

Communication of Management Comments



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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jefferson County Board of Education (the "Board") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 and therefore, material weaknesses or significant deficiencies may exist that would not be identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 item 2013-1, noted on page 3, to be a significant deficiency. Other matters discussed on the following pages are opportunities for strengthening internal control over financial reporting and operating efficiency.

The Board's written responses to the comments identified during our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the members of the Board, and others within the District, and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve the Board and are available at your convenience to answer questions or assist in the implementation of these suggestions.

Stollman & Company PSC

Louisville, Kentucky
November 1, 2013

Jefferson County Board of Education

June 30, 2013

I. Financial Reporting

Item 2013-1 – Proper Inclusion of Component Units

Condition & Criteria: Management believes the Jefferson County Public Education Foundation to be a component unit and it is not included in the Board's financial statements.

Cause: The information necessary to properly include the Foundation has not been available by the date needed for inclusion.

Effect: This component unit is not included in the Board financial statements

Recommendation: We recommend that management engage and complete in a timely manner the audit of the component unit so that it can be properly included in the financial statements.

Management's Response: We have tried to get the audited financial statements of the Jefferson County Public Education Foundation by the deadline for a number of years. We will continue to ask for them, but they are a separate entity with their own audit schedules.

II. Accounts Payable

Item 2013-2 – Segregation of Duties

Condition & Criteria: There are accounts payable clerks that have the ability to set up and edit vendor information, including EFT information, as well as process invoices.

Cause: There are no controls in place that allow for proper segregation of duties.

Effect: Clerks could potentially enter fraudulent invoices for payment.

Recommendation: We recommend that segregation of duties be implemented as much as administratively possible. When not possible we recommend an alternate review, such as a vendor audit, be performed.

Management's Response: We continue to restrict the additional duties of the clerk assigned to vendor file maintenance; however, eliminating all conflicting duties would cause the position to be less than full-time. As compensating controls, we continue to perform reviews of her vendor file changes and her invoices processed throughout the year.

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III. Personnel

Item 2013-3 – Terminated Employees not Reported in Board Minutes

Condition & Criteria: Board policies require all terminated employees to be included in Board minutes.

Cause: One out of the twenty-five terminated employees selected for testing was not noted as terminated in the Board minutes.

Effect: Board policy was not followed.

Recommendation: We recommend that management emphasize to all employees the importance of following Board policies.

Management's Response: Currently a paper process is utilized to communicate employee terminations to the HR Staff Member who maintains the Board Report (and ultimately submits it to be placed on the Board Agenda). Relying on paper to communicate from one department to another presents the possibility of paper loss. HR is currently strategizing to employ both the paper and an electronic means of communicating and maintaining terminations that should be added to the Board Report.

Item 2013-4 – Procedures to Determine Employee Effective and End Date Not Consistently Followed

Condition & Criteria: Board policies require the effective date and the end date to reflect the last day the employee can work unless the employee is retiring.

Cause: The Board does not appear to have a consistent process in determining the effective date and end date.

Effect: Employee effective and end dates could be inaccurate. One terminated employee was noted as working after their effective date.

Recommendation: We recommend that personnel in Human Resources implement and document a policy addressing which dates to use depending on the circumstances.

Management's Response: There has been much confusion, discussion, and ongoing modification to the MUNIS procedures when it comes to the use of the numerous "dates" fields. Documentation on proper MUNIS personnel action procedures (including the use of dates) is maintained on a JCPS website, accessible by all human resource staff members for every different kind of personnel action. When changes are made to the documentation (due to the discovery of errors or new effects that dates have in MUNIS) the documentation is modified. HR managers will ensure that all documentation is updated regarding the correct use of date fields and that all staff members are notified when a modification is made.

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Item 2013-5 – Hire Date for New Hires Incorrectly Reported in Board Minutes

Condition & Criteria: Board policies require all new hires to be included in Board Minutes.

Cause: Two of twenty-five new hires selected for testing had incorrect hire dates report in Board Minutes.

Effect: New hire date inaccurately reported.

Recommendation: We recommend that Human Resources personnel ensure that new hire dates are properly reported in the Board Minutes.

Management's Response: Currently a paper process is utilized to communicate employee new hires to the HR Staff Member who maintains the Board Report (and ultimately submits it to be placed on the Board Agenda). Relying on paper to communicate from one department to another presents the possibility of paper loss. HR is currently strategizing to employ both the paper and an electronic means of communicating and maintaining new hires that should be added to the Board Report.

