

TO: Board of Education

CC: Dr. Donna Hargens, Superintendent
Tom Hudson, Chief Business Officer
Cordelia Hardin, Chief Financial Officer/Treasurer

FROM: Jim Tencza, Dean Dorton Allen Ford – Internal Audit

SUBJECT: Status of Internal Audit Plan for Year Ending June 30, 2017 – Executive Summary

DATE: May 11, 2017

This report summarizes the Internal Audit activities from July 1, 2016 through May 11, 2017.

Overview

- Internal Audit department consists of 3 full-time JCPS employees and resources of Dean Dorton
- Internal Audit Charter was approved in March 2015, has been reviewed and is still effective without amendment
- The Board approved the Internal Audit Plan for the year and we anticipate completing all work in accordance with the Plan with the following exceptions:
 - Budgeting – audit was not completed due to lack of available time and due to the newly formed Finance Advisory Committee reviewing the budgeting process
 - Bus Referrals – audit was moved to July primarily due to lack of available time
 - Bookkeeper Assistance and Training – Internal Audit spent more time assisting and training bookkeepers than originally budgeted – approximately 1,100 hours spent year to date versus 824 hours budgeted
 - Special Audits, Consultations and Hotline – Internal Audit spent more time in these areas than budgeted due to a higher volume than originally estimated
- See attached spreadsheet for a summary of the internal audit activities for the year

Prior Year Significant Internal Audit Findings

- Internal Audit reviewed management's responses and remediation of significant Internal Audit findings from 2015-16
- See the attached spreadsheet for a summary



Summary of Key Internal Audit Findings from 2016-17

- **Booster Organizations** – We have noted that many schools do not provide appropriate oversight of their Booster organizations. We noted numerous instances of Booster organizations not providing the required reports (annual financial statements, annual budgets, fundraiser approval forms, bylaws, etc.) to the Principal. We have also noted that several hotline reports and complaints relate to Booster organizations not handling student fees and fundraising activities properly.
- **Fundraisers** – Several hotline reports, complaints and special investigations relate to mishandling of funds and inventory related to fundraising activities. During our audits we noted numerous instances of fundraising money not being turned into the bookkeeper timely, money not being deposited timely, documents not being completed properly and money or inventory missing.
- **Computer Systems and Applications** - IT risk assessment identified control weakness related to not always including IT personnel in the process of acquiring or upgrading new systems or applications. The IT Department should be involved in the evaluation, implementation and testing of new systems and application prior to adoption.
- **Prior Year Internal Audit Significant Findings** – Management should ensure that all significant Internal Audit findings are properly and fully addressed and remediated.

Areas for Improvement for Internal Audit

- **Hotline Policies and Procedures** – While all hotline calls are being addressed in a timely and efficient manner, Internal Audit should document the specific procedures for investigating, resolving, reporting and maintaining documentation.
- **Audit Findings** – Internal Audit should develop procedures to ensure that management is properly addressing and remediating all significant findings from various audits (Strothman, Internal Audit, KDE, etc.).
- **Communication of Internal Audit Reports** – Internal Audit should ensure that all applicable personnel have ample time to review a draft of the Internal Audit report prior to issuance. Additionally, Internal Audit and management should determine who within JCPS should receive various reports and best practices for sharing results of Internal Audit findings.

Status of Internal Audit Plan for 2016-17 (May 11, 2017)

Area	Audit Procedures	Status	Notes/Additional Information
Travel & Other Business Expenses	Test sample of travel or business expenses for Superintendent, Directors, Assistant Superintendents, and/or Principals to ensure they comply with policies and procedures.	Completed. No significant findings.	
Schools	Attendance audits for all high priority schools and those to be reviewed by KDE - 70 schools audited.	Completed. 5 attendance audits were originally deemed unacceptable and were followed up on in January prior to KDE audit. In January these 5 schools were deemed acceptable with some findings. Most other schools had some findings but none considered significant.	Greathouse Shryock Elementary Cochran Elementary Gutermuth Elementary Churchill Park ESL Newcomer Academy
	Lunchroom audits for all high priority schools - 20 schools audited.	Completed. No significant findings.	
	Testing of certain cash receipts, expenditures and bookkeeper procedures for all schools in which we performed attendance and/or lunchroom audits - 80 schools audited.	Completed. Some schools had numerous Redbook and/or JCPS policy violation findings but none considered serious.	
Procurement	Test sample of new vendors for proper procedures and approvals.	Completed. No significant findings.	
Accounts Payable	Test sample of expenditures to ensure they comply with policies and procedures.	Completed. No significant findings.	
Financial Reporting	Perform walkthrough of month-end financial close process and identify potential weaknesses or inefficiencies.	Audit is in progress. No significant findings anticipated.	
Payroll	Test sample of extended days used by Principals to ensure they comply with policies and procedures	Completed. No significant findings.	
	Test certain controls and/or processes related to payroll.	Completed. No significant findings.	

