




# Jefferson County Public Schools District

## Internal Audit Report

May 31, 2015

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# Summary of Work Performed January 1, 2015 – May 31, 2015

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# Summary of Internal Audit Work

- Took over monitoring of fraud hotline
- Developed Internal Audit Charter
- Attendance Audits of 25 schools
- Lunchroom Audits of 22 schools
- Special Audits of 13 different areas
- Audit of use of extended days for Principals
- Train bookkeepers and assist with their yearend close



# Summary of Internal Audit Work, cont.

- Reviewed all responses to State Auditor report
- High-level reviews of certain Central Office functions
  - Warehousing
  - IT
  - Purchasing
  - Payroll
- Completed Risk Assessment
- Developed Internal Audit Plan for FY2015-16



# Observations and Key Points

- Internal audit reports will be changed going forward (uniform, clarify findings, timing of required responses, and include responses in some cases to improve efficiency)
- Improvements needed in process for responding to internal audit findings and hotline reports – in progress
- Recommend training for all personnel involved in reviewing and responding to hotline reports
- Consider annual webinar or training for all employees related to hotline, ethics, departments to contact and key policies
- Consider forming Risk Management Committee to meet quarterly to address various risks of the District



# Observations and Key Points, cont.

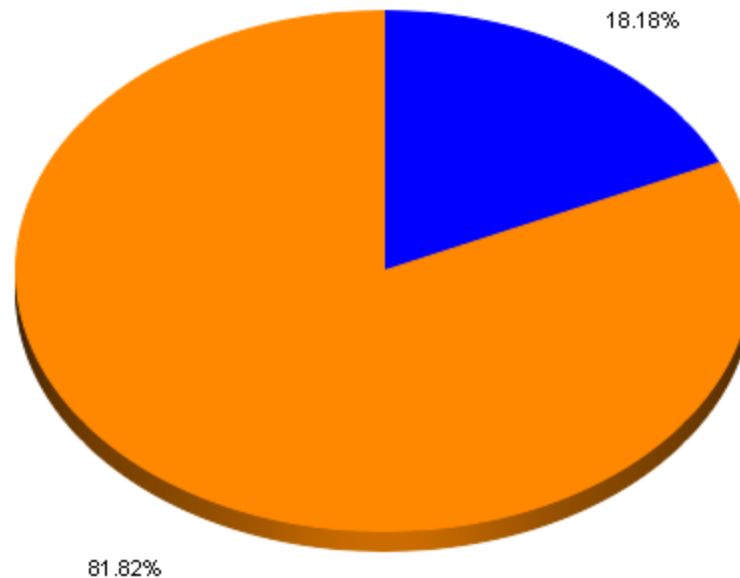
- No internal audit findings considered significant deficiency or material weakness
- No internal audit findings require discussion with Board
- IT comments by State Auditor are being addressed but some need to be tweaked over the upcoming year and others will continue to evolve especially with reorganization of IT
- Review of Warehousing will result in recommendations for improvements. We will provide certain pros/cons of outsourcing portions of the warehouses but final actions need to be “business decision” of management.



# Summary of Hotline Reports

- As of January 1, 2015 (approximate date of Dean Dorton being hired) there were 10 open cases, several of which were more than 6 months old.
- All 10 open cases have now been resolved and closed.
- From January 1 through May 31, 2015, there have been 11 new reports (9 resolved/closed with no significant issues and 2 are under investigation):
  - Elementary Schools – 2                      Middle Schools - 1
  - High Schools – 4                              Administration - 4

