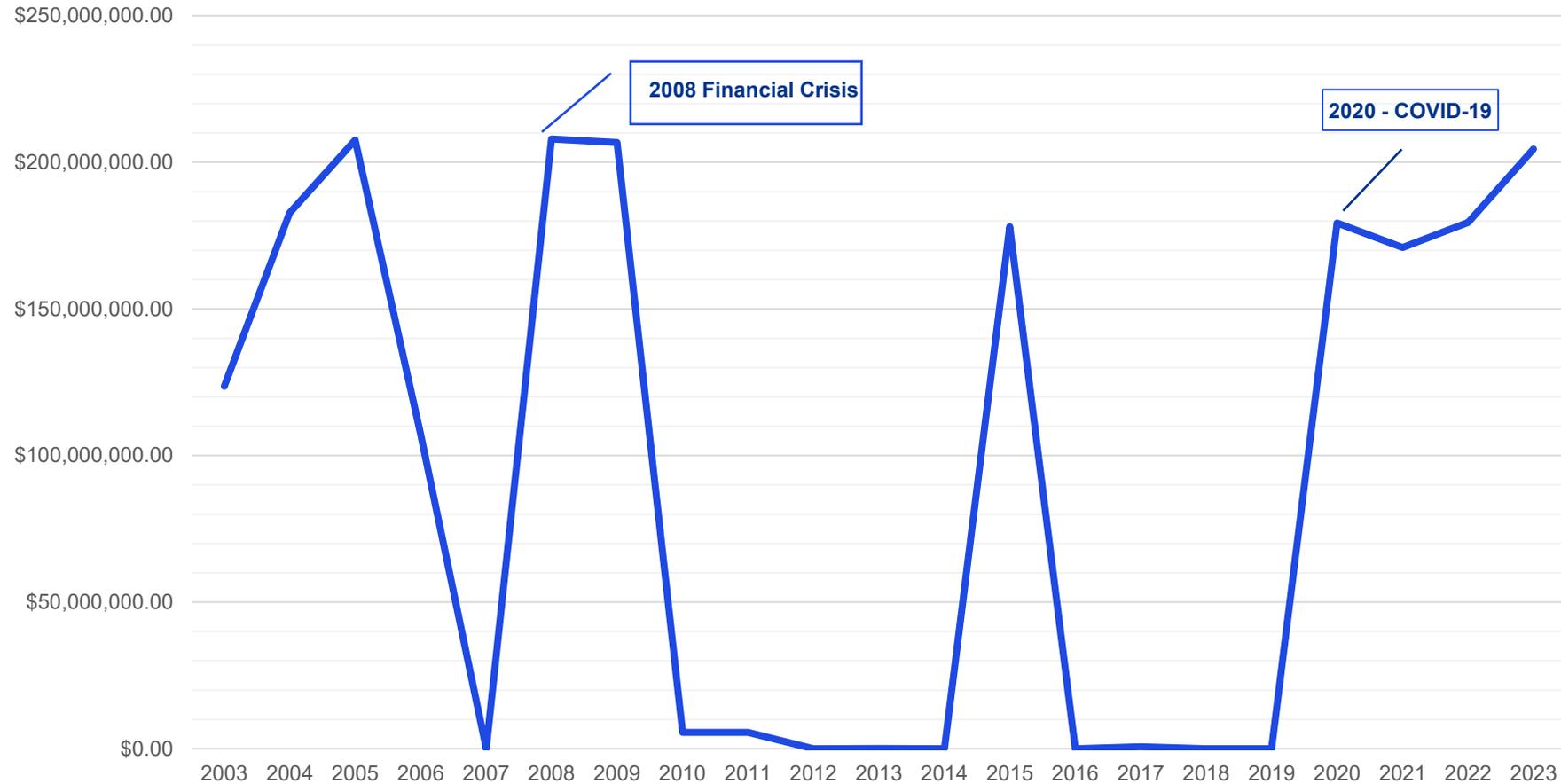
Account Analysis (continued)

Account 40010 By Year

The above line graph represents the debit totals of Account 40010 ("Government Appropriations - State") over the scope period.

Account Analysis (continued)

Total Net Activity By Account
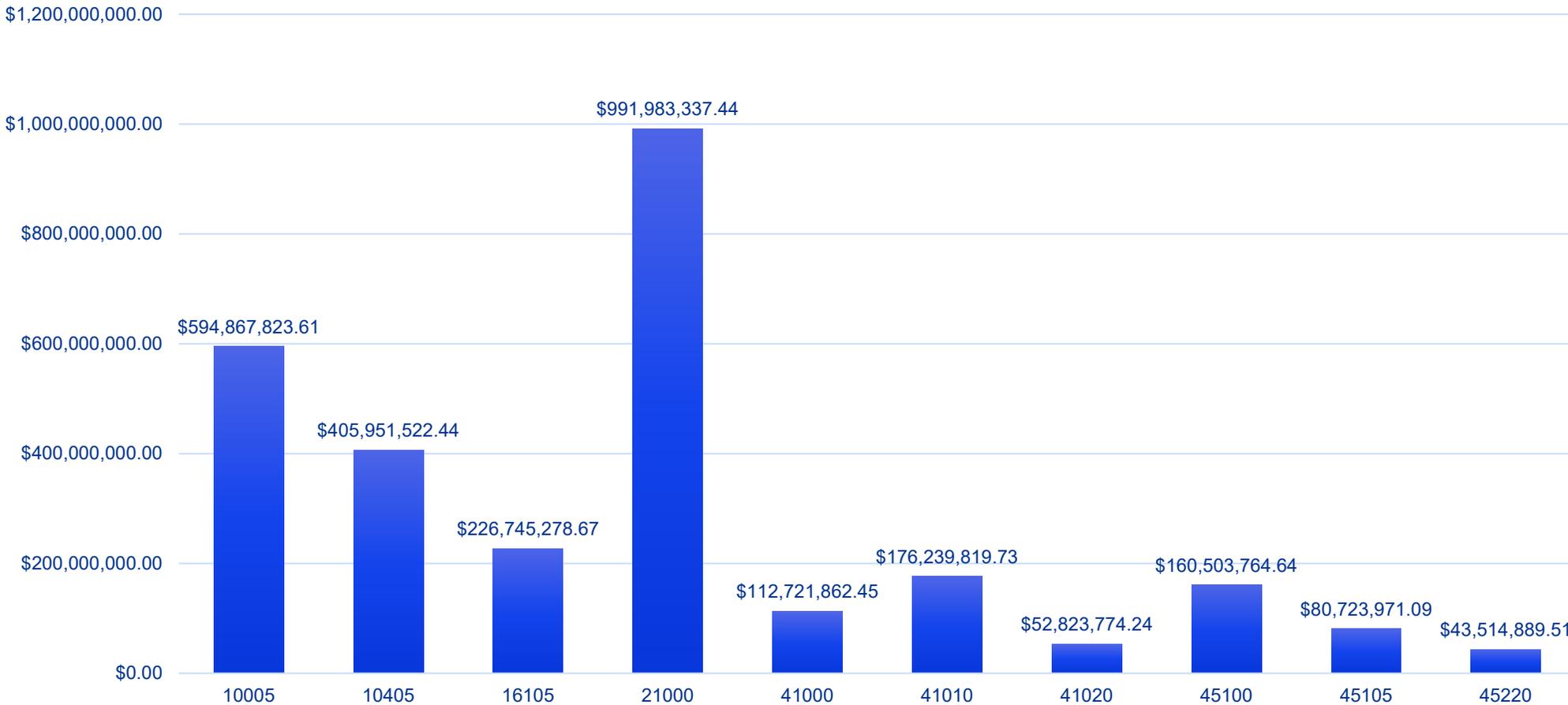
Legend	
Account	Description
10005	Cash-Restricted Trust-NatlCity
10405	Cash – Vendor – NatlCity
16105	Due To/From 21000
21000	Accounts Payable - General
41000	Tuition & Fees – Credit/Fall
41010	Tuition & Fees – Credit/Spring
41020	Tuition & Fees – Cr/Summer-1
45100	Tfer from Genl Funds – Fund 01
45105	Transfer from Fund 05
45220	Tfer from Ret of Indebt-Fund63

Chart values:
- 10005: $594,867,823.61
- 10405: $405,951,522.44
- 16105: $226,745,278.67
- 21000: $991,983,337.44
- 41000: $112,721,862.45
- 41010: $176,239,819.73
- 41020: $52,823,774.24
- 45100: $160,503,764.64
- 45105: $80,723,971.09
- 45220: $43,514,889.51

The chart above represents the Top 10 KCTCS accounts by net activity (Debits – Credits) over the scope period.

Account Analysis (continued)

The following table analyses represent accounts during the scope period that only had activity during one fiscal year (e.g., Account 10330 only had activity in 2007 during the entire 20 year scope period).

*Please note that the following is a sample of the 108 Accounts that had activity for only one fiscal year.

Top 10 Lowest Total Year Activity

Account	Description	Year	Amount
10330	Cash - State Approp - KBEMS	2007	-$1,895,763.00
10652	Cash-West Ky Tech	2004	-$98,342.24
13510	Prepaid Escrow	2014	-$1,000,000.00
16040	Workforce Clearing	2023	-$865,625.00
16100	Due To/From 20000	2003	-$731,372.71
16120	Due To/From 24000	2003	-$741,567.27
16140	Due To/From 31010	2003	-$21,006,455.25
50875	Amortization-Prepaid Lease	2015	-$1,678,784.00
51700	KY Humanitarian Scholarsh	2023	-$1,083,580.00
90050	Tfer to Grants/Contracts-Fd 12	2022	-$401,038.04

Top 10 Highest Total Year Activity

Account	Description	Year	Amount
10342	Cash - Trust & Agency - KBEMS	2009	$202,017.32
10648	Cash-Cumberland Valley Tech-SE	2003	$175,532.69
11900	Prepaid OPEB	2015	$1,678,784.00
15350	Accum Depr - Campus Infrastruc	2010	$899,467.22
15420	Accum Depr - Library Books	2010	$411,149.26
45000	Loans	2010	$199,742.13
45410	Tfer from Bookstores - Fund 04	2004	$454,054.00
50031	Post Retirement Benefits	2015	$100,473.29
50107	Pension expense	2015	$1,062,816.90
50185	Student Email Accounts	2004	$258,562.20

Affiliated Foundations

02

Contents

Executive summary

Background & Scope

Background: Kentucky Community Technical College System (KCTCS) consists of the system and its 16 colleges, each having a foundation dedicated to advance the vision, mission, goals, and objectives for the colleges and the system. The autonomy of these foundations from KCTCS is vital to avoid conflicts of interest and to ensure that the academic missions are supported. In addition, it is critical to ensure foundation spending is appropriate and made in accordance with any restrictions to avoid the misuse of funds. KPMG was engaged to assess the foundations' independence and review the disbursements made by the foundations across the System.

Scope: Review KCTCS's use 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 disbursement of funds.

Testing Approach & Results

KPMG conducted a review of the foundations' independence and disbursements. The assessment included the following:
- Obtained the current required independence documents per the KCTCS Recognition of Independent Foundations Policy (see pg. 4)
- Tested a selection of 25 disbursements made across all the foundations to validate appropriate procedures were followed (see pg. 5)
- Conducted walkthroughs with three college foundations and the System foundation to assess the consistency of disbursement processes across the foundations (see pg. 6)

As a result, KPMG determined that many of the KCTCS foundations have not completed the required annual forms, as required by the KCTCS Recognition of Independent Foundations procedures document. Additionally, KCTCS's foundations overall appear to have processes in place to ensure spending of foundation funding is appropriate. However, the foundations may benefit from more formal policies and procedures. KPMG recommends the foundations create a formal process for foundation spending to ensure proper documentation of disbursements (see pg. 7).

Observations – Independence requirements

KPMG performed an analysis to compare the required independence documentation against the KCTCS Recognition of Independent Foundations Policy to assess compliance of the foundations. This analysis led to the identification of the key observations noted below.

To reduce the risk associated with these findings, KPMG recommends KCTCS re-enforce the current Recognition of Independent Foundations procedures. For detailed recommendations, refer to slide 7.

Common Themes Identified	Number of Samples Impacted
Unable to obtain the most recent Annual Signed Agreement on Ethics	10 of 25 samples (40%)
Unable to obtain the most recent Annual Signed Confidentiality Agreement	10 of 25 samples (40%)
Unable to obtain the most recent Annual Recognition of Foundation Stewardship Plan	8 of 25 samples (32%)
Unable to obtain the most recent Annual Recognition of Foundation Annual Report	7 of 25 samples (28%)
Unable to obtain the most recent Annual Signed Conflict of Interest	7 of 25 samples (28%)
Unable to obtain the most recent Independent External Auditors Annual Audit Report	2 of 25 samples (8%)
Unable to obtain the most recent IRS 990 filing	1 of 25 samples (4%)
Unable to obtain the Recognized Articles of Incorporation and By-laws	1 of 25 samples (4%)

Additionally, KPMG discussed the independence process with our Subject Matter Professional (SMP) and noted that any requirements to establish an independent affiliated foundation is set fourth by the Memorandum of Understanding (MOU).