Area	Audit Procedures	Status	Notes/Additional Information
Student Behavior Support System	Test restraints and seclusions reported to KDE for the 2015-16 school.	Completed. No significant findings.	
	Verify management responses related to reporting of restraints and seclusions have been properly implemented.	Completed. No significant findings but continued improvements needed. Report previously shared with Board in January.	
	Test process of addressing, documenting and reporting bullying matters.	Completed. No significant findings.	
	Test process of documenting and reporting suspensions.	Audit is in progress and expected to be finished by the	
	Test process of addressing, documenting and reporting bus referrals.	Audit has been moved back to July.	
Information Technology	Test data security, EPES system and perform IT risk assessment.	Data security testing is completed and no significant findings were noted. EPES system testing is completed and improvements were made but additional improvements are expected to occur after the June 30, 2017 close. IT risk assessment identified control weakness related to not always including IT personnel in the process of acquiring or upgrading new systems or applications.	Internal audit will test certain new systems in the upcoming year to determine if there are any security, access, or other general control weaknesses.
Cash Receipts	Perform a walkthrough of the cash receipt procedures for one cash receipt point and test key controls, documentation and reporting.	Audit is expected to be finished by the end of June.	
Grants and Grant Management	Test sample of costs for various grants.	Completed. No significant findings.	
Fundraising and Boosters	Test a sample of schools to determine if all student activity fundraisers and Booster fundraisers, budgets and financial reporting have been properly documented and approved by the Principal. Also, select a sample of fundraisers at each selected school to determine if all reporting and cash collection procedures have been properly followed.	Audit is in progress and expected to be finished by end of May. Serious and numerous findings expected relating to inadequate oversight of Booster organizations and fundraisers.	

Area	Audit Procedures	Status	Notes/Additional Information
Warehousing	Observe inventory count and validate count procedures.	Scheduled for the week of May 15th.	
Budgeting	Perform a walkthrough of the budget process to gain a better understanding of the process and identify potential improvements.	Audit was not completed due to lack of time available and due to the fact that the newly formed Finance Advisory Committee will be reviewing the budgeting process.	
Hotline	Ensure all hotline calls are properly investigated and resolved in a timely manner. Investigate certain hotline reports.	From July 1, 2016 to May 10, 2017, there were 156 calls to the hotline. As of May 11, 2017, all have been closed except for 5. 110 - Bullying 14 - Fraud, missing funds, theft 9 - Policy, conflict of interest 8 - HR (bias, discrimination, misconduct) 10 - Complaint about employee 5 - Security	<ul style="list-style-type: none"> - Jtown cheerleading spirit wear sales were short funds - Atherton softball team activity account was overdrawn and various student payments were not properly remitted to the bookkeeper - Overpayment of some payroll amounts were not recouped in accordance with policies

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Special Investigations	Internal audit performed various "special" audits at the request of management or principals or as a result of findings noted from other audits.	Audit of Family Resource / Youth Service Center accounts at 5 locations regarding compliance with FRYSC policies and procedures.	
		Audit of Wheatley Elementary and assistance with reconciling various accounts.	
		Adult Education audit is 90% complete.	
		Audit of Brandeis Elementary bookkeeping activities noted missing funds, Redbook violations and overdrawn accounts	
		Audit of Jefferson County Traditional Middle School cash disbursements and cash receipts noting numerous Redbook violations	
		Audit of and Redbook training of Goldsmith Elementary bookkeeper.	
		Audit of Central High School football spirit wear sales and PayPal account.	
		Audit of Churchill Park petty cash fund noted various violations of Redbook and JCPS policies.	

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		Procedures performed related to Valley High School Student Council Funds noted undeposited money and missing documentation.	
		Audit of Johnson Middle School change fund noted Redbook and JCPS policy violations.	
		Audit of Ballard Football Booster Club,	

Area	Audit Procedures	Status	Notes/Additional Information
Consultations	Internal audit also provided consultation or assistance with various projects at the request of management or the Board.	Obtaining, reviewing and compiling all school activity fund budgets	
		Met with members of KDE and accumulated various reports and documents for KDE in connection with the State management audit.	
		Assisting bookkeepers with properly reporting and documenting 1099 vendors.	
		Bookkeeper support and training including assisting with bank reconciliations, answering questions, completing log-on ID conversion for EPES for bookkeepers at 150 schools, completing the yearend rollover in EPES for 150 schools, and teaching 6 Redbook sessions.	
		Completed processes for preparation of 150 schools for the annual audit by Strothman - verifying June reports, ensuring clean-up of negative amounts, etc.	
		Assistance with ensuring schools provided responses to Strothman's findings related to their school activity fund audits.	
		Responded to JCPS open records request.	
		Various other consultations and attending of meetings such as Finance Advisory Committee, employee dispute policies, etc.	

