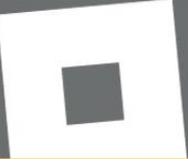


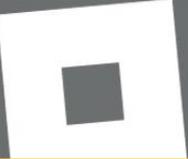
Jefferson County Public Schools District

Internal Audit Report

May 31, 2015



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



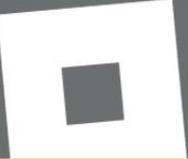
Summary of Internal Audit Work

- 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 year end close



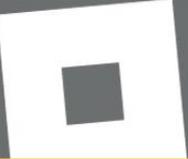
Summary of Internal Audit Work, cont.

- 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



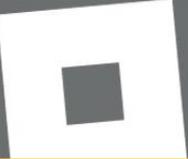
Observations and Key Points

- 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.

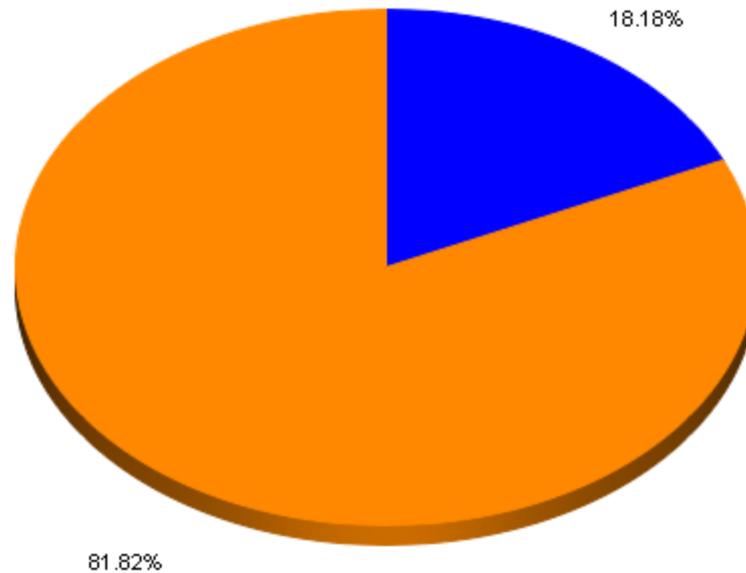
- No internal audit findings considered significant deficiency or material weakness
- No internal audit findings require discussion with Board
- IT comments by State Auditor are being addressed but some need to be tweaked over the upcoming year and others will continue to evolve especially with reorganization 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

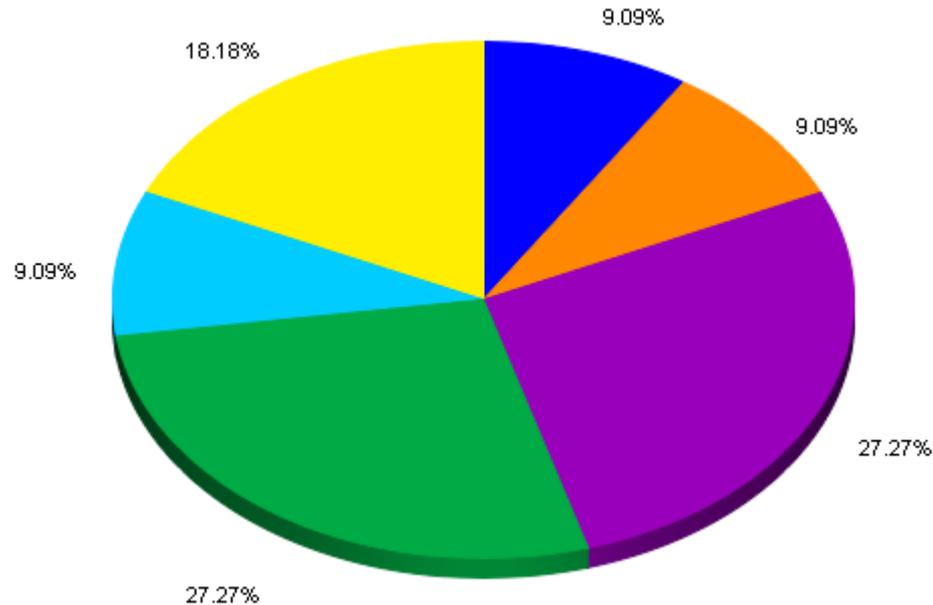
- As of January 1, 2015 (approximate date of Dean Dorton being hired) there were 10 open cases, several of which were more than 6 months old
- All 10 open cases have now been resolved and closed
- From January 1 through May 31, 2015, there have been 11 new reports (9 resolved/closed with no significant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

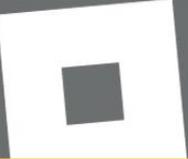
Source of Hotline Reports – 82% from Employees



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%)

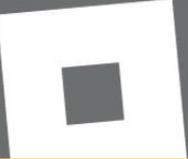




Internal Audit Team

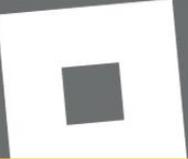
- For FY2014-15 team consisted of 3 District employees under the direction of Eddie Muns:
 - Lillie Mae Perry – 16 years in internal audit department
 - Pam Wheatley – 4 years in internal audit department
 - Mario Johnson – retired in May 2015
- For FY2013-14 team consisted of 5 auditors and a Director (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



Risk Identification and Assessment

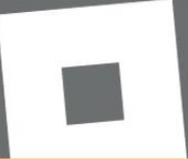
- Interviews with key process owners, stakeholders and others
- Review of the CAFR and external audit results for June 30, 2014
- Dean Dorton industry knowledge including experiences with other clients
- Review APA audit report from May 21, 2014
- Review various other audit reports (prior internal audit 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

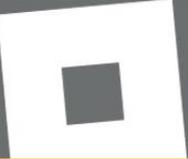


Risk Assessment Definitions

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.



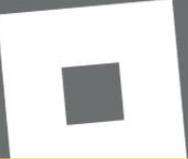
Risk Inventory

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 polices 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

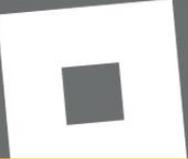
Risk Assessment, continued

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



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

Internal Audits, continued

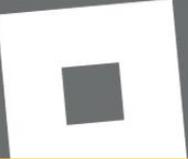
Area	Audit Procedures	Timing	Hours
Financial Reporting	Perform walkthrough of yearend financial close process and identify potential weaknesses or inefficiencies.	July	60
Schools	Attendance audits for all high priority schools and those to be reviewed by KDE - 10 hours per school for 68 schools.	Sept - 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