Observations – Disbursement testing

A random sample of 25 foundation disbursements were selected across the system and 16 foundations and were assessed for proper oversight and approval. The result of this analysis is depicted below with the full testing sheet in Appendix D.

To reduce the risk associated with these observations, KPMG recommends KCTCS develop a formal policy and disbursement request document and distribute them to each foundation. For detailed recommendations, refer to slide 7.

Common Themes Identified	Number of Samples Impacted
Disbursement was made prior to review and approval	2 of 25 samples (8%)
Unable to validate that the disbursement was properly reviewed and approved	2 of 25 samples (8%)

Additionally, KPMG discussed the disbursement process with our Subject Matter Professional (SMP) and noted that any restrictions on foundation spending would be related to maintaining their 501(c)(3) status or set forth by KCTCS in the by-laws.

Observations – Process walkthroughs

KPMG met with the foundation contacts responsible for fund oversight to assess the procedures in place at three college foundations and the System foundation and to evaluate the uniformity of these procedures. The specific procedures for each foundation are depicted below.

KPMG recommends creating a formal foundation disbursement policy depicting standard procedures to be followed across the foundations. See slide 7 for detailed recommendations.

Location	Foundation Fund Process
All Foundations	• Funds are received from donors and are coded into different accounts within QuickBooks or deposited into a different bank account to separate any restricted funds from general funds. • Fund requests are submitted and reviewed by the foundation's Executive Director, College President, Foundation Director, or VP of Advancement. The funds are either approved or rejected. If approved, the requestor will be notified and can proceed with usage of funds.
System Foundation	• The Executive Director of the foundation reviews the request. • In addition to the normal review of requests, there is an annual budget review to determine if funds are being spent appropriately.
Ashland	• The Foundation Director or College President reviews the request.
Gateway	• The Executive Director of the foundation reviews the request.
Jefferson	• The VP of Advancement or the Board reviews the request.

Recommendations to enhance current process

Affiliated Foundations Recommendations

After analyzing the independence and disbursement process across the KCTCS foundations and consulting with KPMG's Subject Matter Professional on best practices, KCTCS could consider the following recommendations to enhance the independence and disbursement processes related to affiliated foundations:

Implement formal and comprehensive policies for foundation independence and disbursement processes. This would promote adherence to a uniform process aimed to reduce risks. The policies could consider the following:

Independence Policy and Procedures

Outline required documents to obtain independent foundation status.

This is currently documented in the KCTCS Procedure for Recognition of Independent Foundations document. We recommend this be reiterated and followed.

Implement a centralized documentation process to track status of required independence documents for each foundation.

Disbursement Policy and Procedures

Clearly defined and documented approval process:

- Document the approver's printed name, title, and date or utilize e-signatures that capture the above information.

- Define the required approver(s) within the policy to ensure proper oversight occurs.

Create a formal disbursement request document that is utilized by the foundations to ensure proper procedures are followed and documented.

Appendix

Appendix A - Affiliated Foundations project plan

Scope Area

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.

Risk

Risk of improper financial management of foundation disbursements leading to legal repercussions and damage to the organization's reputation.

Key Members

KCTCS Functional Area:
Economic Development and Philanthropy

KPMG Lead:
Kelly Trame

Project Phases and Activities
1. Planning
1.1. Schedule and conduct introductory calls to discuss Affiliated Foundation scope area
1.2. Collect and review any existing process documentation
1.3. Develop proposed project plan and confirm approach with KCTCS stakeholders
2. Fieldwork
2.1. Review college foundation charters and MOAs to ensure independence between the colleges and the foundations
2.2. Perform a risk analysis of the foundation disbursements to identify higher risk transactions that will be selected to determine the allocation and purpose of the funds to ensure compliance with its intended use. Additionally, ensure appropriate approvals were granted prior to disbursement
2.3. Meet with key individuals responsible for the foundations to gain an understanding of the process followed for administering funds and evaluate the decision-making power and autonomy. Evaluate if its activities are primarily directed by the KCTCS system or if it operates with independent procedures
2.4. Utilize KPMG SMP to review foundation process best practices, especially in regards to disbursements
2.5. Compare best practices to KCTCS processes and document recommendations for enhancement
2.6. Document analysis of results and findings and socialize recommendations with KCTCS stakeholders
3. Reporting
3.1. Summarize final results and proposed solutions and action plans for reporting
3.2. Communicate final results and outcomes and confirm agreed next steps

Appendix B - Interviewees & process walkthrough contacts

To determine the processes followed across the foundations, KPMG met with key contacts from three college foundations and the System foundation that are involved in the disbursement process.

Location	Contact	Title
System Foundation	Megan Stith	Acting Associate VP of Philanthropy
Ashland Foundation	Kim Minnehan	Manager of Resource Development
Gateway Foundation	Tess Burns	VP of Advancement
Jefferson Foundation	Don Schieman	VP of Advancement

Appendix C - Independence results

Location	Annual Ethics Agreements	Annual Confidentiality Agreement	Annual Stewardship Plan	Annual Conflict of Interest Agreement	Annual Recognized Foundation Report	External Auditor Annual Audit Report	Annual IRS 990 Filing	Recognized Articles of Incorporation and By-Laws	501c(3) Status	Memorandum of Understanding	Updated Membership Listing
Ashland	X	X	X	X	X	✓	✓	✓	✓	✓	✓
Big Sandy	X	X	✓	X	X	✓	✓	✓	✓	✓	✓
Bluegrass	X	X	X	✓	✓	✓	✓	✓	✓	✓	✓
Elizabethtown*	✓	✓	✓	✓	✓	N/A	N/A	✓	N/A	✓	✓
Gateway	X	X	X	✓	✓	✓	✓	✓	✓	✓	✓
Hazard	X	X	X	X	X	X	✓	X	✓	✓	✓
Henderson	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hopkinsville	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jefferson	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓
KCTCS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maysville	X	X	X	X	✓	✓	✓	✓	✓	✓	✓
Owensboro	X	X	✓	X	✓	✓	✓	✓	✓	✓	✓
Paducah	X	X	X	✓	X	✓	✓	✓	✓	✓	✓
Somerset	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓
Southcentral	X	X	✓	X	X	✓	✓	✓	✓	✓	✓
Southeast	X	X	X	X	X	X	X	✓	✓	✓	✓

*Elizabethtown Foundation is a Doing Business As (DBA) of the KCTCS Foundation, therefore is covered within the KCTCS Foundation audit report, IRS 990 Filing, and 501c(3) status.

Legend		
✓ Satisfied	X Not Satisfied	N/A Not Applicable

Appendix C - Independence results (continued)

Based on the results of independence testing, KPMG noted the following as common issues:

1. For 10 of 25 samples (40%), unable to obtain the most recent Annual Signed Agreement on Ethics

2. For 10 of 25 samples (40%), unable to obtain the most recent Annual Signed Confidentiality Agreement

3. For 8 of 25 samples (32%), unable to obtain the most recent Annual Recognition of Foundation Stewardship Plan

4. For 7 of 25 samples (28%), unable to obtain the most recent Annual Recognition of Foundation Annual Report

5. For 7 of 25 samples (28%), unable to obtain the most recent Annual Signed Conflict of Interest

6. For 2 of 25 samples (8%), unable to obtain the most recent Independent External Auditors Annual Audit Report

7. For 1 of 25 samples (4%), unable to obtain the most recent 990 Filings

8. For 1 of 25 samples (4%), unable to obtain the Recognized Articles of Incorporation and By-Laws

Appendix D - Disbursement sample details

Sample	Location	Restricted or Non-Restricted	Restricted Funds Properly Spent	Properly Approved	Approved Prior to Disbursement	Approved Amount Agrees to Disbursement
1	Ashland	Restricted	✔	✔	✔	✔
2	Big Sandy	Non-restricted	N/A	✔	X	✔
3	Bluegrass	Non-restricted	N/A	✔	✔	✔
4	Bluegrass	Restricted	✔	✔	✔	✔
5	Gateway	Non-restricted	N/A	✔	✔	✔
6	Gateway	Restricted	✔	✔	✔	✔
7	Hazard	Restricted	✔	✔	✔	✔
8	Henderson	Non-restricted	N/A	✔	X	✔
9	Henderson	Non-restricted	N/A	✔	✔	✔
10	Hopkinsville	Non-restricted	N/A	✔	✔	✔
11	Hopkinsville	Restricted	✔	Approval was not able to be obtained for this sample		
12	Jefferson	Non-restricted	N/A	✔	✔	✔
13	Jefferson	Non-restricted	N/A	✔	✔	✔
14	KCTCS	Non-restricted	N/A	✔	✔	✔
15	Maysville	Non-restricted	N/A	Approval was not able to be obtained for this sample		
16	Owensboro	Non-restricted	N/A	✔	✔	✔
17	Owensboro	Non-restricted	N/A	✔	✔	✔
18	Paducah	Non-restricted	N/A	✔	✔	✔
19	Paducah	Non-restricted	N/A	✔	✔	✔

Appendix D - Disbursement sample details (continued)

Sample	Location	Restricted or Non-Restricted	Restricted Funds Properly Spent	Properly Approved	Approved Prior to Disbursement	Approved Amount Agrees to Disbursement
20	Somerset	Restricted	✓	✓	✓	✓
21	Somerset	Non-restricted	N/A	✓	✓	✓
22	Southcentral	Non-restricted	N/A	✓	✓	✓
23	Southcentral	Non-restricted	N/A	✓	✓	✓
24	Southeast	Restricted	✓	✓	✓	✓
25	Southeast	Non-restricted	N/A	✓	✓	✓

Based on the results of sample testing, KPMG noted the following as common issues:

1. **For 2 of 25 samples (8%), approvals were obtained after the purchase was made.**

2. **For 2 of 25 samples (8%), proof of review and approval was not able to be obtained.**

Legend		
✓ Satisfied	X Not Satisfied	N/A Not Applicable

Executive Compensation

03

Contents

Executive summary

Background & Scope

Background: Kentucky Community and Technical College System ("KCTCS") engaged KPMG to evaluate the compensation paid to KCTCS executives from July 1, 2019 through June 30, 2024 (FY 2020-FY 2024). According to KCTCS Executive Compensation Policy, executives are defined as non-banded employees that are classified from the following positions across KCTCS: College Presidents, Chancellor, System Vice Presidents, General Counsel, and Chief of Staff. According to KCTCS Executive Compensation Procedure, executives are paid based on the size of the college they are employed in and the hierarchy of their job title.

Scope: Review the compensation of 40 executives at KCTCS over the last five fiscal years to assess compliance with their respective contracts and KCTCS policies and procedures.

Testing Approach & Results

KPMG analyzed the compensation paid to 40 executives over the last five fiscal years, and extracted a sample of 19 executives for additional testing.

Samples consisted of an executive tested for a specific fiscal year, and were reviewed for underlying contracts, payroll, additional agreements (e.g., Voluntary Separation Agreements ("VSAs")), and any other supporting documentation for the compensation paid.

KPMG interviewed two members from the KCTCS system office (see Appendix B) to gain an understanding of the background of executive compensation at KCTCS and how it has evolved over the five sample years.

Based on the KCTCS procedures reviewed and interviews conducted, we note that KCTCS does have an Executive Compensation Policy and that only one of the 40 executives reviewed was an exception outside of policy. While the executive compensation policy exists and KCTCS is generally in line, some of the day-to-day activities do not appear to be followed in practice.

Observations and recommendations

Executive Compensation Analysis – General / Process-Based Observations	Owner and Recommendations for General Observations	
	Owner	**Recommendation**
Pay Bands and the Internal KCTCS Compensation System: Through interviews with KCTCS, we noted that the executive compensation pay bands set forth in the KCTCS Executive Compensation procedure are not aligned with KCTCS' ERP system (i.e., Oracle's PeopleSoft). The procedure breaks down executives into hierarchical E1, E2, and E3 pay bands. However, the PeopleSoft HRMS system does not explicitly consider the established pay bands and the associated minimum and maximum salary caps for each pay band. As such, there is opportunity for executives to be paid compensation that is outside of procedural limits.	- Human Resources ("HR") / Compensation - Legal	Consider updating the KCTCS payroll system to include the pay bands and limits set forth in the existing KCTCS Executive Compensation Procedure.
Policy Surrounding New Executive Roles: An assessment of executive documentation revealed that new roles of "Temporary Executive Staff" and "Senior Fellow" have been introduced into the KCTCS System. In addition, a "Fire Commission Executive Director" now falls under Executive Compensation Policy as well. However, these roles are not currently reflected in Executive procedure.	- HR / Compensation - Board of Regents - General Counsel	Consider updating KCTCS Executive Compensation Procedure to reflect any new or updated roles introduced into the system.
Executive Compensation Methodology: KCTCS Compensation procedure details minimum salary pay scales, market salary pay scales, and maximum salary pay scales. However, per discussions with KCTCS, the market salary pay scales are not reviewed by the KCTCS HR Compensation team on a regular basis.	- HR / Compensation - Legal	Consider reviewing and updating the market salary within the pay bands in the KCTCS Executive Compensation Procedure annually, utilizing the College and University Professional Association ("CUPA") statistics and other applicable data.
Executive Supplementary Allowance ("ESA") Determination and Documentation: According to KCTCS Executive Compensation procedure, executives are offered an ESA in addition to base salary in accordance to school factors such as student enrollment and college performance indicators. However, we noted a lack of documentation on the factors and how the individual ESA's were determined for each executive.	- HR / Compensation - Legal	Consider documenting and retaining calculations of how ESA's were determined (e.g., how student enrollment and college performance indicators factor into the allowance).

