

November 10, 2020

To Management and the Board of Education of Jefferson County, Kentucky  
Louisville, Kentucky

In planning and performing our audit of the financial statements of the Board of Education of Jefferson County, Kentucky (the District or JCPS) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the District's internal control identified as 2020-01 below to be a significant deficiency.

We have also included below other identified internal control deficiencies and recommendations that we determined did not constitute significant deficiencies or material weaknesses.

This communication is intended solely for the information and use of management, the Board of Education of Jefferson County, Kentucky, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dean Dorton Allen Ford, PLLC*

## **Financial Statement and Single Audit**

### ***Significant deficiency***

#### **2020-01 – Financial Reporting When New Accounting Standards are Adopted**

*Criteria:* Accounting principles generally accepted in the United States require that debt premiums and discounts be included with the outstanding debt balance on the financial statements that follow the economic resources measurement focus and the accrual basis of accounting (i.e. the District's government-wide and proprietary fund financial statements). The premiums and discounts should be amortized over the term of the respective debt agreement.

Accounting principles generally accepted in the United States require that contributions paid by the District to an "other post-employment benefit" (OPEB) plan subsequent to the actuarial valuation date be recognized as a deferred outflow of resources on the financial statements that follow the economic resources measurement focus and the accrual basis of accounting (i.e. the District's government-wide and proprietary fund financial statements).

*Condition:* In accordance with Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), the District has recognized debt issuance costs as an expense in the period incurred. However GASB 65, did not change the accounting treatment for debt premiums and discounts. The District has been incorrectly expensing discounts and premiums on debt in the government-wide financial statements since its adoption of GASB 65.

Upon adoption of GASB 75 related to accounting for OPEB plans by employers, the District failed to recognize contributions paid by the District to the Kentucky Teachers Retirement System (KTRS) Medical Insurance plan subsequent to the actuarial valuation date as a deferred outflow of resources on the government-wide and proprietary fund financial statements.

*Cause:* The District incorrectly interpreted GASB 65 and GASB 75.

*Effect:* The District recorded an adjustment of approximately \$16.8 million to reduce beginning net position as of July 1, 2019 for the governmental activities in the government-wide financial statements. The adjustment included approximately \$20.8 million related to the unamortized balance of debt discounts and premiums, offset by approximately \$3.4 million related to the associated recalculation of deferred savings from refunded debt.

The District also recorded an adjustment of approximately \$17.4 million to increase beginning net position as of July 1, 2019 to recognize contributions paid by the District to the KTRS Medical Insurance plan subsequent to the actuarial valuation date as a deferred outflow of resources. Net position for the governmental activities in the government-wide financial statements was increased by approximately \$15.6 million. Net position for the business type activities in the government-wide financial statements and the proprietary fund financial statements was increased by approximately \$1.8 million.

*Recommendation:* We recommend that management, when presented with new accounting standards, develop an independent response for implementation.

*Management's Response:* JCPS will continue to make deliberate efforts to apply every GASB statement correctly. By reading each new accounting standard thoroughly and seeking external guidance when necessary, JCPS has successfully implemented almost fifty new accounting standards since 2001. We will continue these efforts and seek guidance beyond our auditors as necessary.

### ***Other internal control deficiencies and recommendations***

#### **ICDR01 – IT Risk Assessment**

*Finding:* The Information Security Awareness program, started in fiscal year 2020, does not include all IT users. Employees and students not included in the program may not be aware of how they can support the Information Security Program, such as reporting potential security issues and protecting the District's assets from cyber threats.

*Recommendation:* The District should implement a robust Information Security Awareness program for all IT users (employees and students) that specifically addresses cyber threats that may be experienced by the District (e.g. hacking, phishing, etc.).

*Management's Response:* In April 2020, JCPS implemented KnowBe4 to deliver a comprehensive end-user security awareness training. JCPS staff is required to successfully complete yearly campaigns focused on PII, FERPA, and phishing. Security Awareness training specializes in making sure JCPS employees understand the mechanisms of spam, phishing, spear phishing, malware, ransomware, and social engineering and can apply this knowledge in their day-to-day job.

#### **ICDR02 – IT Continuity of Operations and Disaster Recovery Plan**

*Finding:* The District does not have a formalized Continuity Plan and Disaster Recovery Plan. The District's Continuity of IT Operations Plan appears to be in template form, with no District-specific information included within it. Institutional knowledge seems to be in place to restore individual systems, but it is not clear how the District would recover from a specific disaster, such as connectivity of the main IT building being lost. Additionally, documented policies and procedures ensures a systematic and coordinated response to disasters impacting the IT environment.

*Recommendation:* We recommend that the District develop a comprehensive Disaster Recovery Program that includes an impact analysis to ensure that critical business systems (including accounting and non-accounting systems) are identified and that restoration times are aligned with expectations. The program should also include backup procedures, testing of the backup procedures and regular testing of the overall plan. The District should complete the Continuity of IT Operations policy, and ensure that the policy is tailored to the District's environment and needs.

*Management's Response:* Following this audit, the JCPS Board of Education approved a policy for Business Continuity & Disaster Recovery. The purpose of the Business Continuity & Disaster Recovery (BCD) policy is to establish processes that will help JCPS recover from adverse situations with minimal impact on operations. JCPS continues to establish and manage business continuity plans to ensure the availability of critical technology resources during adverse conditions.

