

Management Representation Letter for the FY2020 JCPS External Audit performed by Dean Dorton

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

Significant deficiency

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

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.

GASB 65 required new accounting for savings from refunding bonds. Part of those savings are the premiums and discounts on the refunding bonds that were already capitalized. We got incorrect advice that the premiums and discounts no longer needed to be capitalized.

Significant deficiency

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

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.

This was an error made in calculating the effects of recording post-employment fringe benefits (health insurance). It was reviewed by a CPA at JCPS, and three separate CPAs at our audit firm, with all missing the error until caught by Dean Dorton.

Other internal control deficiencies and recommendations

ICDR01 – IT Risk Assessment

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

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.

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

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.

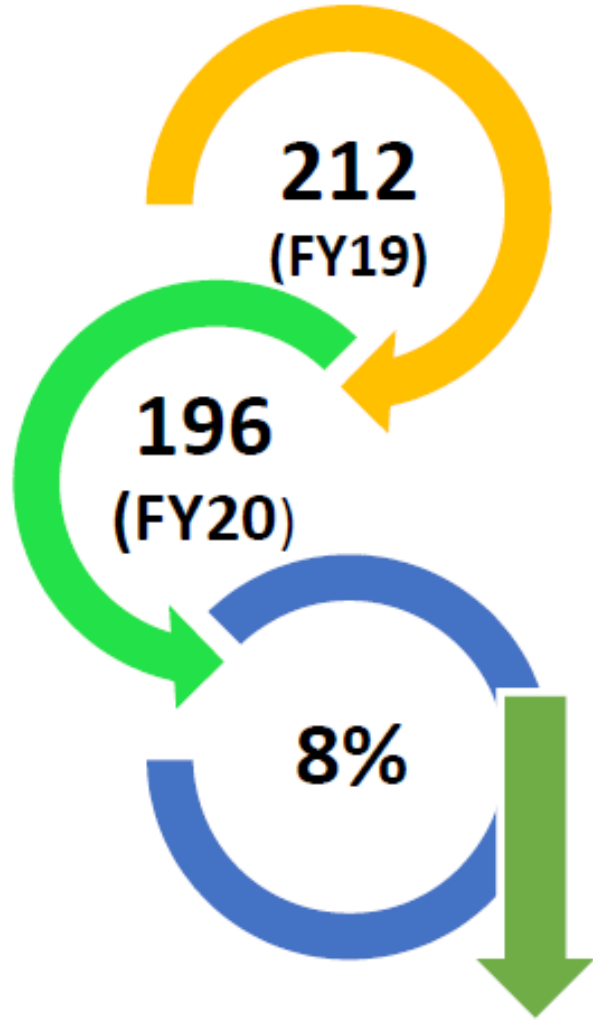
School Activity Fund Audits

ICDR04 – Redbook Compliance

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.

SCHOOL ACTIVITY FUND RESULTS SY2020



34 schools were selected for audit based on a risk assessment



Schools selected had new bookkeepers, new principals and/or a history of high findings



50% of the audited schools saw improvement over the prior year!

Targeted Training

- Training Bursts on timely topics
- Recorded trainings
- Quick Reference Guides
- Video Modules

Reliable Support System

- From New Hire to Retirement:
 - Principals
 - Bookkeepers
 - Sponsors
 - Central Office staff

Continued Reduction in Findings

- No Bank Schools
- MySchoolBucks credit/debit card platform
- School Finance Resources page

T R A I N I N G T O P I C S

Year-End
Close

Purchase
Requests

Surviving
Redbook in
a COVID
World

My
School
Bucks

Redbook
101

Navigation
Station

No Bank
School

Month-
End
Reporting

District
Activity
Funds

Principal
Combining
Budget

New
Principal
Redbook

1099 &
Vendor
Inquiry

Targeted
Training

Reliable
Support

School
Success!