Observations and recommendations (continued)

Executive Compensation Analysis – Sample Specific Observations	Owner and Recommendations for Sample Specific Observations	
	Owner	**Recommendation**
Compensation paid did not tie to the executive contract, and below Procedure minimum Out of 19 samples reviewed, we noted that the compensation paid to one executive did not align with their executive contract in FY 2021 and FY 2022. In FY 2021 and FY 2022, the executive was contracted for $86,752.59. However, the executive was compensated for $93,000 in both years. Furthermore, we noted that the executive's contracted salary for FY 2022 was below the minimum of $130,000 for E2 executives as determined by KCTCS executive compensation procedure. Additionally, during FY 2022, the annual executive automobile allowance paid to the executive was $3,000. However, according to section 3.4 of Executive Compensation Level Procedure, executive automobile allowances are to range from a minimum of $10,000 to a maximum of $20,000 annually.	- HR / Compensation - Board of Regents - General Counsel	Assess whether the current KCTCS Executive Compensation policies and procedure require exceptions for executives that are not contracted as an "executive" for the full fiscal year (e.g., updating the pay bands, adjusting the salary minimums, etc.).
Timeliness of Signing Contracts: An analysis of contracts between executives and KCTCS revealed that 14 samples out of the 19 samples tested had been signed by either or both parties after the start date of the contract.	- Legal - KCTCS President	Ensure that contracts are signed prior to their start date. Consider regular review and comparison of similar executives to limit the variability in executive contracts.

Appendix

Appendix A – Executive Compensation Project plan

Scope Area	Review the compensation of 40 executives at KCTCS over the last five fiscal years to determine their compliance with contracts and KCTCS policies and procedures.

Risk	Risk of procedurally non-compliant executive compensation resulting in potential legal and fiscal repercussions.

Key Members	**KCTCS Functional Area:** General Counsel and HR Compensation Team **KPMG Lead:** Vicki Chen

Project Phases and Activities

1. Planning
1.1. Schedule and conduct introductory calls to discuss Executive Compensation scope area

1.2. Collect and review any existing process documentation

1.3. Develop proposed project plan, compile a list of report recommendations, and confirm approach with KCTCS stakeholders

2. Fieldwork
2.1. Schedule interviews with key personnel within the organization to obtain an understanding of how executives are compensated and gather data on compensation details per executive

2.2. Assess the compensation of KCTCS executives in relation to KCTCS Policy and Procedure. Investigate annual salary, ESA's as applicable, executive automobile allowances, and any additional agreements

2.3. Document analysis of results and findings and socialize with KCTCS stakeholders

3. Reporting
3.1. Summarize final results and proposed solutions and action plans for reporting

3.2. Communicate final results and outcomes and confirm agreed next steps

Appendix B – Interviewees

Buddy Combs, *Interim Chief Financial Officer*

Chelsea Young, *Staff Attorney IV*

Family Educational Rights and Privacy Act (FERPA) Compliance

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Contents

Executive Summary

Background & Scope

Background: Kentucky Community Technical College (KCTCS) experienced a breach in student data privacy within their financial aid office, leading to a violation of the Family Educational Rights and Privacy Act (FERPA). As a result, KCTCS determined the need to reevaluate its existing policies and procedures to align with industry best practices. KPMG was consulted to perform an assessment of KCTCS's FERPA related policies, procedures, and training programs with the purpose of identifying areas for improvement to align with industry best practices.

Scope: Review the KCTCS Office of Financial Aid and historic FERPA compliance. See approved project plan at Appendix A.
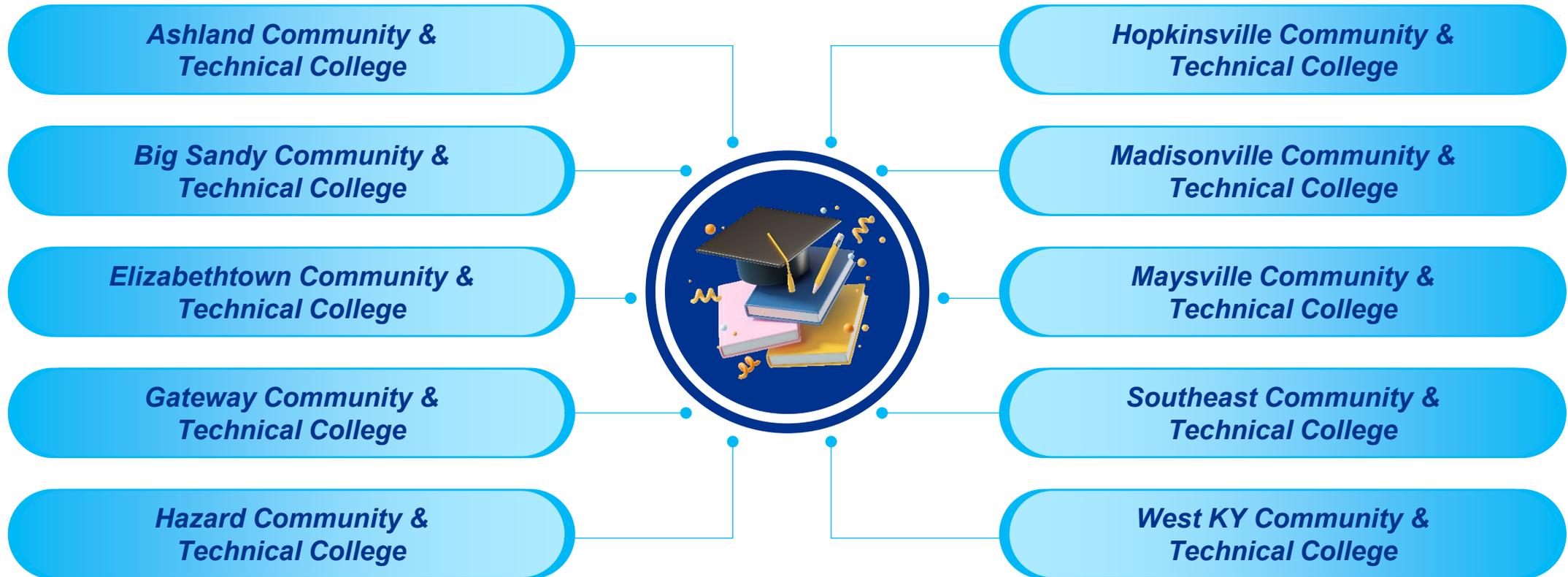
Testing Approach & Results

KPMG conducted a review to identify instances of non-compliance with FERPA at KCTCS. The assessment included the following:

- A questionnaire distributed to the Registrar and Financial Aid contacts at all 16 colleges and the System Office of KCTCS to identify non-compliance incidents from the past five years and to validate incidents were handled and resolved based on policy and best practices (see slides 5-6)
- An analysis of the Federal (required) and Kentucky (best practice, required for P-12 Institutions) Department of Educations data security protocols compared against the KCTCS FERPA policy to determine whether all necessary requirements were captured and adhered to (see slides 5-7)

The evaluation revealed that six colleges and the System Office had experienced instances of FERPA non-compliance. Among these, all six colleges and the System Office complied with Federal data privacy regulations. However, two colleges and the System Office were noted to adhere to best practices only partially. KPMG provided recommendations to enhance the current process on slide 7.

Observations

As a result of the FERPA non-compliance questionnaires, 10 of the 16 colleges reported no known instances of FERPA non-compliance within the past five years.

Ashland Community & Technical College

Big Sandy Community & Technical College

Elizabethtown Community & Technical College

Gateway Community & Technical College

Hazard Community & Technical College

Hopkinsville Community & Technical College

Madisonville Community & Technical College

Maysville Community & Technical College

Southeast Community & Technical College

West KY Community & Technical College

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Observations

Following the FERPA non-compliance questionnaires, among the six colleges and the System Office reporting instances of non-compliance, all adhered to Federal regulation and two colleges and the System Office partially adhered to best practices.

College	Description of Non-Compliance	Corrective Actions Taken	Compliant with Federal Regulation	Aligns with Best Practices
KCTCS System Office	• **Date Occurred: 6/16/2023:** An instance of non-compliance with FERPA was noted to occur as a result of a KCTCS partner, National Student Clearinghouse (NSC).	• **Date Resolved: 6/22/2023:** KCTCS elected to have NSC handle the communication to the students, which was deemed a corrective action by the system.	Yes	Partial – KCTCS should directly inform any impacted student.
Somerset	• **Date Occurred: 8/14/2020:** A faculty member sent a student an email with another student's degree audit attached. This degree audit contained the student's name, student ID, email address, and courses taken.	• **Date Resolved: 8/18/2020:** Somerset contacted legal and was instructed not to contact the student and to document the instance. The student was not notified of the non-compliance; however, documentation was kept and placed in their FERPA Violation file for the student.	Yes	Partial – KCTCS should directly inform any impacted student.
Henderson	• **Date Occurred: 3/15/2021:** Library employee scanned a student worker's timesheet with student ID information on a public scanner. The scanner auto-forwarded the timesheet to another employee. • **Date Occurred: 2/11/2022:** Faculty member provided Student A a copy of Student B's feedback on an assignment which included grade-based comments. • **Date Occurred: 3/26/2024:** Faculty member accidentally projected a screen during class with a student's grade. The faculty member closed the screen once she noticed it, but it was visible to the entire class. • **Date Occurred: 4/25/2024:** Faculty member provided Student A a copy of Student B's feedback on assignment which included scoring marks.	• **Date Resolved: Within 30 days:** Library employee asked the other employee to disregard the scanned document. Student worker was notified. Library employee completed the institutional FERPA training within 30 days and reviewed the library's scanning system settings to avoid future incidents. • **Date Resolved: Within 30 days:** Both student A and student B were notified of the situation and feedback was deleted. Faculty member completed institutional FERPA training within 30 days as well as reviewed learning management setting to minimize risk of future occurrence. • **Date Resolved: Within 30 days:** Faculty member met with student to address the situation following class. Division Chair and Registrar also spoke with student. Faculty member completed the institutional FERPA training within 30 days. • **Date Resolved: Within 30 days:** Both student A and student B were notified of the situation and feedback was deleted. Faculty member completed institutional FERPA training within 30 days as well as reviewed learning management setting to minimize risk of future occurrence.	Yes	Partial – Per the first action, KCTCS should have the scanned document with employee information deleted.

Observations (Cont.)

Following the FERPA non-compliance questionnaires, four of the colleges that identified a FERPA non-compliance issue complied with Federal regulations and also adhered to best practices for remediation.

College	Description of Non-Compliance	Corrective Actions Taken	Compliant with Federal Regulation	Aligns with Best Practices
Bluegrass	• **Date Occurred: 9/26/2022:** An email with one student's Student Identification Number was sent to multiple other students. This was immediately communicated to the KCTCS legal office, and a resolution was provided on 9/27/2022.	• **Date Resolved: 9/28/2022:** The student was notified of the disclosure within two days and a reminder was sent out to staff reminding them of the importance of checking emails prior to sending. Additionally, the Registrar's office offered additional training on FERPA, if necessary.	Yes	Yes
Jefferson	• **Date Occurred: 9/16/2019:** A file was uploaded to a course content site that contained various admission notes of students. This was identified by a student and promptly removed. • **Date Occurred: 1/12/2022:** Incorrect student was sent another student's schedule. • **Date Occurred: 7/8/2022:** Another student's Incomplete Grade Form was attached to an email instead of a blank form and was sent to a student. • **Date Occurred: 3/8/2024:** A spreadsheet containing 102 student names, biography/demonstration, and admin type was sent to a student. This was the result of a processor not realizing an incorrect email was used due to the use of auto fill. • **Date Occurred: 4/29/2024:** Incorrect student was sent another student's schedule.	• **Date Resolved: 9/16/2019:** The content was removed and the students in the file received a notification within 24 hours. • **Date Resolved: 1/13/2022:** The receiving student permanently deleted the email, and the other student was notified within 24 hours. • **Date Resolved: 7/9/2022:** The receiving student permanently deleted the email and the student on the completed form was notified within 24 hours. • **Date Resolved: 3/9/2024:** The student who received the spreadsheet permanently deleted the email and the students on the spreadsheet were notified within 24 hours. • **Date Resolved: 4/30/2024:** The receiving student permanently deleted the email, and the other student was notified within 24 hours.	Yes	Yes
Owensboro	• **Date Occurred: 4/22/2021:** An email containing a student's college application, with their date of birth and social security number, was mistakenly sent to another student. • **Date Occurred: 6/21/2022:** An email containing a student's college application, with academic plan and grades, was mistakenly sent to another student.	• **Date Resolved: 4/23/2021:** The receiving student confirmed that the information was not viewed and was deleted. The other student was also notified. • **Date Resolved: 6/22/2022:** The receiving student confirmed that the information was not viewed and was deleted. The other student was also notified.	Yes	Yes
Southcentral	• **Date Occurred: 1/27/2020:** An employee inadvertently sent an email containing a student's name, social security number, date of birth, and employer to an incorrect email address outside of the college.	• **Date Resolved: 1/30/2020:** A notice was sent to the student, along with information to contact the credit bureau. The employees at the college were informed of the incident and reminded that sensitive information should not be emailed.	Yes	Yes

Recommendations to Enhance Current Process

FERPA Compliance Recommendations

The following are best practices KCTCS should consider implementing related to the FERPA Compliance process:

Centralize the documentation of any instances of FERPA non-compliance to ensure required documentation is being recorded across all colleges.