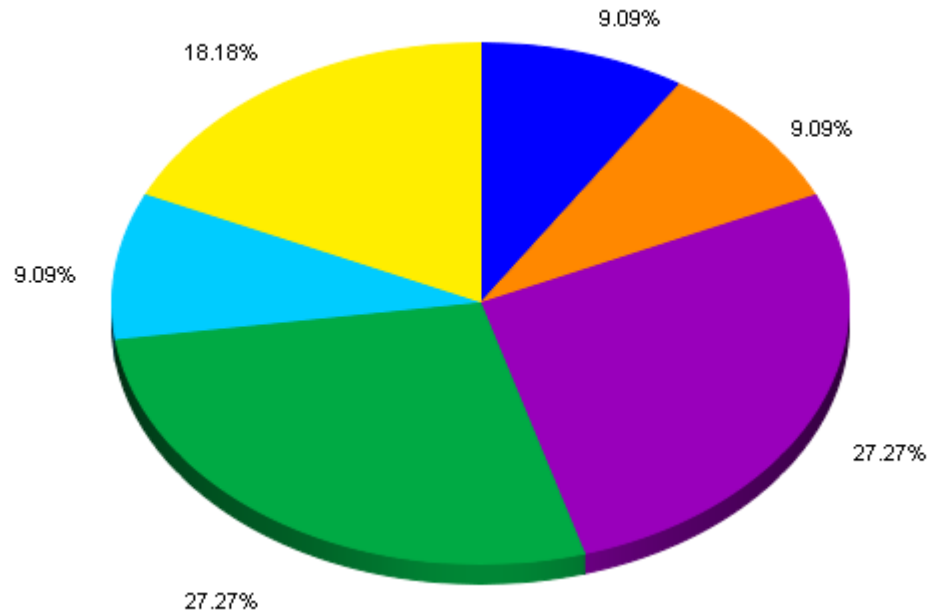
# Source of Hotline Reports – 82% from Employees





# Hotline Reports by Category

- Acctg/Audit – 1 (9%)
- Conflict of Interest – 1 (9%)
- Misconduct – 3 (27%)
- Theft – 1 (9%)
- Violation of Policy – 2 (18%)
- Other – 3 (27%)





# Internal Audit Team

- For FY2014-15 team consisted of 3 District employees under the direction of Eddie Muns:
  - Lillie Mae Perry – 16 years in internal audit department
  - Pam Wheatley – 4 years in internal audit department
  - Mario Johnson – retired in May 2015
- For FY2013-14 team consisted of 5 auditors and a Director (2 auditors and Director retired in second half of the year)
- Dean Dorton hired on and started around January 1, 2015
- Dean Dorton budgeted hours of 1,183 and fees of \$169,000 (\$142.82 per hour) – expected to be slightly under budget through June 30, 2015

# Risk Assessment

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# Risk Identification and Assessment

- Interviews with key process owners, stakeholders and others
- Review of the CAFR and external audit results for June 30, 2014
- Dean Dorton industry knowledge including experiences with other clients
- Review APA audit report from May 21, 2014
- Review various other audit reports (prior internal audit reports, KDE, Title 1, HeadStart, etc.)
- Review past hotline reports and news articles



# Interviews

The following process owners/stakeholders were interviewed

- Denise Dewitt, Coordinator Grants & Awards Accounting
- Mindy Eaves, Ombudsman
- Craig Garrison, Director Digital Technology
- Dr. Georgia Hampton, Director Compliance and Investigations
- Cordelia Hardin, CFO
- Dr. Donna Hargens, Superintendent
- Dr. Dewey Hensley, Chief Academic Officer
- Franklin Jones, Manager Grants & Awards Accounting
- Jonathan Lowe, Directory of Strategy
- Rosemary Miller, General Counsel
- Stanford Mullen, Director Security and Investigations
- Eddie Muns, Director Accounting
- Ken Popplewell, Director Purchasing
- Dr. Michael Raisor, Chief Operations Officer
- Raghu Seshadri, Director MIS
- Rob Tanner, Director Labor Mgmt. & Employee Relations
- Barbara Warman, Coordinator Security and Investigations
- All members of Internal Audit
- Strothman, External Auditors



# Risk Assessment Definitions

**Risk** relates to the possibility of an event occurring that will have a negative impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Inherent risk** is defined as the consideration of what could go wrong *absent any consideration of internal controls*.

The focus of our risk assessment was on those matters that could have a significant impact on the financial results or the overall operations of the District. We also considered matters that could have a significant negative impact on the reputation of the District.



# Risk Inventory

**ALL** of the risks in the following report are considered to have *HIGH inherent risk* to the District, with the potential to have significant financial, operational or reputational cost.

The list is not an exhaustive list of all risks faced by the District.

Various other stakeholders, such as the Board, need to provide their input.

The risk assessment process is a fluid process. The inventory of risks will change during the year. Any significant changes to the risk inventory will be shared with the Superintendent and the Board.



