

## **Audit and Risk Management Advisory Committee (ARMAC) Meeting**

### **Jefferson County Public Schools**

September 9, 2026

(Meeting began approximately 2:03 p.m.)

Location: Stewart Auditorium

### **ARMAC Members Present**

Chair James Rose, Vice Chair Rhonda Mitchell, Dr. Eric Russ, Wilbert Whitfield

### **ARMAC Members Absent**

Ebony Sikes

### **JCPS Staff Present**

Dr. Brian Yearwood (Superintendent), Dr. Katy Deferrari (Chief of Staff), Dr. Tom Aberli (Interim Chief Financial Officer), Dr. Jason Detre (Executive Administrator, Budget), Cecil Comstock (Executive Administrator of Accounting), Barnard Baker (Executive Officer of Communications), May Porter (Director of Internal Audit), Sam Zaritsky and John LeMaster (Internal Audit); Sonia Miller and Gina Thompson (Internal Audit) attended by Zoom

### **Board Members Present**

Member Taylor Everett

### **Call to Order and Approval of Minutes**

Chair James Rose called the meeting to order at approximately 2:03 p.m.; a quorum was present. A motion to approve the minutes of the May 6, 2026 meeting was made by James Rose and seconded by Wilbert Whitfield. The motion carried by unanimous voice vote.

### **Internal Audit Update – May Porter, Director of Internal Audit**

Ms. Porter reported on the status of the FY 2026 Internal Audit Plan. She noted that FY 2026 was shaped by several external assessments that began soon after the plan was developed. At year end, 83% of the plan was completed or in process and approximately 17% was postponed.

- Completed: Phase 1 of the Cell Phone Policy audit, the Medicaid billing process consulting project, the FY 2025 audit follow-up, a diagnostic review of a tool used by ARSI, and the annual inventory observation.
- In process: the Vendor Performance audit (final stages of fieldwork); Phase 2 of the Cell Phone Policy audit (presentation completed, report in draft); the Google Workspace (Gmail) security assessment (draft issued, awaiting corrective actions from IT); and the property records asset tracking audit (corrective actions received, report expected to be issued early the following week).
- Postponed: the Amazon Payback Invoice Program, the teacher and instructional assistant hiring process, and the police operational assignment audit.
- Unplanned work: the Alvarez & Marsal budget work, the Plante Moran assessment, the Bookkeeper Centralization consulting project, and coordination of the corrective action plan responding to the Auditor of Public Accounts (APA) special examination. Ms. Porter also noted the compliance hotline transition and routing redesign as a major initiative.

Member Everett asked about the Medicaid billing project. Ms. Porter explained that Internal Audit provided internal controls that could be implemented to support billing with the tools available at the time, and that the responsible divisions may have since chosen a different direction on tools. Dr.

Yearwood and Dr. Deferrari added that the Exceptional Child Education department and health services staff are billing, that medical records are maintained in a separate, protected area of Infinite Campus, and that the district is working with staff on efficiency. Dr. Deferrari offered to follow up with answers to any further questions from the Committee. Ms. Porter also confirmed in response to Member Everett that the district's responses to the Plante Moran assessment were included in its final report and that many of the related recommendations are well underway.

In response to a question from Chair Rose, Ms. Porter reported that the centralization of school bookkeeping went live July 1 following extensive planning by the Finance Support Center and Accounting. Internal Audit's consulting project provided a menu of controls from which management selected those it considered most impactful and feasible, and it is structured in three phases (initial implementation, follow-up, and a final review and memo). Mr. Comstock reported positive feedback from principals and noted that a principal survey is planned for September. He stated that all 25 high school ordering and receiving clerks and 39 elementary schools are centralized, with five more added in the prior two weeks. He identified the largest pain point for schools as reassigning duties such as answering phones and morning bus and cafeteria duty. He also noted that schools on the no-bank-school program increased from 21 to 35 and that the Red Book daily deposit threshold increased from \$100 to \$250 in August. Chair Rose observed that bookkeeping is a task that can be done more efficiently when centralized.

Ms. Porter explained that the diagnostic review of the ARSI tool, which helps track and remediate priority items on remediation plans, included sharing the methods Internal Audit uses in its annual audit follow-up.

#### **FY 2027 Risk Assessment and Audit Plan**

Ms. Porter described the FY 2027 risk assessment, which drew on more inputs than in prior years: surveys, interviews and risk discussions, transition (reorganization) planning documents, the findings of the external assessments, and organizational conditions. Of 101 administrative surveys distributed (to the Cabinet and their direct reports), 99 were returned, a 98% response rate. The Board and ARMAC were also surveyed on their level of concern and asked to identify their top five district-wide risks. Administrators most often reported being affected by the restructure, budget reductions, leadership changes, staffing reductions and vacancies, and loss of institutional knowledge. In the combined survey results, student achievement and educational outcomes was most frequently identified as a top risk, followed by financial sustainability, student and staff safety and well-being, and workforce capacity and talent management.