Implement a more comprehensive policy that includes key compliance requirements to mitigate mishandling of student data. This policy should consider the following aspects:

Federal (required) and Kentucky (best practice) data privacy guidelines, including the documentation of all student data breaches and notification to all impacted students

Training frequency for employees with access to student data

Employees that should have access to student data

Specific guidelines for a data breach (i.e., Document the issue, contact the system office, notify any affected students, ensure leaked student data is deleted by recipients)

Once the centralized documentation process and updated policy are complete, send communication including a summary to each college to ensure they are aware of new practices.

Appendix

Appendix A – FERPA Compliance Project Plan

Scope Area
Review the KCTCS Office of Financial Aid and historic FERPA compliance.

Risk
Risk of current FERPA and Privacy practices inadequately providing safeguards for student's records, resulting in potential legal, financial, and reputational consequences.

Key Members
KCTCS Functional Area:

Legal, Financial Aid, & Registrars

KPMG Lead: Kelly Trame

Project Phases and Activities

1. Planning

1.1. Schedule and conduct introductory calls to discuss FERPA Compliance scope area

1.2. Collect and review any existing process documentation

1.3. Develop proposed project plan and confirm approach with KCTCS stakeholders

2. Fieldwork

2.1. Review KCTCS FERPA policies, procedures, and employee trainings for compliance with FERPA regulation

2.2. Utilize KPMG SMP to review FERPA best practices

2.3. Compare current KCTCS standards to best practices and document recommendations for enhancement

2.4. Document analysis of results and findings and socialize with KCTCS stakeholders

3. Reporting

3.1. Summarize final results and proposed solutions and action plans for reporting

3.2. Communicate final results and outcomes and confirm agreed next steps

Appendix B – Interviewees & Questionnaire Contacts

Interviewee	Title
Pam Duncan	General Counsel
Teddy Mays	Financial Aid Manager
Michelle Nordin	Assistant VP of Admissions & Records

Location	Registrar	Financial Aid Director
Ashland Community & Technical College	Robin Lewis	Adam Chapman
Bing Sandy Community & Technical College	Chris Stradler	Cathy Hurd-Crank
Bluegrass Community & Technical College	Becky Harp Stephens	Runan Evans
East KY Community & Technical College	Anita Barnhill	Barbara Gent
Elizabethtown Community & Technical College	Bryan Smith	Michael Barlow
Gateway Community & Technical College	Andre Washington	Ellen Teegarden
Hazard Community & Technical College	Libby Peters	Chuck Anderson
Henderson Community & Technical College	Chad Phillips	Whitney Laird
Jefferson Community & Technical College	Tiffanie Witt	Carla Dossett
Madisonville Community & Technical College	Amanda Tindall	Lindsay Driskell
Maysville Community & Technical College	Casie Richardson	Karen Miller
Owensboro Community & Technical College	Lauren Gillis	Sandy Power
Somerset Community & Technical College	Christy Ellis	Rebecca Simon
Southcentral KY Community & Technical College	Hallie Ingle	Patrick Mayer
Southeast KY Community & Technical College	Amy Cannon	Jennifer Noble
System Office	Ashley Neely	Mark Smith

Financials

05

Contents

Executive summary

Background & Scope

❏ **Background & Scope:** Kentucky Community and Technical College System ("KCTCS") engaged KPMG to perform journal entry (JE) analytics, designed to identify anomalies in the population and red-flags of potentially fraudulent activities, over the ledger population for the years 2000 through 2023.

Testing Approach & Results

KPMG prepared and analyzed manual journal entry (KDAT) reports over the ledger population and identified journal entries flagged with risk factors for further assessment. Reports were prepared for all years in scope.

KPMG performed completeness testing procedures for all years by tying out ledger activity by account to the trial balance activity.

KPMG developed routines to identify high-risk entries for journal entry testing procedures. KPMG requested support for 136 entries.

Analytic Results & Observations

Completeness Results:

- KPMG was able to successfully tie-out all accounts from the ledger data to the trial balance for the following years: 2007 – 2008 & 2010 – 2017
- KPMG identified differences in Retained Earnings when tying ledger data to the trial balance for the following years: 2018 – 2021 & 2023
- KPMG identified immaterial differences in completeness testing procedures for the following years: 2004 – 2006
- KPMG identified differences around the inter-unit (i.e., "due to/from") accounts for the following years: 2001 – 2003, 2009, 2022.

KDAT Reports:

KPMG was unable to perform the following analyses due to limitations in the dataset:

- Segregation of Duties, Approval Activity, Back and Forward Posted Activity, Time of Day, Reserve Account Trending.

Journal Entry Testing Procedures:

KPMG identified 116 journal entries for the years 2000 – 2020 through high-risk analytic routines. KCTCS was unable to provide support for these journal entries, which is aligned with state document retention policies.

We identified seven (7) categories of issues for the 20 journal entries identified in 2021 – 2023. Please see breakout of issue categories on subsequent slide.

Journal Entry Testing Observations

FY 2021 – 2023 Observations

Journal Entry Support Request	Wave 5 – Journal Entry Theme	Number of entries impacted
Does the entry have a contract/invoice that would trigger a JE?	No Contract, Invoice, or Schedule	8/20
Does the entry have a contract/invoice that would trigger a JE?	Date of support does not align with JE	3/20
Does the entry support amount align with the JE booked?	Support amount does not align with JE	2/20
Did this journal entry receive proper approval	Received Approval screenshot	18/20
Does this journal entry follow the schedule of adjustments already in place?	Amortization or fund schedule	7/20
If a journal entry took place in a period different from the support, what triggered this?	Request for Correction/Backdating	9/20
Did we only receive the ledger system screenshot?	No support - JE screenshot/approval only	4/20

Process Based Observations

Entries are created at the local college level and system level:

- System level entries: related to grants, student financials, and movement of capital funds
- Local college entries: Employee payroll, maintenance, and other day to day activities taking place at the local college.
- KPMG Forensic determined the journal entries which took place at the local college level had inadequate support. Per discussion with KCTCS, it is the responsibility of the local college poster to upload adequate support.

KCTCS is required to follow the state retention policy for JE Support:

- KPMG Forensic received the state retention policy on 10/02/2024 stating support is to be retained for a minimum of 3 or 5 years depending on the type of transaction.
- The journal entry support for 2000-2020 included a ledger screenshot, and approval screenshots. Per state policy, additional support is not required to be retained during this period as it falls outside of minimum retention years.
- The journal entry support provided for 2021-2023 contained additional support for 80% of journal entries, which in many cases continued to be inadequate or not aligned with the journal entry details. However, six (6) of 20 entries included an adequate contract, invoice, or aging schedule.

Accounts Receivable (AR) write-off observations:

- KPMG Forensic identified two instances where AR was outstanding for over six (6) months and not written off for over a year in one case, and over four (4) years in another.
- KPMG Forensic was told that per KCTCS AR policy, these entries should have been booked 6 months after the AR was recorded.

Observations and recommendations (continued)

Owner and Recommendations for Journal Entry Specific Observations
Recommendation

1. Develop and provide training for relevant Finance and Accounting team members covering state requirements and internal policy obligations regarding requisite supporting documentation for journal entry postings. These trainings should also focus on the responsibilities of the local college level employees. Trainings should include knowledge checks throughout the presentation as well as a final exam which all who attend the course must pass to ensure retention of the information covered.

2. Develop internal policy requirements that align with all state requirements for journal entry supporting documentation. Policies should specifically outline the types of supporting documentation that are required and sufficient. Policies should reference that proper journal entry support should be sufficient to support the purpose and nature of the transaction and include, where applicable, third-party evidence; such as, an invoice, signed contract, bank statement or other relevant forms of support.

3. Manual controls for evaluating sufficiency of supporting documentation should be implemented. Specifically, Finance and Accounting managers should be responsible for reviewing and confirming the adequacy of supporting documentation.

4. Due to limitations in the data, KPMG Forensics could not perform certain segregation of duties and other analytics for identifying instances of general management override. KCTCS should evaluate their ledger systems ability to add additional data elements. KPMG recommends that KCTCS should consider adding the following fields within the general ledger system to test for back posted/forward posted activity, approval activity, and segregation of duties: Approval ID, approval date, JE created date, JE effective date, JE created time.

5. KCTCS should evaluate its system capabilities to determine if system controls can be implemented to identify instances where AR has been outstanding for over six (6) months to account for AR that has been outstanding over the AR write-off policy requirements.

Appendix

Appendix A – Interviewees

Buddy Combs, *Interim Chief Financial Officer*

Higher Ed Innovation LLC / Superlative Group

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Contents

Executive summary

Background & Scope

Background: Kentucky Community Technical College System (KCTCS) receives federal and Kentucky state funding that is utilized for operations.
As a result of this funding, KCTCS must adhere to federal and Kentucky state procurement regulations to ensure ethical and responsible purchasing. During the payment of a vendor, it was identified that operations occurred without a signed contract in place, and further investigation revealed that the agreement was not made at arm's length.
This led to a legal settlement for services rendered and raised concerns about the procurement process. KPMG was engaged to assess the procurement process aiming to identify areas of enhancement and to align with industry best practices.

Scope: Review historic and current procurement processes for professional service contracts entered into and determine any internal changes that could be implemented to avoid legal or fiscal repercussions.

Testing Approach & Results

KPMG conducted a review of the procurement procedures followed by KCTCS. The assessment included the following:

- Analyzed federal and Kentucky legislation related to procurement and compared against KCTCS procurement policies to assess whether all necessary requirements were captured.

- Conducted an interview with KCTCS Director of Procurement to understand the procurement process and identify any gaps or areas for improvement.

- Tested a selection of 25 professional service contracts (PSCs) entered into by the KCTCS System and its 16 colleges to validate KCTCS procedures were followed consistently.

As a result, KPMG determined that KCTCS procurement process appears to be designed effectively, and the discovered incident was determined to be isolated. However, KCTCS should reinforce the processes to ensure compliance.

Observations – Legal requirements

As KCTCS receives funding from the federal government and Kentucky, they are required to adhere to federal and Kentucky procurement regulations. KPMG reviewed federal and Kentucky procurement regulations and compared against the KCTCS procurement policies and procedures. This analysis led to the identification of the following key observations:

Regulation	Requirements	KCTCS Current Processes
Code of Federal Regulations – Procurement Standards	• **Document and maintain procurement procedures** • **Solicit competitive bids for simplified acquisitions (appropriate value determined internally based on internal controls)** • **Ensure public notice and competition via sealed bids for request over simplified acquisitions**	• **KCTCS currently has a process in place to post sealed bids for request over $50K and an impartial committee that independently reviews each bid and documents their decision process. These processes are documented within the KCTCS Procurement Policy, which is updated to account for any new procurement regulatory requirements. These processes should be continued and enforced to comply with regulations.**

Kentucky Procurement Regulation	• **Contracts over the small purchase value ($100K for state institutions of higher education) must solicit a competitive sealed bid**	• **KCTCS currently has policies in place that meets the Kentucky procurement requirements with the following:**
		  • **Contracts under $50K require the solicitation of three bids,**
		  • **Contracts over $50K require a sealed bid that is made public.**
		KCTCS should continue to follow and enforce these policies to adhere with Kentucky procurement regulation.

Observations – Sample testing

A random sample of 25 professional service contracts (PSCs) were selected across the system and its 16 colleges and were analyzed for compliance with KCTCS's procurement policy. As a result of the testing performed, KPMG noted that the procurement process appears to be followed, please see Appendix C for the testing sheet.