# Priority Rating

The priority ratings used for each of the risks was based upon the following considerations:

- Potential magnitude of the financial, operational or reputational cost to the District
- Assessment of the existence of controls based upon our interviews and internal audit work to date

Ratings are on a 1 to 5 scale, where 5 represents a risk with the highest internal audit priority due to the potential cost to the District and/or due to prior findings/issues or very weak, or no, controls identified





# Priority Rating, continued

Important note:

The initial priority rating has been based upon our understanding of the risk. We also considered the associated internal controls gained through our interviews and initial audit work.

During our testing, priority ratings may change based upon us gaining a more thorough understanding of the risk and the control environment through:

- Data analysis
- Walkthroughs
- Internal control testing

# Risk Assessment

| Area             | Category     | Comments                                                                                                                                                                                                             | Priority Level |
|------------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Payroll          | Financial    | Largest expenditure of the District. High level of complexity due to the various different types payrolls (salary, hourly, part-time, overtime, etc.).                                                               | 5              |
| Human Resources  | Operational  | Significant effort and significant level of changes in personnel occur in the summer months prior to the new school year. Hiring of proper teachers and personnel can have significant impact on overall operations. | 4              |
|                  | Financial    | Changes to the personnel master files, such as setting up new hires and entering payrate and personnel information, are areas susceptible to fraud or errors.                                                        | 3              |
|                  | Reputational | Hiring properly qualified personnel, performing background checks and maintaining appropriate certifications can impact the overall reputation of the District.                                                      | 3              |
| Accounts Payable | Financial    | Significant amount of expenditures and transactions. Due to the volume of transactions there are strong controls over all purchases.                                                                                 | 4              |
| Procurement      | Financial    | There are very stringent rules governing the procurement process including obtaining bids, evaluating the bids and setting up vendors.                                                                               | 4              |

# Risk Assessment, continued

| Area                        | Category     | Comments                                                                                                                                                                                                                                    | Priority Level |
|-----------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Grants and Grant Management | Financial    | A significant amount of grant revenue is received each year. Each grant contains requirements related to the spending of the funds.                                                                                                         | 3              |
| Cash                        | Financial    | Cash is the asset most likely to be misappropriated. (This rating relates to the central office. See "Individual Schools" for further analysis.)                                                                                            | 1              |
|                             | Reputational | The District has relatively small amounts of cash being received at numerous different points and locations. Any fraud that occurs, while not likely to be material, can have a significant impact on the reputation of the District.       | 4              |
| Fixed Assets                | Financial    | Proper controls and consistent policies over the purchase and maintaining of fixed assets at all schools and other locations can be difficult.                                                                                              | 1              |
| Warehousing                 | Financial    | Ensuring inventory is properly recorded, controlled and used. Additionally, the District should have policies regarding re-ordering the proper amounts at the proper time to take advantage of bulk purchases but minimizing holding costs. | 3              |
|                             | Operational  | State Auditor report noted several cost savings related to maintaining a just-in-time inventory system and/or outsourcing certain aspects of the warehouses.                                                                                | 3              |

# Risk Assessment, continued

| Area                               | Category     | Comments                                                                                                                                                                                                                        | Priority Level |
|------------------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Travel and Other Business Expenses | Reputational | Inappropriate or lavish spending on travel or business expenses by executives, principals or teachers can be extremely harmful to the reputation of the District.                                                               | 3              |
| Information Technology             | Operational  | State Auditor report contained numerous comments related to IT. Strong controls related to the IT systems are vital to the overall control environment.                                                                         | 5              |
| Financial Reporting                | Financial    | Properly recording and reporting financial information is highly dependent upon the financial close process which may include manual journal entries, dealing with new accounting pronouncements and making proper disclosures. | 3              |
| Budgeting                          | Operational  | Numerous decisions regarding the operations of the schools and the District are based on the budget. Budgets must be prepared timely and accurately with the proper reviews and approvals.                                      | 2              |
| Governance                         | Operational  | Having the proper level of Board governance and oversight is critical to the overall success of the District, especially when significant changes are needed.                                                                   | 1              |