Status of Significant Findings from 2015-16 Audits - May 11, 2017

Area	Report Date	Summary of Findings	Status/Notes
Findings Fully Addressed			
JCPS Vehicle Usage	3/9/2016	Multiple violations of JCPS Policies and IRS regulations due to usage of District vehicles.	Payroll has reported and collected the amounts due for the past two years from the drivers who took the vehicles home and did not report. This corrected the IRS regulation violation. On November 29th the vehicle usage agreement form was submitted to the Board for approval, waiving the 20 cent per mile commute but keeping the \$3.00 charge, in compliance with IRS regulations, for every day driven home during the inclement weather season. Internal Audit has reviewed the revised agreement, verified that all employees have properly signed the agreement and verified that all employees have properly submitted their vehicle usage forms through December 31, 2016.
Meyzeek Middle School Cash Receipts	1/8/2016	Found discrepancies in the supporting documentation related to cash receipts, which led to disciplinary action for the Bookkeeper.	Bookkeeper has been replaced. Internal audit performed follow up audit in the Spring of 2017.
Student Behavior Support System Audit	5/2/2016 and 6/14/2016	Reports with numerous findings and recommendation were provided to and discussed with the Board.	All of Internal Audit findings have been addressed and substantial improvements have been made; however, management must continue to provide guidance, training and strong communications.
Eastern High School Band	3/1/2016	The booster club was collecting "required" fees from band participants to distribute for band expenses. We recommended special communication to all students and parents regarding fees. We recommended changes in policies and packet information going forward.	Internal Audit has reviewed Eastern HS Band matters and noted that they properly addressed all matters. Additionally, Internal Audit has included the audit of various fundraisers and booster organization reporting in the Internal Audit Plan (see below).
Findings Partially Addressed and Expected to be Remediated in Near Term			
Information Technology	5/2/2016	We identified several serious EPES security control deficiencies that need to be addressed.	Substantial improvements, including separate administrator log-ins for each user and refined user permissions and restrictions, have been made; however, further control improvements are still needed. Management has added a new position and effective in July 2017 the new position will include managing the EPES system (see "School Bookkeepers" below). EPES permissions and restrictions will be appropriately changed after the June 30, 2017 year end financial information is closed out.
School Bookkeepers	n/a	We recommend that management consider centralizing the bookkeeping department. The centralized bookkeeper department would be overseen by the Accounting Department and/or could be outsourced or co-sourced with a third party. Centralizing this function could reduce payroll costs and would significantly reduce the costs of recruiting, hiring, supporting and training bookkeepers.	Management has approved and hired someone for a new position to consolidate bookkeeper support in the Accounting department. This position will become effective in July 2017 and will assist with hiring, training, and supporting the bookkeepers. Management is also assessing other program requirements and centralization opportunities.

Status of Significant Findings from 2015-16 Audits - May 11, 2017

Area	Report Date	Summary of Findings	Status/Notes
Findings In Process of Being Addressed			
Boosters Organizations and Student Activities	n/a	We have noted several violations by booster organizations and/or various student activities (i.e., sports teams, cheerleaders, and band) of JCPS policies related to fundraisers, fees and other matters. We recommend that JCPS review best practices of its peer group to determine if policies should be changed regarding booster organizations and monitoring of student activities.	Eddie Muns is gathering information from various peer districts to see how they are managing activity funds and booster clubs. Internal Audit is completing the audit of various fundraisers and booster organization in accordance with the Internal Audit Plan. When these audits are completed then JCPS will review the results and determine the next course of action.
Risk Management Committee	n/a	We recommend the formation of a Risk Management Committee to review and assess various risks of the District.	Management has been researching Risk Management Committee examples through other school districts and other organizations, including obtaining input from their insurance companies. JCPS has also formed a Finance Advisory Board Committee that will be overseeing the risk management process. Upon completion of its research and input from the Finance Advisory Board Committee a Risk Management Committee will be formed to properly address a District-wide risk assessment.
Ethics Training	n/a	We recommend that management consider implementing a mandatory ethics training for all JCPS employees. We have provided Tom Hudson with various options on training programs.	Management has reviewed some options and received some price quotes, which seemed out of reach at this time. Currently, all staff receive ethics training when hired. Management is currently reviewing more cost effective options, such as the model used by Compliance & Investigations for their annual Harassment & Discrimination course and quiz. In addition management has discussed with their insurance representatives possible software programs and webinars they have available that could be used and adjusted to meet the District's specific needs.