

Audit and Risk Management Advisory Committee
Jefferson County Public Schools
November 3, 2021
First Floor Conference Room

ARMAC Members Present: Chairperson James Rose, Co-Chairperson Rhonda Mitchell, Dr. Sarah Moyer, and Pedro Bryant

Public Present: None

JCPS Staff Present: Dr. Pollio, Amy Dennes, Kevin Brown, Cordelia Hardin, Eddie Muns, Hannah Lehman, Cecil Comstock, Jodell Renn, John LeMaster, Chalynn Comage, Sonya Miller and Shari Mattingly

Board Members Present: none

Guests Present: James Tencza, Dean Dorton; Simon Keemer, Dean Dorton; Megan Crane, Dean Dorton

Mr. Rose called the meeting of the Audit and Risk Management Advisory Committee (ARMAC) to order at 2:06 pm. A quorum was present.

Approval of Minutes

Mr. Rose requested a motion to accept the minutes of the August 25, 2021 meeting, which was made by Ms. Mitchell and seconded by Mr. Bryant. The minutes were approved by a unanimous voice vote.

Annual Comprehensive Financial Report presentation (ACFR) – Cordelia Hardin, Chief Financial Officer, Eddie Muns, Executive Administrator Accounting Services, Jim Tencza, Simon Keemer, and Megan Crane, Dean Dorton

Mr. Muns presented the ACFR, noting that JCPS chose to early implement Governmental Accounting Standards Board (GASB) No. 98 that changes the title of the report to address concerns raised by stakeholders that the common pronunciation of the acronym sounds like a profoundly objectionable racial language. He provided an overview of the report's layout pointing out that it includes faces of JCPS students as opposed to stock photos. The letter of transmittal which is the first part of the report is written so that anyone reading the document would have a good understanding of Jefferson County and the school system including the current initiatives, current board members and the areas they cover. Mr. Muns shared that once again JCPS achieved the Certificate of Achievement for Excellence in Financial Reporting which it has done since 2007. This certificate is awarded by the Government Finance Officers Association to state and local governments that go beyond the minimum requirements of generally accepted accounting principles to prepare financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The ACFR will be presented at the upcoming board meeting scheduled for November 9th.

Mr. Muns walked the committee through the sections of the ACFR noting that JCPS has a negative total net position due to the impacts of the liabilities associated with the pension and post-retirement benefits. A prior period adjustment discovered by staff was posted this year. The adjustment occurred due to a change in allocation methodology to better align expense, deferred inflows, deferred outflows, and net other post-employment benefits liability associated with the Kentucky Teacher's Retirement

System medical insurance plan between the governmental activities and the business-like activities.

Mr. Rose asked how allocations are being handled and what is in place to ensure accuracy in the future? Mr. Munns stated that changes in the current review process as part of the financial statement preparation process is what led to the discovery of this needed change and feels confident that it is an effective part of the process in detecting required adjustments. Mr. Muns recognized his team for their contributions, specifically Cecil Comstock and Hannah Lehman.

Mr. Tencza introduced the Dean Dorton team. He shared that this is the second year of a five-year contract for Dean Dorton to conduct the audit for the District. Due to COVID, the audit has been a hybrid of in-person and remote, noting that everyone across JCPS being very cooperative. Mr. Keemer shared that with ninety-eight percent of the audit procedures being complete they expect to issue an unmodified opinion with an emphasis of matter related to the prior period adjustment however, it should be noted that this is the highest opinion available. He walked the committee through the required Auditor Communications, which noted no concerns or deviations from expected practices. He further shared that their work does rely on the Kentucky Public Pensions Authority's auditors for the allocations related to retirement and post-retirement expenses. No material weaknesses were identified, significant deficiencies noted in prior year have been remediated and there was one internal control deficiency related to the collateral at one bank institution is not fully compliant with Kentucky Revised Statute requirements. Mr. Muns shared that the amount in question was \$3,700 under collateralized. Mr. Bryant raised a concern that the JCPS bank should be aware of the requirements and that even though it is a small amount, collateralization should be a "no-brainer".

Mr. Tencza walked the committee through the results of the school activity fund audit. He shared that they use a risk assessment approach to determining which and how many schools will be audited at the transaction level and that all schools were subject to review based on review of the questionnaires and analytical procedures with related follow-up. Dean Dorton plans to visit every JCPS school over the five-year period. Dean Dorton expects to issue unmodified opinions on the school activity fund, noting that due to COVID-19, and much of the year schools were on in the buildings, the number of transactions were significantly reduced. However, there were still much fewer findings noted. One area of concern is related to the booster organizations, the schools are responsible for collecting information from them and this can be difficult because a lot are run by volunteers. Overall, Dean Dorton finds that the District is doing a great job. No adjustments were necessary, which is very rare when conducting audits.

Mr. Rose asked if adjustments are fairly normal, regarding other organizations. Mr. Tencza stated that they are not unusual.

Mr. Rose concluded by asking if there were any objections to the ACFR and if the Committee would recommend it to the Board. There were no objections and all members agreed to the recommendation.

Proposed 2022 ARMAC Calendar

All of the committee members approved the proposed calendar for 2022, stating that they had no issues with holding the meetings on Thursday.

Internal Audit Update – Jodell Renn, Director of Internal Audit

Ms. Renn stated that her team is moving forward on the audit plan and that Internal Audit is currently working with the outsourced auditors to finalize the scopes of work on four information technology

projects. She shared that Dr. Belcher had contacted her recently about a breach that the Dallas School District experienced and requested a project be conducted to review Office 365 settings to ensure the steps JCPS has implemented is in line with best practices. Ms. Renn noted this as evidence to increasing the reputation of the Internal Audit (IA) department as a trusted advisor.

Mr. Rose inquired about Armanino's experience in IT security area, and if the District should consider finding an IT firm versus working with an accounting firm specializing in just IT. Ms. Renn shared her confidence in the expertise of Armanino and noted that the JCPS IT team was included in the RFP review process when IA was selecting a partner. Ms. Renn mentioned that penetration testing and a vulnerability scan will be performed this year. Mr. Rose stated that the expectation should be a minimum of an annual penetration test and potentially more often. Ms. Renn shared that JCPS IT also performs this activity with their own tools.

New Business

Mr. Rose asked that committee members identify and propose potential candidates to fill current and upcoming vacant seats. Ms. Mitchell does have some candidates in mind and will discuss with him soon.

Adjournment

Mr. Bryant made a motion to adjourn the meeting; Ms. Mitchell seconded the motion. The meeting adjourned at 3:41 pm.