# Risk Assessment, continued

| Area                   | Category     | Comments                                                                                                                                                                                 | Priority Level |
|------------------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Academic Affairs       | Operational  | The District needs to maintain the proper tools and processes in place to ensure that teachers are able to achieve the mission of providing instruction that inspires students to learn. | 2              |
| Individual Schools     | Operational  | Proper controls to ensure that bookkeepers and principals are following the District's policies consistently at all schools.                                                             | 5              |
|                        | Financial    | Various cash receipts and purchases are occurring at the school level.                                                                                                                   | 5              |
|                        | Reputational | Inappropriate actions of personnel, poor scores, lack of following policies and fraud impact the reputation of that school and the District as a whole.                                  | 5              |
| Other Support Services | Operational  | Ensuring support services (maintenance, grounds, transportation, etc.) are functioning effectively and efficiently to properly support the overall mission.                              | 2              |
| Fraud Hotline          | Reputational | Properly maintaining, monitoring and responding to the fraud hotline is important to the overall reputation of the District.                                                             | 3              |

# Risk Assessment, continued

| Area                     | Category     | Comments                                                                                                                                                                                       | Priority Level |
|--------------------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| State Auditor Findings   | Reputational | The State Auditor's report completed in May 2014 has received a great deal of press coverage and the District must continue to make progress on addressing their findings and recommendations. | 4              |
| Other Third Party Audits | Reputational | Various granting agencies and other third parties may audit various areas of the District and any significant findings can negatively impact the District.                                     | 3              |
| PTAs and Booster Clubs   | Reputational | Various PTAs and Booster Clubs are closely related to the schools, however, they are outside the control of the District.                                                                      | 3              |
| Foundation               | Financial    | The Foundation is a component unit of the District and should be included in the financial statements of the District.                                                                         | 1              |
|                          | Reputational | The Foundation is closely related to the District and if any fraud or misappropriations occurred it could have a negative impact on the reputation of the District.                            | 2              |



# Internal Audit Testing Plan FY Ending June 30, 2016

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# Risk Response and Testing

- Perform testing in all areas with priority rating of 4 or 5
- Perform testing in some areas with priority rating of 3
- Refinement of risks and their associated priority ratings will occur throughout the year
- Report to Board in December and June as to any significant deficiencies or material weaknesses as well as progress and status of the internal audit plan
- Report to Board in June – revised risk assessment, internal audit plan for following year and determination of future internal audit priorities



# Internal Audits

| Area                             | Audit Procedures                                                                                                                                                       | Timing    | Hours |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------|
| Payroll                          | Test sample of extended days used by Principals to ensure they comply with policies and procedures.                                                                    | Dec       | 40    |
|                                  | Perform data analytics to identify significant overtime, higher payroll amount and other exceptions and ensure all amounts are proper.                                 | Dec       | 50    |
|                                  | Payroll for bus depot workers.                                                                                                                                         | Dec       | 120   |
| Human Resources                  | Test sample of new hires to ensure proper input of payrate, certificates and other information. Ensure policies followed regarding background checks, interviews, etc. | Aug       | 60    |
| Accounts Payable                 | Test sample of expenditures to ensure they comply with policies and procedures.                                                                                        | July      | 80    |
| Procurement                      | Test sample of new vendors for proper procedures and approvals.                                                                                                        | July      | 60    |
| Grants and Grant Management      | Test sample of costs for various grants.                                                                                                                               | Jan - May | 680   |
| Cash                             | Identify and list all cash receipt points for future testing. Test one cash receipt point.                                                                             | March     | 80    |
| Travel & Other Business Expenses | Test sample of expenses for Superintendent, sample of direct reports and sample of Principals.                                                                         | Aug       | 80    |
| Warehousing                      | Observe inventory count and validate count procedures.                                                                                                                 | May       | 40    |
| Information Technology           | Testing of various general controls and application controls.                                                                                                          | Jan       | 240   |

