

Kentucky Community and Technical College System Board of Regents

Update Agenda Item: Kentucky Community and Technical College System (KCTCS) State Examination Report

Background: KCTCS Board of Regents requested a state examination of our financial accounts with the Auditor of Public Accounts (APA). The results of the state examination were completed and received by KCTCS on December 7, 2023. KCTCS management reviewed the five findings and two observations and provided our responses to APA on February 1, 2024. As of August 29, 2024, KCTCS management completed/implemented four of the findings and the two observations. Finding 1: KCTCS System Office's Unrestricted Carryforward Balance Is Not Accurately or Transparently Reported to the Board, is outstanding is under review with a forensic auditor. This report was delivered to KCTCS on October 31, 2024.

Upon review of the forensic audit, five results for the account in which the carryforward balance exists were determined:

- 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.

The forensic auditors had two recommendations:

1. Review the list of 656 accounts that had activity in Account 10001 and determine which ones should not remain passing funds through the account.
2. 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.

KCTCS management intends to address this section of the forensic audit by appointing a standing cross-departmental working group that will have three main charges.

1. Evaluate the 656 accounts that had activity in Account 1001, determine which ones should not continue to pass funds through the account and recommend where funds should be moved and what processes could be used for greater clarity.
(Target completion date: June 30, 2025)

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2. Perform a quarterly review of Account 10001 to ensure that the account is regularly balanced, that procedures for balancing are established and codified, and that new accounts are added within Account 1001 only on the recommendation of the working group.
(Target inception date: June 30, 2025)
3. Provide a quarterly report to the KCTCS Chief Financial Officer regarding the balancing of the account, its fund balance, and changes made.
(Target inception date: July 31, 2025)

Auditor of Public Accounts Special Examination Response is posted to OnBoard.