

Audit and Risk Management Advisory Committee

Jefferson County Public Schools

April 15, 2024

1st Floor Conference Room

ARMAC Members Present: Co-Chair Rhonda Mitchell, Chair James Rose, Pedro Bryant, Dr. Eric Russ, and Wilbert Whitfield

JCPS Staff Present: Eddie Muns, Dr. Tom Aberli, Dr. Katy DeFerrari, Kevin Brown, May Porter, John LeMaster, Chalynn Comage, Sonya Miller and Shari Mattingly

Board Members Present: none

Public Present: none

Co-Chair Mitchell called the meeting of the Audit and Risk Management Advisory Committee (ARMAC) to order at 2:02 p.m.

Approval of Minutes

A motion to accept the minutes of the March 19, 2024 meeting was made by Co-Chair Mitchell and seconded by Mr. Bryant. The minutes were approved by a unanimous voice vote, followed by introductions.

Annual Budget Presentation – Eddie Muns, CFO and Dr. Tom Aberli, Executive Administrator, Budget

Dr. Aberli explained his role in the budget development process and described the school district budget cycle. Recent actions in Frankfort have greatly impacted the budget between the draft and tentative stages.

Mr. Bryant asked what has changed since the committee reviewed the draft budget in the January ARMAC meeting. A projected increase in total SEEK funding of \$5,249,964 was approved by the legislature, which represents an increase from the original draft projection of a decrease in the funding. No salary increases are included in this draft budget because contracts are currently being negotiated. The current designations are 5% and 4% unless an increase happens.

Mr. Bryant asked with the state not fully funding transportation, how does this impact the budgeting process. JCPS receives no funding from the state for car riders and walkers, along with students that live within the one-mile cut-off from their school, per Mr. Muns. Parents are responsible for reporting to schools how their students will get there. T-codes are assigned to students, and this is how the district tracks student transportation. Stipends are paid to parents who provide transportation. Payments are tracked and reported, and students who live within the one-mile cut-off are backed out of the formula. It is communicated to parents that stipends over \$600.00 are taxable to them and that they will receive a 1099 form. Frankfort currently reimburses JCPS 60% of transportation and plans to improve this are being put in place. Mr. Muns explained that JCPS does provide transportation to some students that the district is not required to transport, which is a \$12M hit to the district.

The SEEK funding guarantee will be \$4,326 per student, which represents a 3% increase from the original draft budget. Mr. Bryant asked if this was 3% over last year, and Mr. Muns explained it is not. The average

SEEK loss per year is due to property assessments. The property tax assumption of 6.9% is an increase from the original draft budget projection of 3.5%. The tentative budget assumes a tax rate of the allowable 4.0% revenue increase which the Board must approve. A tax rate higher than 4.0% would most likely result in a lawsuit as was filed in the 2020 school year and only recently settled. Dr. Aberli explained that SEEK funding is only 15% of the budget, but that interest rates are also a factor. Last year's fund balance was the highest it has ever been due to interest rates. Also, ESSR money will be done as of the end of this fiscal year 2024.

Mr. Bryant asked if there were any big learning experiences in response to COVID. There was an expansion in technology and district-wide curriculum was instituted, so that now if a student transfers to another school with the district their curriculum will remain the same. Dr. DeFerrari also noted another big expense due to COVID has been the expansion of nurses added to every school. This has proven to be a great benefit that the district does not want to lose. JCPS has its own staffed nurses and uses agencies to provide nurses. The neediest schools can choose their own, JCPS staffed nurses with agency nurses going to less needy schools. ESSR money was given to schools for a certain timeframe (two years). It was a one-time infusion of funds to address immediate needs during the pandemic.

Mr. Bryant asked if this is a challenge to pay for this. Every division has had to determine what can be let go through a district-wide clean-up of agreements/licenses, only keeping what is needed. One area of savings was the way IT service was conducted. Mr. Whitfield asked what the average impact was per school. Mr. Muns explained that \$12M was cut across the schools, but that no funding left schools. The savings were repurposed within schools.

Dr. Aberli explained that this is a high-level overview and that he expects to have savings once FY24 is finalized. By August we will know what the funds are from last year. With capital funding the biggest issue is timing. ARMAC has recommended that board members contact Mr. Muns to discuss the draft budget. Mr. Bryant would like to make another effort to have ARMAC recommend the Board review the five-year budget. Mr. Whitfield would like to set up a meeting and invite board members, however Chair Rose stated that we must be cautious because negotiations are not yet complete. Dr. DeFerrari clarified that board members cannot meet all together outside of board meetings, but that up to three board members can attend a meeting or meet one-on-one with ARMAC.

Regarding the vacancy rate, Mr. Muns stated that during COVID it went from 4% to 8%, with the district struggling to hire staff. There have been \$91M in vacancy savings for this fiscal year (which does not include bus driver positions). But if immediate vacancies were filled, a hard look would have to be made with the budget. Cost of living increases are not included in the tentative budget totals, but the District tries to give a COLA every year, assumed to be 2% for next year. The overall fund balance will begin to track back closer to traditional numbers, but JCPS is criticized no matter what direction we take. The essential requirement now is to get through June until November, and we will be good (through cyclical funding). Mr. Bryant stated that COVID impacts began mid-March 2020 and asked if the District will be ready if another similar event happens. Mr. Muns explained that JCPS is currently experiencing a dramatic change in student population with the growth of students with migrant backgrounds.

Co-Chair Mitchell stated that unplanned events may also provide savings in other areas, but that this is a good budgeting process that was presented. Mr. Bryant reiterated again that a broader conversation with the Board is critical regarding the five-year timeframe. Mr. Whitfield asked how often the Board gets updates, and how an unexpected expense is handled. Mr. Muns provides a monthly update to the Board at every board meeting, along with a trend analysis. Unexpected expenses would be handled by Dr. Pollio discussing with the Board. However, the District is required by law to have a balanced budget. At some point, Mr. Bryant said that retirements could increase substantially, and that succession planning is recommended.

Internal Audit Update – May Porter, Director of Internal Audit

Ms. Porter gave an overview of Internal Audit work plan status, specifically touching on three items. The final report of the HR audit of the substitute teacher usage process will be coming up. Phase II of the transportation assessment has been scheduled for the week of Derby. Interviews will take place on Monday, Tuesday and Wednesday of that week and the following week. The FY25 Annual Risk Assessment and Audit Plan process will be introduced to division chiefs. Mr. Bryant stated that he would like to see an organizational chart and Mr. Whitfield asked if risk assessments have been revamped to better align with May's insights, as the new director. Ms. Porter stated that some items' significance has changed; not as high risk as initially thought. Co-Chair Mitchell offered ARMAC's support with communicating to the Board and with buy-in to manage risk.

Adjournment

Pedro Bryant made a motion to adjourn the meeting; Co-Chair Mitchell seconded the motion. The meeting adjourned at 3:54 p.m.