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# Internal Audits, continued

| Area                   | Audit Procedures                                                                                                                                            | Timing     | Hours |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------|
| Financial Reporting    | Perform walkthrough of yearend financial close process and identify potential weaknesses or inefficiencies.                                                 | July       | 60    |
| Schools                | Attendance audits for all high priority schools and those to be reviewed by KDE - 10 hours per school for 68 schools.                                       | Sept - Dec | 680   |
|                        | Testing of certain bookkeeper procedures in conjunction with attendance audits - approximately 3 hours per school for 68 schools.                           | Sept - Dec | 220   |
|                        | Lunchroom audit for all high priority schools - approximately 3 hours per school for 33 schools.                                                            | Sept/Oct   | 100   |
|                        | Testing of certain cash receipts and expenditures related to the lunchroom for all high priority schools - approximately 3 hours per school for 33 schools. | Sept/Oct   | 100   |
|                        | Lunchroom audit for all low and medium priority schools - approximately 3 hours per school for 114 schools.                                                 | Nov - Feb  | 350   |
| State Auditor Findings | Review status of remediation of all State Auditor findings with CFO and determine select areas to validate progress made.                                   | March      | 60    |
| Special Investigations | Investigate hotline reports and special requests. Estimate 30 special investigations for the year - 30 hours per investigation.                             | Various    | 900   |
|                        |                                                                                                                                                             |            | 4,000 |

# Internal Audit Plan Summary

| Audit                              | Lillie Mae Perry | Pam Wheatley | Dean Dorton | Other | Total |
|------------------------------------|------------------|--------------|-------------|-------|-------|
| Attendance audits                  | 610              | 70           |             |       | 680   |
| Bookkeeper procedures - attendance | 196              | 24           |             |       | 220   |
| Lunchroom audits                   | 50               | 400          |             |       | 450   |
| Lunchroom acctg procedures         | 10               | 90           |             |       | 100   |
| Grant audits                       | 400              |              |             | 280   | 680   |
| Purchasing                         | 80               |              |             |       | 80    |
| Procurement                        | 30               | 30           |             |       | 60    |
| Payroll                            |                  | 70           | 140         |       | 210   |
| Human Resources                    |                  |              |             | 60    | 60    |
| Cash                               | 80               |              |             |       | 80    |
| Travel & business expenses         | 40               |              | 40          |       | 80    |
| Warehousing                        |                  | 20           | 20          |       | 40    |
| Financial close process            |                  | 32           |             | 28    | 60    |
| Information Technology:            |                  |              |             |       |       |
| IT - risk assessment               |                  |              | 20          |       | 20    |
| IT general controls                |                  |              | 100         |       | 100   |
| IT application controls            |                  |              | 120         |       | 120   |
| Special investigations             | 130              | 120          | 400         | 250   | 900   |
| State Auditor findings             |                  |              | 60          |       | 60    |
|                                    |                  |              |             |       |       |
| Total audits                       | 1,626            | 856          | 900         | 618   | 4,000 |

# Internal Audit Plan Summary, cont.

| Other Time                       | Lillie Mae Perry | Pam Wheatley | Dean Dorton | Other | Total |
|----------------------------------|------------------|--------------|-------------|-------|-------|
| Personal development / training  | 24               | 24           |             |       | 48    |
| Attendance clerk training        | 14               |              |             |       | 14    |
| Bookkeeper training              |                  | 64           |             |       | 64    |
| Bookkeeper assistance            |                  | 720          |             |       | 720   |
| Administrative duties            | 18               | 18           |             |       | 36    |
| Vacation, sick time and holidays | 368              | 368          |             |       | 736   |
| Follow-up on findings            | 30               | 30           | 30          |       | 90    |
| Risk assessment                  |                  |              | 60          |       | 60    |
| Internal audit plan              |                  |              | 60          |       | 60    |
| Fraud hotline monitoring         |                  |              | 90          |       | 90    |
| Board and management meetings    |                  |              | 60          |       | 60    |
|                                  | 454              | 1,224        | 300         | 0     | 1,978 |
|                                  |                  |              |             |       |       |
|                                  | 2,080            | 2,080        | 1,200       | 618   | 5,978 |



# Internal Audit Staffing

- Dean Dorton budget is 1,200 hours at \$142 per hour for a total cost of \$168,000
- District employees are budgeted at 2,080 hours each (40 hours a week for 52 weeks) and includes time off
- “Other” time of 618 hours can be managed as follows:
  - Hire part-time employee
  - Reduce or eliminate audit efforts in certain areas or reassign certain tasks such as training bookkeepers to other personnel
  - Some “other” time can be reduced if estimate of special investigations of 900 hours (or other areas) are less than anticipated
  - Increase Dean Dorton time and/or District employee time
  - Combination of all of the above