By minimizing the on-premise footprint, this plan provides flexibility and mobility regardless of the specific disaster. Evidence of this work has been demonstrated during the COVID-19 pandemic over the past several months. JCPS Information Technology Department is currently supporting approximately 17,000 staff working remotely and educating 100,000 students virtually.

JCPS IT has embarked on several initiatives to assist in its BC/DR goals. Enterprise backups are set up on district-managed, critical systems. The backup strategy includes replication and cloud backup for redundancy. SaaS option is being considered and exercised with viable, premise-based, critical systems like the food service and document management systems. The district formalized the DR contract with

Tyler Technologies and continues to explore cloud options for MUNIS. Also, JCPS has adopted the cloud-first approach to new systems.

### **ICDR03 – Development of IT Policies**

*Finding:* The District is in the process of improving their IT environment by developing a number of IT policies. Some of the policies are complete, although they have not been approved and are not implemented. Additionally, some of the policies are still in very early stages.

*Recommendation:* We recommend approving policies that have been completed so that they can be implemented, and developing a plan to complete all remaining necessary policies. The plan should also include information on how frequently policies will be reviewed and updated.

*Management's Response:* Following this audit, the Information Technology (IT) team created 26 Information Security and Privacy specific policies approved by the JCPS Board of Education. These IT policies align with the district implementation of the National Institute for Standards and Technology Cybersecurity Framework v 1.1 (NIST CSF). Specific procedures are being developed for each policy that will be finalized by June 2021. The policies and procedures reside on the Kentucky School Board Association (KSBA) online policy and procedure manuals for access and transparency.

### **School Activity Fund Audits**

#### **ICDR04 – Redbook Compliance**

*Finding:* The District is required to comply with accounting processes and procedures for every School Activity Fund as outlined in the Kentucky Department of Education: Accounting Procedures for Kentucky School Activity Funds (Redbook). We noted that several schools are not properly complying with certain policies and requirements within Redbook. The two areas that require improvement are the oversight of External Support/Booster organizations and documentation and controls related to inventory items. While non-compliance of Redbook regulations were identified, the overall performance of Redbook controls have improved significantly in recent years.

*Recommendation:* We recommend that management emphasize rules and regulations pertaining to the oversight of External Support/Booster organizations and the documentation and controls over inventory items by offering additional training to all individuals responsible for those processes and procedures. Additionally, we encourage monitoring of these aspects of Redbook throughout the fiscal year to ensure continual improvement of compliance with the processes and procedures of Redbook.

*Management's Response:* Over the past three years, JCPS has created the most robust Redbook training program in the Commonwealth. The goals of this program are properly supported school personnel, lower turnover of bookkeepers, and lower number of audit findings. We believe that our training program has been achieving these goals, though we acknowledge room for improvement and will endeavor to address these specific areas for improvement at all schools by the end of the 2020-2021 school year. We will accomplish this by conducting group training sessions for all relevant school staff and targeted training for schools with violations during the latest audit period.

## **Prior Year Comments**

### **2019-1 – School Activity Funds**

*Finding:* Kentucky Department of Education requires all Kentucky schools to follow the “Redbook” in accounting for School Activity Funds. Currently, many schools are not properly following the policies/requirements of the Redbook when accounting for the various activities of the schools.

*Prior year recommendation:* Management continue to provide on-going training and follow-up for bookkeepers and principals, as well as monitor compliance with the Redbook.

*Current year status:* Improvements have been made – see current year comment ICDR04.

### **2019-2 – Develop Business Continuity and Disaster Recovery Plans**

*Finding:* While the District has made some arrangements for continuity and recovery of MUNIS and Infinite Campus processing in the case of disaster, certain technology and student information systems are not covered by a formal comprehensive Business Continuity Plan or Disaster Recovery Plan.

*Prior year recommendation:* The District should consider the development of a comprehensive Business Continuity Plan and Disaster Recovery Plan. The Business Continuity Plan and Disaster Recovery Plan should be driven from the results of the IT risk assessment and should also address change management. This plan should include not only IT but all key accounting and business functions that are required to continue operation.

*Current year status:* Improvements have been made – see current year comment ICDR02.

### **2019-3 – IT Tools related to Digital Backpack Initiative**

*Finding:* The District has created a digital backpack for students in the District. Google G-Suite is the platform used for this initiative. IT does not have the management tools available from Google to monitor and control what is stored in these digital backpacks.

*Prior year recommendation:* The District should consider the purchase of the management tools needed to monitor these digital backpacks for potentially harmful files or files that are not of instructional value.

*Current year status:* The Backpack platform allows teachers to monitor student files for the existence of potentially harmful files or files that are not of instructional value or educationally appropriateness. Google Enterprise for Education was purchased to provide access to increased technical controls to assist with data investigations and Google Drive sharing. Data Loss Prevention rules are being deployed to limit sharing within and between Google workspaces.

### **2019-4 – Security Awareness Training**

*Finding:* The District is not currently requiring all employees to attend information technology security awareness training.

*Prior year recommendation:* Information technology security awareness training should be implemented on an annual basis for all employees.

*Current year status:* Improvements have been made – see current year comment ICDR01.