Considering all inputs, the top five FY 2027 risk areas are financial sustainability and fiscal management; workforce capacity and talent management; governance, strategy and organizational change; student achievement and educational outcomes; and organizational culture, ethics and accountability. Ms. Porter noted that a high ranking does not mean the risk is poorly managed. The number of risk areas was reduced from 25 to 15, and a crosswalk is available on request. Financial sustainability and workforce capacity remained first and second; governance and change management, culture and accountability, and operational effectiveness rose; and student achievement is a new risk area.

Ms. Porter explained that the audit plan reflects both risk and available capacity. Three new assurance audits are planned for FY 2027: the McKinney-Vento Homeless Assistance Act, the employee complaint and grievance process, and the Health and Wellness Division. Estimated allocation of audit hours is approximately 32% integrity (hotline administration and investigations), 25% assurance, 16% compliance monitoring (student activity fund and attendance monitoring), 13% consulting, 13% activities required by professional standards, and 2% IT audits, which are co-sourced. The plan is intended to be flexible so that hours can be reallocated as needs change.

Mr. Whitfield asked about the number of survey participants, and Ms. Porter explained that the 101 surveys went to the Cabinet and their direct reports rather than the entire administration. Member Everett asked how the plan aligns with the top risks and who decides what is audited. Ms. Porter stated that the planned audits align with the risk areas, with the exception of the employee complaint and grievance audit, which resulted from specific information received. Chair Rose stated that the plan is approved with the Committee's input and ultimately directed by the Board, and that this was the time to raise any different priorities. In response to Chair Rose, Ms. Porter confirmed the Internal Audit team consists of three auditors and one risk investigator, and that the audits "on the horizon" are vendor and contract vetting and approval, school choice plan implementation and accountability, student activity funds oversight, student mental health administration, and student discipline compliance.

Chair Rose and Ms. Porter discussed staffing and the type of work Internal Audit performs. Chair Rose observed that the team is small in size and breadth of experience relative to comparable organizations, and discussed whether transactional work could be moved out of Internal Audit or whether consulting work could be centralized. Ms. Porter noted that, beginning October 1, hotline complaints will be automatically routed to the respective zone, where the secretary will triage them, while Internal Audit retains visibility of all complaints. Vice Chair Mitchell noted that Internal Audit also performs monthly attendance and student activity fund monitoring, and Ms. Porter confirmed that this is transactional work and that one auditor is dedicated to student activity fund monitoring, which requires significant supervisory time. Chair Rose also suggested "quick-hit" reviews based on process narratives and interviews, and Ms. Porter stated that time is built into the plan for such reviews and that later phases of the bookkeeper centralization project will be a high-level review. Chair Rose asked whether Internal Audit has enough resources for its work and whether significant risks are going unaudited; he concluded that, while an audit committee will always want more, the current capacity probably makes sense given today's circumstances. Chair Rose also suggested that, in a future survey, management be asked how well each risk is managed in order to better capture residual risk. Ms. Porter responded that this is something that will build over time given the turnover in leadership.

#### **Corrective Action Plan (CAP) Status Summary: State Special Examination and Plante Moran Assessment – May Porter**

Ms. Porter reported that the two assessments produced 205 recommendations: 192 from the state special examination and 13 from the Plante Moran fiscal assessment. For the state examination, JCPS reported to the state an implementation status and corrective action plan for each recommendation, with a division owner and operational owner identified. Reported status: 32 fully implemented, 112 partially implemented, 52 not implemented, and 9 with an alternative action. The 13 Plante Moran items are all reported as partially implemented. Internal Audit has not independently validated any of the reported statuses. Approximately 53% of the recommendations relate to the highest-ranked risk areas, and most fall into three categories: financial governance and long-term stability; strategic investment in outcomes; and enterprise implementation capacity and coordination. Ms. Porter indicated she will determine how best to report to ARMAC on an ongoing basis, whether in the quarterly report or with the annual audit follow-up.

Ms. Porter stated that management owns implementation, that coordination and tracking is housed in the Strategy and Innovation division, and that Internal Audit's role is independent follow-up through its annual audit follow-up, which will include corrective actions that are high risk and past their implementation date.

