

TO: Board of Education

CC: Dr. Marty Pollio, Superintendent
Cordelia Hardin, Chief Financial Officer/Treasurer

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

SUBJECT: Internal Audit Results for Year Ending June 30, 2018 – Executive Summary

DATE: June 30, 2018

This report summarizes the Internal Audit activities for the year ending June 30, 2018 and represents actual work performed from July 1, 2017 through June 30, 2018 (date of this report).

Overview

- Internal Audit department consisted of 3 full-time JCPS employees and resources of Dean Dorton, however, one JCPS employee retired effective April 30, 2018.
- In July 2018, it is anticipated that JCPS will hire a full-time Internal Audit Director and then hire a replacement for the retired employee. At this point Dean Dorton's role will be reduced significantly and will consist of primarily providing guidance/assistance to the new Internal Audit Director, filling any gaps in personnel and auditing certain areas needing specialized expertise (i.e., testing of IT systems) or areas needing independent third party verification (i.e., expenses of Superintendent).
- The Board approved the Internal Audit Plan for the year and we completed all work in accordance with the Plan, with the following modifications:
 - Redbook Audits were expanded from 30 to 32
 - Attendance Audits were expanded to perform 6 follow-up audits
 - Time spent assisting bookkeepers was more than 200 hours greater than budget
 - Some audits were reallocated to accommodate for retirement of Internal Auditor in April and for illness of Internal Auditor in Fall 2017, such as:
 - Dean Dorton performed most of the Bus Referral and Travel/Business Expense audits
 - Dean Dorton performed some Redbook Audits
 - Sonya and Lillie Mae performed more Redbook and Attendance Audits
 - Switched Payroll Audits from Sonya to Greg



- Dean Dorton performed more of the audit work than originally budgeted due to the decrease in JCPS Internal Audit resources, resulting in an increase of Dean Dorton fees of approximately \$12,000
- See attachments A, B and C for a summary of the internal audit activities for the year.

Summary of Key Internal Audit Findings from 2017-18

- Addressing/Remediating Audit Findings – Significant findings from prior year Internal Audits have been or are being properly addressed. Systems and procedures have been developed and implemented for rating and responding to school audit findings.
- Student Behavior Reporting – Improvements continue regarding properly and effectively documenting and reporting various student behaviors and resolutions. No significant findings or exceptions were noted in our audit of bus referrals.
- Bookkeeper Assistance and Training – New position in accounting group was developed to assist and train bookkeepers. This was a great initial step resulting in significant improvements over prior years, however, the accounting group should handle most of the assistance to ensure Internal Audit maintains independence and should be more involved in the hiring and staffing of bookkeepers. Turnover of bookkeepers and Redbook violations at the school level continue to be areas of concern.
- Booster Organizations – We have noted that many schools continue to have inadequate oversight of their Booster organizations. During our audits, 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. While Booster organizations are independent from the school, the Principals must ensure proper oversight including approving all Booster fundraisers.
- School Fundraisers – Throughout the years we have 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. Several hotline reports, complaints and special investigations relate to mishandling of funds and inventory related to fundraising activities. Bookkeepers must ensure that fundraiser sponsors are aware of and adhere to the Redbook rules.
- HR Department and Hiring Practices – While we did not identify any serious exceptions, findings similar to those identified in prior audits continue and significant improvements in the interviewing/hiring process are necessary. Improvements in the HR Department and the hiring of qualified, good candidates across all areas of the District represent one of the biggest opportunities for efficiency, cost-savings and the ability to achieve the District's strategic goals.

- Computer Systems and Applications – Cybersecurity, data breaches, disaster recovery and other such matters continue to be a significant risk to all organizations. It is of even greater risk to JCPS due to its size and the number of systems throughout the District. The Council for Greater City Schools, the external auditors, the internal auditors and others have identified areas needing improvement especially in regards to completing an IT risk assessment, addressing cybersecurity threats and risks, and continuing to have IT personnel involved in the process of acquiring or upgrading new systems or applications, including implementation and testing prior to adoption.



Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Credit Cards	Review of policies and procedures related to use of credit cards. Obtain/document a listing of all credit cards utilized by JCPS. Test a sample of credit card transactions at various locations to determine if controls and procedures are working effectively and in accordance with JCPS policies.	400	Greg Crump	Completed. Performed credit card audits at 13 schools and central office (Nutrition Services and HR). No serious findings, however, most schools had some findings related to missing purchase requests, missing documentation or use of wrong funds.
Attendance Audits	Attendance audits for all high priority schools and those to be reviewed by KDE - 10 hours per school for 60 schools.	600	JCPS Staff	Of the 60 schools selected for attendance audits, 21 were deemed unacceptable, 1 was unauditable and JCPSeSchool was not tested. Additionally, we completed 6 follow-up audits of those deemed unacceptable noting significant improvements.
School Redbook Audits	Test certain Redbook procedures including those related to cash receipts, expenditures, accounting and reporting for all schools deemed high priority - approximately 24 hours per school for 30 schools.	720	JCPS Staff	Completed 32 Redbook audits with 7 rated as "green", 19 rated as "yellow" and 6 rated as "red". Remediation plans are in place for all "red" ratings.

Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Information Technology	Test various general IT controls and application controls for selected IT systems.	250	Dean Dorton - IT Professionals	Dean Dorton reviewed and generally agreed with the IT-related findings and recommendations provided by the Council of Greater City Schools. Dean Dorton reviewed/tested the remediation of previous findings related to EPES (school bookkeeper accounting system) noting that all have been properly remediated or are in the process of being remediated. Also, Dean Dorton reviewed IT's involvement with technology-related purchases and certain other IT controls and provided several recommendations for improvement.
Human Resources	Review various HR policies and procedures. Test a sample of new hires to determine if they have been set up properly in the system and if proper hiring policies have been followed including background checks and verification of certifications.	840	Dean Dorton and JCPS Staff	No serious exceptions were noted but improvements in the HR Department and hiring practices can result in significant cost-savings, efficiencies and overall improvement in the District.

Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Bus Referrals	Test process of addressing, documenting and reporting bus referrals.	240	Lillie Mae Perry	Completed in May with a substantial amount of the work performed by Dean Dorton. Process and reporting of bus referrals is working effectively. No significant exceptions or findings noted.
Grants and Grant Management	Test sample of costs and reporting requirements for various grants.	400	Sonya Miller	No significant findings.
FRYSC Audits	Test a sample of FRYSC programs to ensure reporting, accounting and various other policies and procedures are being properly followed.	200	Lillie Mae Perry	Completed 5 FRYSC Audits with most all having several findings none of which would be considered serious or significant.
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.	264	Greg Crump	Completed fundraiser/booster audits at 10 schools covering all types of schools and all Achievement Areas. Most booster organizations have violations of Redbook policies and inadequate Principal oversight; Superintendent is required to report annually to the Board that booster organizations have been informed of Redbook; and most fundraiser sponsors are not completing/submitting summaries, various forms and deposits timely.

Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Payroll	Test certain controls and/or processes related to payroll. Test a sample of employees to ensure accurate payroll amounts.	100	Sonya Miller	In process. We are reviewing overtime and extra service pay and have selected 40 employees for testing. To be completed in July. Greg Crump performing audit instead of Sonya.
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.	80	Sonya Miller	Completed by Dean Dorton instead of Sonya. We tested all Superintendent expenses without exception. No serious findings but we recommend that changes be made to the Board policies regarding approval of Superintendent expenses to be consistent with his contract.
Warehousing	Observe inventory count and validate count procedures.	74	Dean Dorton and JCPS Staff	Inventory observations and counts completed in May. No significant findings or exceptions noted.
Hotline and Special Investigations	Address and investigate hotline reports and perform special audits as requested. Estimate 16 hotline investigations at 20 hours each and 12 special investigations at 40 hours each. Time has also been budgeted to oversee hotline calls not requiring internal audit to investigate.	900	Dean Dorton and JCPS Staff	Various audits and investigations have been completed. See Attachment B for summary.

Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Total Audit Hours		5,068		

Attachment A

Results of Internal Audit Work for 2017-18 as of June 30, 2018

Area	Planned Audit Procedures	Budget/Plan		Results
		Hours	Personnel	
Follow-up on prior findings and remediation		220		
Provide assistance to bookkeepers		440		Actual hours exceeded budget by more than 200 hours.
Provide training to bookkeepers and attendance clerks		96		
Risk assessment and internal audit plan development		160		
Board and management meetings		62		
External audit assistance/coordination		60		
CPE, personal development and training		140		
Administrative duties		90		
Vacation, sick time and holidays		1,104		One JCPS internal auditor incurred more sick days than budgeted.
Total Internal Audit Department Hours - by activity		7,440		
Greg Crump		2,080		
Sonya Miller		2,080		
Lillie Mae Perry		2,080		Retired effective April 30 so total hours for the year were only 1,748.
Dean Dorton		1,200		
Total Internal Audit Department Hours - by person		7,440		

Attachment B

Results of Hotline, Consultations and Special Investigation Work for 2017-18 as of June 30, 2018

Area	Audit Procedures	Results/Status
Hotline	Ensure all hotline calls are properly investigated and resolved in a timely manner. Investigate certain hotline reports.	From July 1, 2017 to June 30, 2018, there were 158 calls to the hotline (169 calls for FY 2016-17). As of June 30, 2018, all have been closed. See Attachment C for more information.
Special Investigations	Shacklette Elementary - Review of hiring of employee for Title One Reading Interventionist position and review of other Title One funds and records.	No findings noted.
	Liberty HS - Review of overtime pay and allegations regarding nepotism/favortism.	No violations of JCPS policies or inappropriate actions were noted.
	Property Management & Maintenance - Review of hiring practices and procedures, potential preferential treatment, and allegations of misuse of JCPS equipment, supplies and personnel.	No significant findings or violations were noted.
	Greathouse/Shyrock Traditional - At the request of the Principal, Dean Dorton performed a "re-audit" of the initial Redbook Audit performed by JCPS Internal Audit.	While some findings were revised, the overall rating remained the same - "red".
	Hiring Practices - Dean Dorton investigated several different allegations regarding violations of JCPS policies related to hiring, favortism, and/or discrimination.	While no allegations were proven true, there are improvements needed in the hiring process. See HR Audit report for more information.

Attachment B

Results of Hotline, Consultations and Special Investigation Work for 2017-18 as of June 30, 2018

Area	Audit Procedures	Results/Status
	Seneca and Jeffersontown HS - Review of school purchasing process identified significant findings related to controls over purchases and violations of JCPS and Redbook polices.	Audit resulted in rating of "red".
	Male HS - Review of hiring practice identified a situation in which employee was paid as a "1099 vendor" with school activity funds.	This was deemed a violation of IRS tax rules, JCPS polices and Redbook.
	Auburndale Elementary - Review of certain cash receipts and procedures.	No findings were noted.
	Stuart Middle - Review of certain concession and fundraiser procedures, forms and details for athletics.	We identified moderate violations of JCPS or Redbook polices regarding purchases not being pre-approved, fundraisers not being properly approved, untimely receipt of funds and inventory counts not being performed.
	Fern Creek Elementary - Review of school fundraiser.	We identified a cash shortage of \$2,858 and lack of controls regarding safeguarding inventory.

Attachment B

Results of Hotline, Consultations and Special Investigation Work for 2017-18 as of June 30, 2018

Area	Audit Procedures	Results/Status
	Central HS - Review of certain football and wrestling fundraisers.	We identified violation of various JCPS and Redbook policies related to fundraisers and inventory.
	Shawnee HS - Review of purchase of concession items, cocession sales, ticket sales for sporting events, and payments to workers at athletic events.	We identified various significant findings including an employee paying workers cash in exchange for their paycheck.
	Ballard HS - Review of certain receipts.	Audit identified some funds collected from students or mailed to the school on behalf of the students that were not deposited in an account for students in accordance with Redbook.

Attachment B

Results of Hotline, Consultations and Special Investigation Work for 2017-18 as of June 30, 2018

Area	Audit Procedures	Results/Status
Consultations/Projects	<p>Obtaining, reviewing and compiling all school activity fund budgets for FY 2018-19.</p> <p>Responded to certain JCPS open records request.</p> <p>Various consultations related to 1) formation of Audit and Risk Advisory Committee, 2) Internal Audit Director position and 3) certain findings provided by the Council of Greater City Schools.</p> <p>Worked with Eddie Muns regarding developing and implementing a new system for rating and responding to school audit findings</p> <p>Jim Tencza attended the Council of Greater City Schools conference for Internal Audit Directors in Miami at no cost to JCPS.</p> <p>Developed new process and form for requesting Internal Audit assistance.</p>	