However, KPMG noted the following could be implemented to further strengthen KCTCS's procurement processes:

- **Create a checklist that is utilized for each contract and contains the procurement requirements for each level of contract based on value**

- **Create a training over the procurement process that is required to be completed by all employees involved in the procurement process**

- **Ensure signature approvals include a printed name, title, and date or utilize electronic signatures to clearly document the name of the signatory and date of approval**

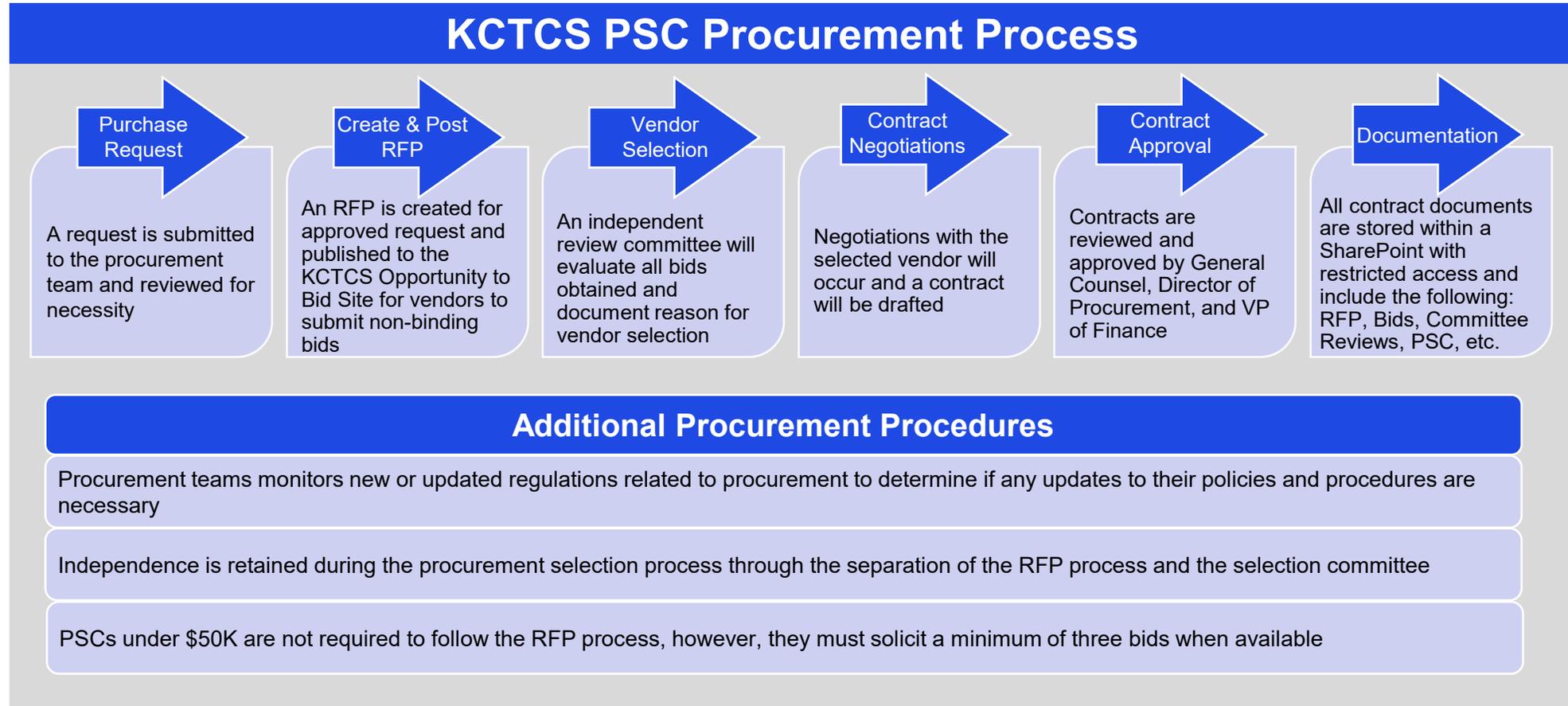# Appendix

Appendix A – Project plan

Scope Area	Examine the relationship with Higher Education Innovation, LLC and top executives, as well as the KCTCS relationship with The Superlative Group.
Risk	Risk of insufficient or ineffective procurement procedures for professional contracts resulting in inefficiencies, inadequate contract management, and/or financial overspend/penalties.
Key Members	**KCTCS Functional Area:** Procurement and Legal **KPMG Lead:** Kelly Trame

	Project Phases and Activities
1.	**Planning**
1.1.	Schedule and conduct introductory calls to discuss the Higher Ed, LLC/Superlative Group scope area
1.2.	Collect and review any existing documentation related to the scope area
1.3.	Develop proposed project plan and confirm approach with KCTCS stakeholders
2.	**Fieldwork**
2.1.	Select a contract and walk through the lifecycle of the contract selection process, starting from procurement planning to contract awarding
2.2.	Select a sample of professional service contract (PSC) payments and review corresponding documentation related to the procurement process, contracting process, vendor set-up, etc. For the corresponding contracts, review the criteria used for selecting contractors to ensure they are objective, relevant, and communicated to all bidders. Assess how these criteria are applied consistently
2.3.	Utilize KPMG SMP to review professional service contract (PSC) best practices
2.4.	Compare best practices to KCTCS processes and document recommendations for enhancement
2.5.	Document analysis of results and findings, and socialize recommendations with KCTCS stakeholders
3.	**Reporting**
3.1.	Summarize final results and proposed solutions and action plans for reporting
3.2.	Communicate final results and outcomes and confirm agreed next steps

Appendix B – Process walkthrough

KPMG met with Bekka Korosec, Director of Procurement at the KCTCS System Office, to determine the procurement processes followed at KCTCS. See below for depiction of process followed for PSC purchases over $50K, which was evident in our sample testing:

KCTCS PSC Procurement Process

Purchase Request
A request is submitted to the procurement team and reviewed for necessity

Create & Post RFP
An RFP is created for approved request and published to the KCTCS Opportunity to Bid Site for vendors to submit non-binding bids

Vendor Selection
An independent review committee will evaluate all bids obtained and document reason for vendor selection

Contract Negotiations
Negotiations with the selected vendor will occur and a contract will be drafted

Contract Approval
Contracts are reviewed and approved by General Counsel, Director of Procurement, and VP of Finance

Documentation
All contract documents are stored within a SharePoint with restricted access and include the following: RFP, Bids, Committee Reviews, PSC, etc.

Additional Procurement Procedures

Procurement teams monitors new or updated regulations related to procurement to determine if any updates to their policies and procedures are necessary

Independence is retained during the procurement selection process through the separation of the RFP process and the selection committee

PSCs under $50K are not required to follow the RFP process, however, they must solicit a minimum of three bids when available

Appendix C – Sample testing details

Based on the results of sample testing, KPMG noted that current procurement procedures appear to be followed:

Sample	Contract ID	Required RFP Request	RFP Properly Completed	Proper PSC Approval	First Invoice After PSC Effective Date	Rational Reason For Winning Bid	Contract Value Agrees to Contract Amount
1	PSC-884	✔	✔	✔	✔	✔	✔
2	PSC-860	✔	✔	✔	✔	✔	✔
3	PSC-855	✔	✔	✔	✔	✔	✔
4	PSC-882	✔	✔	✔	✔	✔	✔
5	PSC-850	✔	✔	✔	✔	✔	✔
6	PSC-861	✔	✔	✔	✔	✔	✔
7	PSC-873	N1	N1	✔	✔	N/A	✔
8	PSC-890	✔	✔	✔	✔	✔	✔
9	PSC-878	N1	N1	✔	✔	N/A	✔
10	PSC-807	✔	✔	✔	✔	✔	✔
11	PSC-909	✔	✔	✔	✔	✔	✔
12	PSC-876	N1	N1	✔	✔	N/A	✔
13	PSC-874	N1	N1	✔	✔	N/A	✔
14	PSC-851	✔	✔	✔	✔	✔	✔
15	PSC-898	N1	N1	✔	✔	N/A	✔
16	KCT-PS-765	N1	N1	✔	✔	N/A	✔
17	PSC-887	N1	N1	✔	✔	N/A	✔

Appendix C – Sample testing details (continued)

Sample	Contract ID	Required RFP Request	RFP Properly Completed	Proper PSC Approval	First Invoice After PSC Effective Date	Rational Reason For Winning Bid	Contract Value Agrees to Contract Amount
18	PSC-795	✔	✔	✔	✔	✔	✔
19	KCT-PS-723	N1	N1	✔	✔	N/A	✔
20	PSC-867	✔	✔	✔	✔	✔	✔
21	PSC-899	N1	N1	✔	✔	N/A	✔
22	KCT-PS-772	✔	✔	✔	✔	✔	✔
23	PSC-808	N1	N1	✔	✔	N/A	✔
24	KCT-PS-771	N1	N1	✔	✔	N/A	✔
25	PSC-868	✔	✔	✔	✔	✔	✔

Legend	
✔	Satisfied
X	Not Satisfied
N1	Exception noted; however, not an issue as sole source or exempt from RFP process

Marketing & PR

07

Contents

Executive summary

Background & Scope

Background: Kentucky Community and Technical College System ("KCTCS") engaged KPMG to evaluate Marketing & PR budgets from July 1, 2018 through June 30, 2024 (FY 2019 - FY 2024). Furthermore, KPMG was tasked to assess the compliance of the Marketing & PR Procurement Card ("Procard") team to KCTCS Procurement Card Policy and to determine whether any fraud, waste, or abuse occurred in correspondence to Policy and Procedure.

Scope: Review the Procurement Card transactions of Marketing & PR expenditures at KCTCS over the last six fiscal years to assess compliance to KCTCS policies and procedures.

Testing Approach & Results

KPMG analyzed the overall Marketing & PR budget from FY 2019 through FY 2024 and extracted a sample of 24 transactions for additional testing.

Samples consisted of a Marketing & PR Procurement card transaction from a specific fiscal year, expenditure descriptions, business purposes, and supervisory approvals.

KPMG interviewed three members from the KCTCS system office (see Appendix B) to gain an understanding of the background of Marketing & PR at KCTCS and how it has evolved over the six sample years.

Based on the KCTCS procedures reviewed and interviews conducted, we note that KCTCS does have an overall Procurement Card Policy that specifies rules surrounding Procard usage. While the Procurement Card policy exists and KCTCS is generally in line, the process for how a Procard transaction is made and who is to approve that transaction is unclear.

*Please note that Sample 1 did not have complete data provided for proper assessment.
*Please note that Sample 6 was deemed by KCTCS as unrelated to Marketing & PR, though it was included in budget files provided

Observations and recommendations

Marketing & PR – General / Process-Based Observations	Owner and Recommendations for General Observations	
	Owner	**Recommendation**
Undefined Budget Chart Strings Complicate the Marketing & PR Budget: Through interviews with KCTCS, we noted that tagging the proper budget chart string to Marketing & PR Procard expenditures is difficult and strenuous as the chart strings are not defined appropriately. It was noted in our interviews that money moves freely between chart strings in the Marketing & PR budget and that can make it difficult to track the money trail.	- Marketing & Communications - Pay to Procurement	Consider a full re-assessment of the budget chart strings in PeopleSoft and a re-classification of chart string numbers to the proper Marketing & PR Procard expenditures.
Procard transaction approval process was unrestricted during scope period: Interviews with the Marketing & PR department and subsequent review of sample documentation revealed that typically Procard transactions are approved by a budget supervisor after the expenditure is made. In addition, it was noted that the employee supervisor and budget supervisor approvers are often the same person, questioning the scope period's process for approving Procard expenditures.[1]	- Marketing & Communications - Pay to Procurement	Consider creating a new Marketing & PR Procard expenditure procedure that clearly outlines when and how transactions are to be made. Additionally, consider streamlining the approval process for Procard expenditures to ease the time it takes to process a transaction.
Absence of regular vendor/merchant assessment: Interviews with the Marketing team revealed that certain merchants/vendors have had contracts with KCTCS for years without any regular re-assessment of the relationship. An example given was a contract between KCTCS and &well where KCTCS was seeking services from an entirely separate firm in C2 Communications, and &well was acting as a third party pass through merchant.	- Marketing & Communications - Legal	Consider establishing a regular assessment (e.g., annually) of all merchant/vendors that KCTCS works with to determine, among other things, whether to go back to RFP for those services.
Lack of Procard statement review documentation: According to KCTCS Procurement Card Procedure, under section 11.2, "Supervisors of cardholders are responsible to review the cardholder statement at each cycle…Reviewed records are to be uploaded to a secure network folder for retention and potential audit purposes." KCTCS was unable to provide documentation of this review.	- Marketing & Communications	Internally assess Marketing & PR team compliance to statute 11.2 in the Procurement Card Procedure and consider updating Policy to be in line with expected practice.

[1]: Please note that KPMG understands through interviews conducted with the Marketing & PR team that starting around April 2024, the Marketing & PR Procurement cardholders were asked to seek supervisory voiced approval prior to any expenditures

Observations and recommendations (continued)

Marketing & PR – Sample Specific Observations	Owner and Recommendations for General Observations	
	Owner	**Recommendation**
19 Samples reviewed had Procard expenditures that were made prior to supervisory approval: After assessment of the samples provided, it was noted that 19 out of the 22 samples (86.4%) received supervisory approval for the transaction after the purchase was made according to PeopleSoft screenshots. As a case example, Sample 9 detailed a purchase for web domain registration through Go Daddy. According to the receipts provided, the date of the transaction was on 12/17/2020, however, supervisor approval for the purchase came on 9/19/2022. This is a difference of 21 months.	- Marketing & Communications - Pay to Procurement	Consider adding a flag into the PeopleSoft system that would require budgetary supervisor approval prior to the purchase of Procard transactions over a specified threshold.
3 Samples had Merchants that were unidentifiable online: A review of the 22 samples provided found that 3 out of the 22 samples (13.6%) had Merchants that could not be found clearly online. A case example of this is Sample 11, where the Merchant name was Invenio Partners. Upon further investigation, the transaction involved a purchase of Kintivo forms, however the connection between Kintivo Forms and Invenio Partners is unclear. On the receipt provided, Intuit QuickBooks only appears and there is no date for the purchase.	- Marketing & Communications - Legal	Consider a quarterly review of all major merchants with whom the Marketing & PR department is involved with to ensure expenditures are to the best interest of KCTCS.
2 Samples had no date listed in the transaction receipt: The sample review revealed that 2 out of the 22 samples (9.1%) did not present a date in the receipt of the Procard purchase. A case example is Sample 16, where the purchase was for a Vimeo video platform subscription on KCTCS' websites. On the transaction receipt uploaded, there is no date listed for when the bill was paid for. In addition, the eBA850 form lists the purchase date as 1/4/2023 which is after the bill "due date" on the Vimeo receipt of 9/30/22. The invoice was for contracted Vimeo services from 8/10/2022 to 8/9/2023.	- Pay to Procurement - Legal	Consider implementing a rule for KCTCS Procard holders to ensure all receipts and transaction details with the merchant are inclusive of all details prior to uploading documentation to PeopleSoft.