Member Everett asked when the district could report that it has done what was asked. Ms. Porter explained that completion dates are set by each owner, with the furthest currently 2028 and with interim

milestones for longer plans. Dr. Yearwood stated that the district is monitoring progress closely, including in Cabinet meetings, and that the district may provide updates at least quarterly. Dr. Deferrari described the CAP tracker, built by Mikel Brown of the strategic planning team, which is organized by chief, sends advance and overdue notifications, and identifies the accountable chief for each item; she expected many items to be completed within this school year. Dr. Russ asked whether the state has expressed expectations on timing and whether there is a deadline for the remaining items, including those not yet implemented. Ms. Porter stated that the state did not require implementation dates, which JCPS submitted voluntarily, and clarified that “not implemented” items still have a corrective action plan while the nine alternatives are cases where a division decided not to implement the recommendation as written. A participant stated a preference for full transparency with the state regarding the tracker.

Chair Rose also suggested that Internal Audit maintain a master list of major controls and recurring responsibilities and review it annually with each chief or department head to preserve institutional knowledge. Ms. Porter acknowledged the suggestion.

### **Finance Update and Working Budget Presentation – Dr. Tom Aberli, Interim CFO, and Dr. Jason Detre, Executive Administrator, Budget**

Dr. Aberli stated that the working budget presentation was not ready because a financial report was not functioning until that morning, and that it was expected by the end of the week. He offered to hold a follow-up session, such as a Zoom meeting, if the Committee wished to see the working budget presentation. Today’s presentation addressed the budget reduction and forecasting updates to be presented at the Board meeting; the key revenue changes were covered by Dr. Detre, and expense changes will be covered in the working budget presentation.

Mr. Comstock noted that JCPS received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the 19th consecutive year, and that Moody’s assigned an Aa2 rating, with a stable outlook, to the district’s Series 2026A General Obligation Bonds, maintaining the district’s rating despite some expectation that it could decline. Dr. Aberli recognized former CFO Eddie Muns for first obtaining the award.

### **Cash Flow and Liquidity**

Dr. Aberli reviewed the budget cycle (draft, tentative, working) and noted that revenue arrives unevenly, with more than \$600 million received in November and December. He compared actual cash flows to the forecast shared in May and stated that cash is tracking the projected trajectory, with approximately \$90 million lower cash in each of the last two years. The forecast shows cash in bank reaching zero this fall, at which point the district can sell investments (approximately \$79 million) or draw on its tax anticipation note/line of credit (limit \$100 million). Mr. Comstock stated that, based on current conditions, using the line of credit appears more favorable than selling investments because the investments are earning more than the note would cost (Dr. Aberli estimated about 4% versus about 3%), and that the plan would be to repay the note by January 1. Finance and its fiscal agents are to determine the strategy within the coming weeks. Dr. Aberli stated that FY 2028 is projected to be a worse year than FY 2027 in cash terms, although the decline from the prior year is expected to be smaller (about \$20 million, compared with about \$90 million in each of the prior two years). He stated that the district will definitely request a tax anticipation note next year and will likely also use investments, with recovery expected after FY 2028. He stated that if borrowing needs were to exceed about \$100 million, it would signal that the forecast rebound is not occurring.

Mr. Comstock explained that investments are held conservatively under Board policy (primarily U.S. Treasury and Fannie Mae securities), and that a second note or a larger note would require a separate bid

process. Chair Rose and Dr. Aberli noted that notes must be closed out within the fiscal year and that note proceeds cannot be invested to earn additional revenue. Chair Rose noted that use of such tools is routine treasury management.

### **Forecast Assumptions and Vacancy Credit**

In response to Vice Chair Mitchell, Dr. Aberli explained that the forecast model incorporates both the budget and cash status, including projected vacancy credit (unused budgeted salaries). Vacancy credit is forecast at approximately \$35.8 million for FY 2027, compared with \$71.6 million in FY 2026, declining to approximately \$16.5 million by FY 2031. Dr. Aberli stated that filling every position would worsen the forecast by about \$35 million. He identified staffing additions and cost-of-living adjustments (approximately \$10 million recurring for each 1%) as the main sensitivities and stated that the district remains in recovery for at least another 12 to 18 months. In response to Chair Rose, Dr. Aberli stated that the budget will continue to operate at a deficit for several more years but that fund balance would not be depleted to zero by July 1 absent drastic changes in spending.

### **Revenue Changes**

Dr. Detre reported expected revenue changes from the tentative budget: a significant increase in on-behalf (pass-through) payments, increases in occupational and motor vehicle taxes and omitted property tax, and a slight decrease in interest income. General property tax revenue is forecast to decrease, with a collection rate of 96.15% (compared with 97.6% the prior year) and new property assessments of \$563 million (compared with \$857 million the prior year and over \$1 billion in each of the three years before that). SEEK funding is expected to decrease by a couple million dollars due to declines of about 1,000 in average daily attendance (now approximately 84,900) and nearly 3,000 in at-risk students; Dr. Aberli noted that a 1,000-student difference is roughly a \$5 million swing. Dr. Detre stated that, excluding on-behalf payments, the net change is expected to be a positive revenue gain, though Dr. Aberli declined to provide a figure until the working budget is finalized. Dr. Aberli also stated that transportation reimbursement is expected to decrease by \$5 million to \$10 million, with the final figure known in March or April. Dr. Deferrari clarified the difference between attendance (which affects funding) and chronic absenteeism, and noted that free and reduced lunch applications are no longer required for school meals, which has made capturing at-risk data more challenging.

### **Budget Reduction Update**

Dr. Aberli reviewed the \$115.8 million reduction plan for 2026-27: central office and centrally managed positions (\$27.8 million, 24%), central office contracts (\$6.0 million) and operational reductions (\$12.7 million), district-wide costs (\$44.2 million, 38%), and school-based flexible allocations (\$25.0 million, 22%, including \$18.0 million in racial equity funds). Based on position control, the central office and centrally managed positions decreased from 3,372 positions (\$202.9 million) in the June 2026 organizational chart to 3,020 positions (\$175.1 million) in July 2026, a net reduction of 352 positions, after adding 56 positions (identified in the presentation as Risk Assessment Coordinators) and 22 additional Finance Support Center positions. Examples included reducing assistant superintendent positions from 12 to 8, redesigning six chiefs as executive officers and twelve executive administrators as executive directors or directors, and a reduction of 148 positions (\$12.5 million) across Academics, Schools and instructional coaches. District-wide cost reductions focused on pay beyond base pay, including the ESZ/CZ stipend restructuring (\$9.0 million), the long-term substitute incentive (\$4.0 million) and school consolidations (\$5.4 million).

Dr. Aberli also reviewed supports sustained in the budget: no reductions to base salary; step increases averaging about 1.5% (approximately \$15 million); \$10 million for classified salary market adjustments;

one-time incentive stipends of \$1,000 in December and \$1,000 in May for active full-time and permanent part-time employees (\$34 million); ESZ stipends retained at 75% (\$8.5 million); a clerical continuity stipend (\$3 million); the long-term substitute 20th-day increase at 25% (\$4 million) and \$1,000 stipend (\$0.8 million); bus driver and special needs transportation assistant expenses, which grew from \$20.8 million in 2022-23 to \$37.0 million allocated for 2026-27; the Annual Facility Improvement Fund, increased from \$7 million to \$20 million; equity funds (\$16.2 million); and school bus replacement (\$7 million). Member Everett and others commended the clarity of the analysis, and Dr. Deferrari noted that her organizational analysis aligned with the budget analysis. In response to Chair Rose, Dr. Yearwood stated that a study of school consolidation and right-sizing is under way. Chair Rose asked about substitute compensation, and Dr. Aberli agreed to confirm the daily rate difference between long-term substitutes and teachers with Human Resources.

### **Discussion of Budget Presentation**

Chair Rose stated that he is not concerned about cash flow given treasury management tools and the fiscal agent, and that he would like presentations to the Board to lead with the budget balance and fund balance implications, with cash flow in an appendix. His reasoning was that the budget must balance within the fiscal year, including any prior-year fund balance used, and that fund balance cannot be depleted without running a true deficit and borrowing to stay afloat, whereas cash timing can be managed with investments or a tax anticipation note. Dr. Aberli responded that the working budget includes year-over-year comparisons and that the district is developing, as part of its Plante Moran and state audit responses, a policy defining a balanced budget and a target July 1 fund balance.

Chair Rose and Dr. Aberli then discussed how to weigh reserves against short-term borrowing. Chair Rose posed a hypothetical in which, as salary costs rise with inflation, the district would otherwise need to hold an ever-larger reserve to avoid using a note, and suggested that it may be better public policy to deploy those funds toward personnel and pay the fiscal agent costs, so long as the budget trues up within 12 months. Dr. Aberli disagreed, stating that using borrowing in that way would be an irresponsible use of taxpayer money, that a district starting with no fund balance would need to borrow four to five months of salaries and would not meet the state's 2.5% contingency requirement, and that the district's goal is to return to a point where a line of credit is not needed to meet payroll. The two agreed to disagree. Vice Chair Mitchell stated that this is largely a presentation issue, because budgets and cash flow are understood differently, and recommended continuing the conversation offline about how to present each to the Board and the public. She also noted that costs have risen while funding has not, and Dr. Aberli responded that the district can also spend less.

### **New Business and Adjournment**

No new business was raised. Dr. Yearwood thanked the participants for the discussion. The meeting adjourned at approximately 4:18pm