Observations and recommendations (continued)

Marketing & PR – Sample Specific Observations (continued)	Owner and Recommendations for Sample Specific Observations	
	Owner	**Recommendation**
2 Samples noted late KCTCS payments to the merchant: A full review of the sample population revealed that 2 out of the 22 samples (9.1%) exhibited a late payment from KCTCS to the merchant. A case example is Sample 22, where Southland Printing was engaged to provide materials for a KCTCS Spirit Week. While Supervisor approval was listed on the same date as the purchase date of the items on PeopleSoft, it was noted that the Spirit Week items were delivered to KCTCS by Southland Printing on 8/15/2023 and KCTCS did not pay until 10/17/2023 on the transaction receipt.	- Pay to Procurement - Finance	Consider implementing a step plan from initiation of a Procard purchase through the payment of the transaction to ensure KCTCS is making payments in good faith to merchants.
6 Samples contained purchase details where the Procard transaction requester and Procard holder were different KCTCS employees: An analysis of the sample population documentation uploaded by KCTCS revealed that 6 out of the 22 samples (27.27%) had various KCTCS employee names in the Procard transaction details. A case example is Sample 7, where the merchant was B&H Photo who was to provide photography and video equipment for KCTCS photo/video shoots. While the Procard holder was Justin Moseley, the B&H Photo receipt shows Chris Woosley under the 'Ship To' address. Furthermore, the name of the person under the 'Bill To' address is Vickie Sutherland. Both addresses have the same 300 N Main St KCTCS address, however, the 'Bill To' address is for Versailles, KY and the 'Ship To' address is for Winchester, KY.	- Pay to Procurement - Marketing & Communications	Consider implementing a procedure for how Procard transactions are to be made and when supervisory approval is to be obtained as to have a clear structure for business transactions.

Appendix

Appendix A – Marketing & PR Project plan

Scope Area	Review all Marketing & PR budgets to determine whether policies and procedures have been violated and whether fraud, waste, and/or abuse occurred historically

Risk	- Risk of Marketing & PR expenses being inaccurately or inappropriately incurred and recorded during the period in scope - Risk of noncompliance with policies and procedures - Risk of fraud, waste, and abuse within marketing and PR expenses

Key Members	**KCTCS Functional Area:** Marketing and Communications Pay to Procurement / External Relations **KPMG Lead:** Krystle Diaz

Project Phases and Activities

1. Planning

1.1.	Schedule and conduct introductory calls to discuss the Marketing & PR scope area
1.2.	Collect and review any existing documentation related to the scope area
1.3.	Develop proposed project plan and confirm approach with KCTCS stakeholders

2. Fieldwork

2.1.	Utilize data analytics to assess Marketing & PR expenses during the scope period, identify anomalies, and follow up with KCTCS where necessary
2.2.	Select a risk-based sample of transactions (maximum of 25) recorded to the Marketing & PR accounts
2.3.	Obtain and analyze underlying documentation for each sample, verifying the nature of the expense, whether they were properly categorized, and charged in accordance with KCTCS policies and procedures
2.4.	Document analysis of results and findings

3. Reporting

3.1.	Summarize final results, propose solutions/recommendations, and action plans in report
3.2.	Communicate final results and recommendations, and align on next steps with KCTCS stakeholders

Appendix B – Interviewees

Buddy Combs, *Interim Chief Financial Officer*

Hannah Rivera, *VP of External Relations*

Blair Hess, *VP of Marketing and Communications*

Appendix C – Marketing & PR Sample Testing Details

Sample	Merchant Name	Approval Prior to Expenditure	Merchant Identifiable?	Presence of Purchase Date	Timely KCTCS Merchant Payment	Same Procard Requester/Holder
1*	Adobe (RAINFOCADOBE AS20)	N/A	N/A	N/A	N/A	N/A
2	National Association of Broadcasters	X	✔	✔	✔	X
3	Urban One, Inc.	X	✔	✔	✔	✔
4	The Business Journals	X	✔	✔	✔	✔
5	Sinclair Broadcasting	X	✔	✔	✔	✔
6*	National Association for Women Business Owners	N/A	N/A	N/A	N/A	N/A
7	B&H Photo	X	✔	✔	✔	X
8	Facebook	X	✔	✔	✔	✔
9	Go Daddy	X	X	✔	✔	✔
10	iHeart Radio	X	✔	✔	✔	✔
11	Invenio Partners	X	X	X	✔	✔
12	Adventure Promotions	X	✔	✔	✔	✔
13	Lane Report	X	✔	✔	✔	✔
14	Delta Air	X	✔	✔	✔	✔
15	Aloft	✔	✔	✔	✔	✔
16	Vimeo	X	✔	X	X	✔
17	In Mission Merch	X	✔	✔	✔	✔
18	Monday.com	X	✔	✔	✔	✔
19	Brighton Center Catering	✔	✔	✔	✔	✔

Sample	Merchant Name	Approval Prior to Expenditure	Merchant Identifiable?	Presence of Purchase Date	Timely KCTCS Merchant Payment	Same Procard Requester/Holder
20	4Imprint	X	✓	✓	✓	✓
21	&well	X	✓	✓	✓	X
22	Southland Printing	✓	✓	✓	X	X
23	Media Library Kentucky LLC	X	✓	✓	✓	X
24	L2 Political	X	X	✓	✓	X

Based on the results of sample testing, KPMG noted the following as common issues:

1. For 19 of 22 samples (86.4%), Procard expenditure was made prior to approval

2. For 3 of 22 samples (13.6%), the merchant was unable to be identified online

3. For 2 of 22 samples (9.1%), the Procard transaction date was not present on the receipt

4. For 2 of 22 samples (9.1%), KCTCS' payment to the merchant was made well after the requested date

5. For 6 of 22 samples (27.3%), the Procard holder and requester for the purchase were not aligned

*Two of the 24 samples were not included in the above percentages as reflected in the Testing Results

Legend	
Satisfied	Not Satisfied
✓	X

Appendix D – Top Marketing & PR Transactions by Fiscal Year

- **FY 2019**

  - $667,128.74 (Direct Marketing and Craft Stores* / Two Digit MCC Code 59**)

  - $47,159.38 (Advertising Services, Computer Programming, and other Business Services / Two Digit MCC Code 73)

  - $8,954.62 (Industrial Supplies and Electrical Parts / Two Digit MCC Code 50)

- **FY 2020**

  - $51,267.77 (Advertising Services, Computer Programming, and other Business Services / Two Digit MCC Code 73)

  - $25,780.59 (Direct Marketing and Craft Stores / Two Digit MCC Code 59)

  - $7,970.41 (Computer Network/Information Services / Two Digit MCC Code 48)

* Please note that the expenditure descriptions may be KPMG summarized names

** Please note that MCC Codes were only provided for FY 2019 and FY 2020

Appendix D – Top Marketing & PR Transactions by Fiscal Year (continued)

- **FY 2021**
  - $128,947.70 ("Advertising – Internet")
  - $19,872.94 ("Advertising – Radio")
  - $11,539.90 ("Advertising – Television")

- **FY 2022**
  - $22,441.95 ("Promotional Items")
  - $18,645.86 ("Advertising – Internet")
  - $13,084.12 ("Subscriptions")

- **FY 2023**
  - $18,599.23 ("Subscriptions")
  - $5,897.84 ("Travel – In State")
  - $4,923.40 ("Advertising – Internet")

- **FY 2024**
  - $45,586.10 ("Promotional Items")
  - $11,340.54 ("Travel – Out of State")
  - $10,292.66 ("Subscriptions")

Personnel and Unit Investigation

08

Contents

Executive summary

Background & Scope

Background: Kentucky Community Technical College System (KCTCS) underwent multiple investigations by external firms. As a result of the investigations, the following reports were provided to KCTCS:

- MMLK Report
- MCM Report
- Denton's Summary Report (Two Reports)
- Sturgill Report

The above reports contained numerous recommendations for KCTCS to enhance current processes and mitigate risks. These recommendations primarily focused on the HR and Legal departments. KPMG was contracted to perform a review to determine if the recommendations have been implemented.

Scope: Review and advise on personnel and unit investigations to determine whether KCTCS has instituted the recommendations provided from the reports of investigation. See approved project plan at Appendix A.

Testing Approach & Results

KPMG conducted a review of the five reports of investigation included in the scope and compiled a list of recommendations stemming from these reports. These recommendations were organized into 15 distinct themes for detailed examination. KPMG interviewed four members of the system office (see Appendix B) to gain an understanding of the background of each recommendation and determine the extent of which the recommendations had been implemented.

Upon investigating the 15 recommendation themes, KPMG assessed their implementation status as either:

- Fully Implemented
- Partially Implemented
- Not Implemented

KPMG reviewed all recommendation themes and determined nine of these themes were fully implemented (see pg. 4). However, the remaining six were partially implemented or not yet implemented (see pgs. 5-7). For those recommendations either partially or not yet actioned, KPMG identified outstanding steps necessary to achieve full implementation.

Observations and recommendations

Of the 15 recommendation themes analyzed from the reports of investigation, nine recommendation themes were noted as fully implemented and require no further action from KCTCS.

Personnel and Unit Investigation Report Recommendations

Request for Proposal Process Review (MCM Report): MCM recommends a review of the current RFP Process to ensure that the RFP process and procedures are still applicable. All projects should go through a formal RFP Process if over the $40K threshold for RFPs. This ensures a fair opportunity for all vendors wishing to apply for consideration to be given a chance to submit a proposal for a KCTCS project. ✅

OPEB Trust Committee Responsibilities (MCM Report): KCTCS should perform a review of OPEB Trust Agreement and Committee appointment letters to ensure they clearly outline the authority and responsibility of the committee. Additionally, during this review, KCTCS should include a statement that significant changes impacting the Trust be presented to the Board of Regents for comment and/or formal vote prior to execution. ✅

Annual Merit Standards (MCM Report): MCM recommends having a more formalized and definitive annual merit and budgeting process for Managers and Supervisors with direct reports. This ensures a consistent process for receiving a budget, planning for potential adjustments, merit and promotional increases, and rewarding direct reports in a more consistent manner within their departments. ✅

Compensation Policy and Procedure Access (MCM Report): HR and Compensation Policies and Procedures should be published where all Managers and Supervisors are provided access. Formally documented policies and standard operating procedures will add clarity and consistency with processes. ✅

Competitive Salary Review (MCM Report): MCM recommends a review of Salary Schedules annually to ensure that they are being competitive with the external marketplace while also balancing internal equity among current employees. A COLA review is also recommended. ✅

Market Salary Research (MCM Report): MCM would recommend continuing to participate and utilize various survey sources for Compensation data. Creating documentation on the market pricing review process for KCTCS would ensure consistency with pulling market data for each position. KCTCS can provide Managers and Supervisors a range of pay data not only at the 50th percentile of the market, but also at the 25th and 90th percentiles of the market. This provides for a broader analysis and view of where pay increases can be provided for individuals with specific jobs. ✅

OPEB Trust Committee Independence Review (MCM Report): KCTCS should ensure that the OPEB Trust Administrative Committee is comprised of independent members to ensure there are no conflicts of interest present in making decisions that are in the best interest of the OPEB trust, its beneficiaries, and KCTCS as the plan sponsor. ✅

Job Description & Requirements (MMLK Report): 1). Human Resources should have an understanding of each position that requires a specific license, certificate or degree, and be empowered to hold up onboarding unless and until verification of the credentials is received. 2). Human Resources should have a clear understanding that job requirements are inflexible, must be met, and that individual judgment is not to be substituted for the stated requirements of any employee's position within the organization. 3). Human Resources should create a detailed listing of each position requiring a license, certificate, or degree and a procedure for submitting the documentation prior to beginning duties. 4). Implement a consistent process for reviewing job descriptions annually. A more frequent review would be recommended when Departments reorganize, create new positions or merge with other departments. ✅

Whistleblower Policy Compliance (Sturgill Report): KCTCS should review their whistleblower policy and ensure they are in compliance with the Kentucky Whistleblower Act. Any updates should be made immediately to avoid disciplinary action. ✅

Recommendation Status: ❌ Not implemented ➖ Partially implemented ✅ Fully implemented

Observations and recommendations (cont'd)

The remaining recommendation themes analyzed were either not yet implemented or partially implemented. The tables on slides 5 - 7 depict the analysis of these themes and details of the open action(s) required to achieve full implementation.

Personnel and Unit Investigation Report Recommendations		Open Actions from Personnel and Unit Report Recommendation	
		Owner	**Open Action**
Annual Policy and Procedure Review (MCM Report): Policies and Standard Operating Procedures should be reviewed annually to ensure that updates allow for changes in current processes, taking into consideration the changing work environment and technological advancements. An annual review ensures that policies and practices are not outdated.	❌	HR & Legal	Consider implementing a formal review of policies on a set cadence based on importance by legal and/or department heads to determine if any changes have occurred requiring an update in policy. This review process is in the beginning stages, as the new compliance officer in charge of this process started at KCTCS in June.

Recommendation Status: ❌ Not implemented   ➖ Partially implemented   ✅ Fully implemented

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Observations and recommendations (cont'd)

Personnel and Unit Investigation Report Recommendations	Open Actions from Personnel and Unit Report Recommendation	
	Owner	**Open Action**
Health Insurance Proposal Request (MCM Report): ⊖ 1. KCTCS should consider issuing a request for proposal in 2023 to solicit bids from other insurance companies to appropriately evaluate options available to KCTCS in order to make a decision that is more appropriate for both KCTCS and the retirees receiving benefits in the plan. 2. MCM recommends KCTCS should consider utilizing the healthcare plan comparison and recommendations services in evaluating the plan design to ensure it is in alignment with best practices and in the best financial interest of the trust.	**HR**	Once RFP approval is obtained from the Board of Regents, KCTCS should consider performing a detailed analysis of health insurance providers to determine their selection of insurance plans.
Supplemental/Overload Assignment Review (MCM Report): ⊖ MCM recommends a review of the current policy and revision process to ensure that Supplemental/Overload Assignments are provided to employees on a more consistent basis. A more thorough analysis of these payments should be conducted to view the total impact that they have on each participating employee's pay.	**HR & Legal**	Continue the process of reviewing and updating policies to address any gaps identified. This review process is in the beginning stages, as the new compliance officer in charge of this process started in KCTCS in June.
Employee Demographic Review (MCM Report): ⊖ MCM recommends that KCTCS' Office of Administrative Services continues to closely review their demographics data moving forward. With five generations in the workforce, their age population will more than likely shift significantly in the next few years with 72% of their current employees being 40 years old and above. A more individualized review of average base pay may discern any additional discriminatory risk for these demographics.	**HR**	Consider implementing a formal review of pay by demographic data. Currently, KCTCS is in the process of executing an RFP for a new pay system which could help monitor demographic data continually and avoid discriminatory risk. Additionally, KCTCS performs a market salary review and determines an acceptable salary range for each position.
Policy Review and Communication (Dentons Report) ⊖ 1. KCTCS should carefully examine its policies and procedures and make appropriate updates to ensure any gaps identified are addressed. Specifically, focus should be paid to pay-related policies and procedures, as well as the reorganization policy. 2. In addition, trainings should be provided to supervisors for any policy and procedure updates to ensure they are aware of the requirements.	**HR & Legal**	Continue the process of reviewing and updating policies to address any gaps identified. This review process is in the beginning stages, as the new compliance officer in charge of this process started at KCTCS in June. In addition, KCTCS should provide a training or overview on new or updated policies.

Recommendation Status: ❌ Not implemented ⊖ Partially implemented ✅ Fully implemented

Personnel and Unit Investigation Report Recommendations	Open Actions from Personnel and Unit Report Recommendation	
	Owner	Open Action
Human Resource Expectations/Training (MMLK & MCM Report): ⊖ 1. Human Resources should not wait for an employee's supervisor to follow up on the individual's job requirements, as onboarding is a human resources function and a prerequisite to working for the organization at all. 2. Human Resources staff should be trained that if an employee has failed or is currently failing to meet the stated requirements of his or her job, the employee must be given a specific timeframe to fulfill said requirements or be terminated. 3. Human Resources should ensure job postings and offer letters make clear that the employment is contingent upon verification of credentials required for the job. Human Resources is expected to have direct communication with the employees (and their supervisors) regarding the status of receipt of credentials. 4. A Human Resource policy/training should be created to outline the job function for HR related activities regarding position requirements, position postings, and on-boarding. These policies/trainings should be included in HR on-boarding. .	HR	Continue validating employee credentials prior to extending an offer letter. Consider creating a formal pre-hire and onboarding process where a control is in place to ensure all required documents have been submitted and reviewed. As part of the job posting and offer letter to a candidate, language indicating that employment is contingent upon verification of credentials should be included. KCTCS should create a system wide policy and training to support this change. Additionally, KCTCS could create a formalized procedure document outlining the full hiring process from job posting to employee on-boarding, which HR professionals should follow.

Recommendation Status: ❌ Not implemented ⊖ Partially implemented ✅ Fully implemented

Appendix

Appendix A – Personnel & Unit investigation Project plan

Scope Area	Review and advise on personnel and unit investigations to determine whether KCTCS has instituted the recommendations provided from the reports of investigation.	**Risk**	Risk of improper handling/resolution of personnel complaints and unit investigation resulting in potential legal and fiscal repercussions.

Key Members

KCTCS Functional Area:
Legal and Human Resources

KPMG Lead:
Kelly Trame

Project Phases and Activities

1. Planning

1.1.	Schedule and conduct introductory calls to discuss Personnel and Unit Investigation scope area
1.2.	Collect and review any existing process documentation
1.3.	Develop proposed project plan, compile a list of report recommendations, and confirm approach with KCTCS stakeholders

2. Fieldwork

2.1.	Schedule interviews with key personnel within the organization to determine how the recommendations from the reports of investigation have been implemented in their respective areas
2.2.	Evaluate protocols and procedures implemented by KCTCS against the recommendations from the reports of investigation. Provide additional areas of enhancement as necessary
2.3.	Document analysis of results and findings and socialize with KCTCS stakeholders

3. Reporting

3.1.	Summarize final results and proposed solutions and action plans for reporting
3.2.	Communicate final results and outcomes and confirm agreed next steps

Appendix B – Interviewees

Bridget Canter, *Vice President, Business & Human Resources*

Terri DeAtley, *Director, General Counsel Constituent Services*

Pam Duncan, *General Counsel*

Bekka Korosec, *Director, Procure to Pay Services*

Chelsea Young, *Staff Attorney IV*

Procards

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Contents

Executive summary

Background & Scope

☐ **Background & Scope:** Kentucky Community and Technical College System ("KCTCS") engaged KPMG to perform analytics on KCTCS Procurement Card ("P-Card") data, tasked to identify anomalies in the population and potential fraudulent activities over the population of transactions from July 1, 2018 through June 30, 2024 (FY 2019 – FY 2024).

Testing Approach & Results

KPMG ingested and prepared time and expense trending dashboards over the transaction population and identified transactions flagged with risk factors for further assessment. The PowerBI dashboard profiled expense data for all periods in scope.

KPMG developed a trending analysis over activity for the following criteria; username, merchant category code ("MCC"), keyword, department, day of the week, holidays, and week of the year.

KPMG developed routines to identify high-risk transactions for P-Card testing procedures.

Analytic Results & General Observations

P-Card Trending Results:

- KPMG performed the following:
  - Identified and ranked individuals by expense activity – number of transactions and dollar value.
  - Identified and ranked departments by expense activity – dollar value of transactions.
  - Identified approximately 20,000 transactions taking place on weekends and approximately 4,000 transactions taking place on holidays (i.e., New Year's Day, MLK Day, President's Day, Good Friday, Memorial Day, Juneteenth, Independence Day, Labor Day, Thanksgiving, Day after Thanksgiving, and Christmas Day).
  - Identified 67,379 transactions with a keyword hit. The most common keywords identified in transaction data were; "education", "community", and "marketing".
  - Identified and ranked the individuals associated with high-risk keywords.
  - Identified and ranked the MCC transaction type for FY 2019 – FY 2020.
- KPMG was unable to perform the following analyses due to limitations in the dataset:
  - MCC analysis for FY 2021 – FY 2024.

Sample Testing Procedures:

KPMG assessed KCTCS P-Card data from FY 2019 through FY 2024, and extracted 16 transactions for further analysis based on high dollar value transactions and other factors. KPMG was informed that any sample pulled with a purchase date from July 2018 to January 2020 would not be provided in full as it falls outside of minimum retention years per state policy (3 or 5 years depending on the type of transaction). This affected 8 transactions as reflected in the testing grid in Appendix C.

Observations and recommendations

Procard – Sample Specific Observations	Owner and Recommendations for Sample Specific Observations	
	Owner	Recommendation
5 transactions reviewed had Procard expenditures that were made prior to supervisory approval: After assessment of the transactions provided, it was noted that 5 out of the 8 transactions (62.5%) received supervisory approval for the transaction after the purchase was made according to PeopleSoft screenshots. As a case example, Sample 7 detailed a purchase from Hillyard for a floor cleaning machine. According to the PeopleSoft screenshots provided, the date of the transaction was on 1/1/2021, however, supervisor approval for the purchase came on 3/31/2021.	- Pay to Procurement	Consider adding a flag into the PeopleSoft system that would require budgetary supervisor approval prior to the purchase of large Procard transactions.
1 transaction had no date listed in the transaction receipt: The assessment of the transactions revealed that 1 out of the 8 transactions (12.5%) did not present a date in the receipt of the Procard purchase. The transaction is Sample 15, where the purchase was for table throw clothes for Somerset Community College purchased from Club Colors. On the transaction receipt uploaded, there is no date listed for when the bill was paid. In addition, the eBA850 form lists the purchase date as 6/7/2023 which is after the bill invoice date on the Club Colors receipt for 5/11/2023.	- Pay to Procurement - Legal	Consider implementing a rule for KCTCS Procard holders to ensure all receipts and merchant transaction details are accurate prior to uploading documentation to PeopleSoft.

Observations and recommendations (continued)

Procard – Sample Specific Observations (continued)	Owner and Recommendations for Sample Specific Observations	
	Owner	Recommendation
3 transactions noted late KCTCS payments to the merchant: The assessment of the transactions revealed that 3 out of the 8 transactions (37.5%) exhibited a late payment from KCTCS to the merchant. A case example is Sample 14, where payments were made for the usage of Toshiba copiers at KCTCS. It was noted that KCTCS made late payments to Toshiba Financial Services as a lump sum payment in April 2023 for nine monthly invoices dating back to July 2022.	- Pay to Procurement - Finance	Consider implementing a step plan from initiation of a Procard purchase through the payment of the transaction to ensure KCTCS is making payments in good faith to merchants.
4 transactions contained purchase details where the Procard transaction requester and Procard holder were different KCTCS employees: The assessment of the transactions revealed that 4 out of the 8 transactions (50.0%) had various KCTCS employee names in the Procard transaction details. A case example is Sample 12, where the merchant was Modern Supply Company engaged to provide instructional supplies for a KCTCS Welding program. While the Procard holder was Donia Massey, the documentation uploaded does not reflect the identity of the Procard transaction requester, Marsha Shorts. Furthermore, there is no KCTCS employee name on the business transaction receipts provided.	- Pay to Procurement	Consider implementing a procedure for how Procard transactions are to be made and when supervisory approval is to be obtained as to have a clear structure for business transactions.

Appendix

Appendix A – Procard Sample Testing Details

Sample	Fiscal Year	Merchant Name	Approval Prior to Expenditure	Merchant Identifiable?	Presence of Purchase Date	Timely KCTCS Merchant Payment	Same Procard Requester/Holder
1*	FY 2019	VZWRLSS IVR VB	N/A	N/A	N/A	N/A	N/A
2*	FY 2020	KONICA MINOLTA USA	N/A	N/A	N/A	N/A	N/A
3*	FY 2019	AT&T BILL PAYMENT	N/A	N/A	N/A	N/A	N/A
4*	FY 2019	CINTI BELL TECH	N/A	N/A	N/A	N/A	N/A
5*	FY 2019	L2G JENNY WILEY SRP	N/A	N/A	N/A	N/A	N/A
6	FY 2021	CDWG	X	✔	✔	✔	X
7	FY 2021	Hillyard / Kentucky	X	✔	✔	X	X
8	FY 2023	Delta Airlines	✔	✔	✔	✔	✔
9*	FY 2019	MAIL SOLUTIONS	N/A	N/A	N/A	N/A	N/A
10	FY 2022	Amazon	✔	✔	✔	✔	X
11*	FY 2019	XEROX CORPORATION/RBO	N/A	N/A	N/A	N/A	N/A
12	FY 2020	MODERN SUPPLY COMPANY, IN	X	✔	✔	X	X
13*	FY 2020	B&N @ JCTC #0620	N/A	N/A	N/A	N/A	N/A
14	FY 2023	Toshiba Financial Services	✔	✔	✔	X	✔
15	FY 2023	Club Colors Opportunities: BRANDED	X	✔	X	✔	✔
16	FY 2024	DELL ECM	X	✔	✔	✔	✔

Legend	
Satisfied	Not Satisfied
✔	X

Based on the results of sample testing, KPMG noted the following:

1. For 5 of 8 transactions (62.5%), Procard expenditure was made prior to approval

2. For 8 of 8 transactions (100.0%), the merchant was able to be identified online

3. For 1 of 8 transactions (12.5%), the Procard transaction date was not present on the receipt

4. For 3 of 8 transactions (37.5%), KCTCS' payment to the merchant was made after the requested date

5. For 4 of 8 transactions (50.0%), the Procard holder and requester for the purchase were not aligned

*8 of the 16 transactions were not included in the above percentages as reflected in the Testing Results

Appendix B – Top Procard Transactions by Fiscal Year

- **FY 2019 - $28,151,053,73**

    - $6,581,870.00 (Computer, Cable, and Telecommunication Services* / Two Digit MCC Code 48)

    - $4,045,238.76 (Commercial, Electrical, and Office Equipment / Two Digit MCC Code 50)

    - $3,773,883.33 (Shop Purchases / Two Digit MCC Code 59)

- **FY 2020 - $18,267,380.58**

    - $3,330,186.82 (Commercial, Electrical, and Office Equipment / Two Digit MCC Code 50)

    - $2,629,905.94 (Shop Purchases / Two Digit MCC Code 59)

    - $1,930,056.74 (Computer, Cable, and Telecommunication Services / Two Digit MCC Code 48)

    * Please note that the expenditure descriptions may be KPMG summarized names

    ** Please note that MCC Codes were only provided for FY 2019 and FY 2020

Voluntary Separation Agreements (VSAs)

10

Contents

Executive Summary

Background & Scope

Background: Kentucky Community Technical College System (KCTCS) utilizes Voluntary Separation Agreements (VSAs) to provide financial compensation to employees who voluntarily resign from their positions. KCTCS sought to evaluate its current VSA processes across the system and its colleges to identify any practices that could potentially result in legal or financial consequences. KPMG was engaged to conduct an assessment of the existing VSA practices aiming to pinpoint areas for enhancement and to align with industry best practices.

Scope: 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.

Testing Approach & Results

KPMG conducted a review of the VSA processes followed by KCTCS. The assessment included the following:

- An analysis of Federal and Kentucky legislation related to VSAs compared against the KCTCS Frequently Asked Question (FAQ) document to determine whether all necessary requirements were captured (see pg. 4)
- Testing of a selection of 25 VSA contracts distributed by the KCTCS system and its 16 colleges to validate KCTCS procedures were followed consistently across (see pg. 5)
- Walkthroughs conducted with a sample of three colleges and the system payroll department to assess the consistency of processes across the colleges (see pg. 6)

As a result, KPMG determined that the KCTCS VSA procedures do not fully align with industry standards, posing a risk of legal and fiscal consequences. Additionally, KPMG's sample testing revealed inconsistencies with adherence to the existing KCTCS VSA FAQ across various colleges. KPMG recommends creating a comprehensive VSA policy that specifies standard requirements to be uniformly applied throughout all colleges and the system (see pg. 7).

Observations – Legal Requirements

KPMG reviewed regulation from the ADEA, OWBPA, and EEOC regarding VSAs and compared against the KCTCS VSA FAQ, to assess consideration for the requirements. This analysis led to the identification of the following key observations:

Legal Risk	Description	Recommendation
Disparate Impact / Age Discrimination	• Executing VSAs could potentially lead to disparate impact, the unintentional discrimination against a protected class • Executing VSAs could potentially violate the Age Discrimination in Employment Act (ADEA), if used to target older employees or as a means of forced retirement	• Implement standard eligibility requirements for their VSA program • Conduct an adverse impact analysis, a statistical assessment used to identify disparities, over VSAs paid

Older Workers Benefit Protection Act (OWBPA)	• VSAs include a waiver of an employees ADEA rights, requiring specific criteria set in the OWBPA to be met for the waiver to be considered valid. See below for the requirements that must be met:
	
	  • Waiver must be made voluntarily
	  • Waiver must be clear and in writing
	  • ADEA rights must be specifically referenced
	  • The employee must be advised to consult an attorney before signing the agreement
	  • A 21-day consideration period must be given
	  • A 7-day revocation period must be given
	  • The employee must receive consideration / something of value that they are not already entitled to
		• KCTCS should verify key employees involved in the VSA process are informed and trained on the OWBPA requirements
		• Additionally, KCTCS should document the 21-day consideration period and 7-day revocation period to ensure requirements are being met

Additionally, KCTCS should be aware that the per the US Equal Employment Opportunity Commission (EEOC), an employee retains the right to file a charge of employment discrimination regardless of waivers / VSAs; therefore, discrimination lawsuits may still occur.

Observations – Sample Testing

A random sample of 25 VSAs were selected across the system and 16 colleges and were analyzed for compliance with KCTCS's VSA FAQ document. The results of this analysis are depicted below with the full testing sheet in Appendix C.

To reduce the risk associated with these findings, KPMG recommends KCTCS develop a formal policy to address the common themes identified and implement it across the system and all its colleges. Additionally, it is recommended that training be provided to the employees involved in the VSA process for effective implementation. For detailed recommendations, refer to slide 7.

Common Themes Identified	Number of Samples Impacted*
Unable to validate the VSA was properly routed through HR	1 of 24 samples (4.2%)
Unable to validate the VSA was properly routed through Legal	3 of 24 samples (12.5%)
Unable to validate the VSA was properly routed through Payroll	1 of 24 samples (4.2%)
The payout amount did not agree to the amount on the approved VSA	2 of 24 samples (8.3%)
The VSA was not properly approved: • Less than 50% of salary - College President • Greater than 50% of salary - System President & General Counsel	2 of 24 samples (8.3%)
The employee was not given a 21-day consideration period to sign the VSA	7 of 24 samples (29.2%)
The employee was not given a 7-day revocation period after signing the VSA, prior to being terminated	8 of 24 samples (33.3%)

*One of the 25 samples was not able to be provided, therefore KPMG determined the above percentages out of 24 samples.

Observations – Process Walkthroughs

KPMG met with HR representatives from a sample of three selected colleges to assess the VSA procedures in place at each institution and to evaluate the uniformity of these procedures. The specific procedures for each location are depicted below.

Following these discussions and the varying processes observed, KPMG recommends a formal VSA policy depicting standard VSA offers and approvals is created and distributed to the system and all colleges. Implementing a formal policy will set expectations for consistent processing of VSAs and reduce potential legal risks. See slide 7 for detailed recommendations.

Location	VSA Offered	Approval of VSA	Timeline	Payment
Hazard	• Generally, 3 months of salary but may go higher depending on circumstance	• Under 50% – College President • Over 50% – System President & General Counsel	• 21-day decision period • 7-day revocation period	• Sent to Legal for review, then Legal sends to Payroll for one-time payment
Jefferson	• Generally, 6 months of salary but may go higher depending on circumstance	• All VSAs are reviewed and approved by the College President	• 21-day decision period • 7-day revocation period	• HR puts employee on paid administrative leave and paid for time of VSA
West KY	• Payment varies depending on circumstance	• Under 50% – College President • Over 50% – System President & General Counsel	• 21-day decision period • 7-day revocation period	• Sent to Legal for review, then Legal sends to Payroll for one-time payment
System Payroll	• The System Payroll Department's involvement with VSAs is limited to the processing of payments for finalized VSA contracts. This process aligns with two of the colleges (Hazard and West KY) we met with.			

Recommendations to Enhance Current Process

VSA Recommendations

After analyzing the VSA process at KCTCS and consulting with KPMG's VSA subject matter professional on best practices, consider the following recommendations to reduce legal risks at KCTCS:

Implement a formal and comprehensive policy that includes key compliance requirements. This promotes adherence to a uniform process aimed at reducing legal risks. The policy should consider the following aspects:

Clearly defined and documented approval process:

- Under 50% - College President; Over 50% System President and General Counsel
- Reviewed / approved by Legal, HR, and Payroll

Standardized VSA eligibility requirements (i.e., available to employees with a set number of years at KCTCS)

Set timelines for the VSA process:

- 21-day decision period & 7-day revocation period prior to the employee's termination

This is currently documented in the VSA FAQ, we recommend this be reiterated and followed

Standardized VSA payouts (i.e., all VSA eligible employees are entitled to a specific percentage of their salary)

Conduct a training with each college to promote adherence with the updated policy

Implement a centralized documentation process to maintain a consistent awareness of all VSAs issued across the system

Perform an adverse impact analysis on each VSA issued to determine if there is a potential discrimination claim

Appendix

Appendix A – VSA Project Plan

Scope Area	Voluntary Separation Agreement (**"VSAs"**) – Review historic and current use of VSAs by the System and determine any internal changes that need implementation to avoid legal or fiscal repercussions.
Risk	Risk of current VSA practices not aligning with laws and tax regulations, leading to legal, financial and reputational consequences.
Key Members	**KCTCS Functional Area:** Legal and Human Resources **KPMG Lead:** Kelly Trame

Project Phases and Activities

1. Planning

1.1. Schedule and conduct introductory calls to discuss VSA scope area

1.2. Collect and review any existing process documentation

1.3. Develop proposed project plan and confirm approach with KCTCS stakeholders

2. Fieldwork

2.1. Gain an understanding of the key components of the laws and tax regulations governing the use of VSAs. Evaluate the VSA practices utilized by KCTCS and make recommendations for enhancement

2.2. Select a sample of executed VSAs and review the eligibility criteria, benefits awarded, and selection process for those employees who chose to participate in the VSA. Review the approval process for the selected VSAs, including any necessary board or management approvals

2.3. Gain an understanding of the decision process when choosing to terminate an employee vs. using a VSA. Document any relevant gaps and recommendations

2.4. Review the procedures for communicating the VSA offer to eligible employees, evaluating the process for consistency in execution

2.5. Utilize KPMG SMP to review VSA best practices

2.6. Compare best practices to KCTCS processes and document recommendations for enhancement

2.7. Document analysis of results and findings and socialize recommendations with KCTCS stakeholders

3. Reporting

3.1. Summarize final results and proposed solutions and action plans for reporting

3.2. Communicate final results and outcomes and confirm agreed next steps

Appendix B – Interviewees & Process Walkthrough Contacts

To determine the processes followed across the system and the various colleges, KPMG met with key contacts from General Counsel, System Human Resources, System Payroll, and three colleges.

Location	Contact	Title
System General Counsel	Pam Duncan	General Counsel
System Human Resources	Bridget Canter	VP of Human Resources
System Office Payroll	Teresa Roberts	Director of Payroll
Hazard Community & Technical College	Vickie Combs	Senior Director of HR
Jefferson Community & Technical College	Toni Whalen	Director of HR
West KY Community & Technical College	Bridget Canter	VP of Human Resources (Previously West KY)

Appendix C – VSA Sample Testing Details

Sample	Location	Evidence of Contact with HR	Evidence of Contact with Legal	Evidence of Contact with Payroll	Payout Agrees to VSA	Properly Approved	21-Day Decision Period	7-Day Revocation Period
1	Ashland	✓	X	✓	✓	✓	✓	✓
2	Ashland	✓	✓	✓	✓	✓	✓	✓
3	Big Sandy	X	X	X	✓	✓	✓	✓
4	Big Sandy	✓	✓	✓	✓	✓	✓	✓
5	Big Sandy	✓	✓	✓	✓	✓	✓	✓
6	Bluegrass	✓	✓	✓	✓	✓	✓	✓
7	Elizabethtown	✓	✓	✓	X	X	✓	✓
8	Hazard	✓	✓	✓	✓	✓	X	✓
9	Hazard	✓	✓	✓	✓	✓	✓	✓
10	Hazard	✓	✓	✓	✓	X	X	X
11	Hazard	✓	✓	✓	✓	✓	✓	✓
12	Hazard	✓	✓	✓	✓	✓	✓	✓
13	Jefferson	✓	✓	✓	✓	✓	✓	✓
14	Jefferson	✓	✓	✓	✓	✓	X	X
15	Jefferson	✓	✓	✓	✓	✓	✓	X
16	Jefferson	✓	✓	✓	✓	✓	X	X
17*	Jefferson	NOT PROVIDED	NOT PROVIDED	NOT PROVIDED	NOT PROVIDED	NOT PROVIDED	NOT PROVIDED	NOT PROVIDED
18	Jefferson	✓	✓	✓	✓	✓	✓	X
19	Jefferson	✓	✓	✓	✓	✓	X	X

Appendix C – VSA Sample Testing Details (continued)

Sample	Location	Evidence of Contact with HR	Evidence of Contact with Legal	Evidence of Contact with Payroll	Payout Agrees to VSA	Properly Approved	21-Day Decision Period	7-Day Revocation Period
20	Somerset	✔	X	✔	✔	✔	✔	✔
21	Southeast KY	✔	✔	✔	X	✔	✔	✔
22	System	✔	✔	✔	✔	✔	X	X
23	System	✔	✔	✔	✔	✔	X	X
24	System	✔	✔	✔	✔	✔	✔	✔
25	West KY	✔	✔	✔	✔	✔	✔	✔

Based on the results of sample testing, KPMG noted the following as common issues:

1. For 1 of 24 samples (4.2%), proof of HR contact was not able to be provided
2. For 3 of 24 samples (12.5%), proof of Legal contact was not able to be provided
3. For 1 of 24 samples (4.2%), proof of Payroll contact was not able to be provided
4. For 2 of 24 samples (8.3%), the payout amount did not agree to the VSA
5. For 2 of 24 samples (8.3%), the VSA was not properly approved
6. For 7 of 24 samples (29.2%), the employee was not given a 21-day consideration period to sign
7. For 8 of 24 samples (33.3%), the employee was not given a 7-day revocation period prior to termination

*One of the 25 samples was not able to be provided; therefore, KPMG determined the above percentages out of 24 samples

Legend	
Satisfied	Not Satisfied
✔	X

KPMG

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