Item 2013-6 – Include Original Employee Certification in Personnel File

Condition & Criteria: Board policies require original certifications to be kept on file for all teachers and certified administrators.

Cause: Documentation of certification for one of the twenty certified employees selected for testing was not available.

Effect: Board policy was not followed.

Recommendation: Human resources should implement procedures to ensure original certifications are obtained at time of hire.

Management's Response: The finding by the internal auditors was that one employee was "noted as not having a Substitute Certificate in their Personnel File". As was discussed with the internal auditors, there is no such document officially issued by the Education Professional Standards Board. The Substitute Certificate is an automated approval from the Education Professional Standards Board that can be printed by the substitute teacher, and by staff members. Procedures are now in place that require a prospective substitute teacher to provide the printed copy of permissions to substitute teach at the time of hire.

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Item 2013-7 – Employees Should Properly Record Hours

Condition & Criteria: Employees are paid based on timecards used to record when they arrive at Board facilities and when they leave.

Cause: Employee did not properly record start and end of work day.

Effect: Employee time was not interpreted correctly and employee was overpaid.

Recommendation: All employees should be reminded periodically of proper procedures to record time worked.

Management's Response: We will review time and attendance documentation procedures to ensure that we reduce future errors.

Item 2013-8 – Substitute Teacher Paid for Unallowed Stipend

Condition & Criteria: Board policies prohibit substitute teachers from being paid for Juris Doctorate.

Cause: Board policy was not followed

Effect: Employee was paid for a stipend not allowed for that employee's position.

Recommendation: Procedures should be implemented to ensure that employee's cannot be paid for unqualified stipends.

Management's Response: This was a clerical error. The HR management has reminded all substitute center clerks and supervisor of the substitute salary placement rules and substitute pay table.

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IV. Capital Assets

Item 2013-9 – Capital Asset Purchases

Condition & Criteria: During testing of capital asset additions an item was noted as capitalized by the Property Auditors when they located it at a school. The school could not provide any supporting documentation for the purchase.

Cause: Procedures were not followed and adequate documentation for the purchase was not maintained.

Effect: The item was not recorded as an addition to capital assets until located by the Property Auditors. Proper purchasing procedures were not followed.

Recommendation: We recommend that all schools follow Board mandated purchasing policies.

Management's Response: We have reviewed the item missing supporting documentation. We believe the item pre-dated current control procedures linking our capital assets to all supporting documentation, including the purchase order and paid invoice. We will continue to monitor our capital assets to ensure that controls are working properly.

Item 2013-10 – Record Capital Assets at Proper Value

Condition & Criteria: During testing of capital asset additions an item was recorded at the incorrect value.

Cause: Accounting procedures were not followed.

Effect: The value was improperly recorded.

Recommendation: All capital assets should be recorded at the proper value.

Management's Response: We have reviewed this error, and we will take additional steps to prevent these errors in the future.

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Item 2013-11 – Review Recording of Repairs

Condition & Criteria: During testing of capital asset additions, we noted an item that was capitalized that should have been expensed as a repair.

Cause: An asset repair was capitalized rather than expensed.

Effect: Capital assets were overstated and expenses were understated.

Recommendation: We recommend that management remind employees what type of expenditures should be expensed as repairs versus being recorded as a capital asset.

Management's Response: We agree that the item should have been a repair instead of a new asset. We will review the rules for determining whether to capitalize an asset with staff to discourage future errors.

Item 2013-12 – Maintain Proper Documentation for Capital Asset Purchases

Condition & Criteria: During testing of capital asset additions at one of the schools a copy of the check used to pay for an asset was not maintained.

Cause: Proper documentation was not maintained.

Effect: The check used to pay for the capital asset could not be located.

Recommendation: We recommend that all supporting documentation for capital asset purchases be maintained in accordance with Board policy. A change in school personnel does not excuse violations of Board policy.

Management's Response: Proper documentation requirements have been discussed with the school staff. We will further audit this location in the coming year looking for similar occurrences.

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Item 2013-13 – Procedures over Capital Asset Retirements

Condition & Criteria: During testing of capital asset retirements an item retired by the Property Auditors was found to still be in use.

Cause: Proper authorization to retire the capital asset was not obtained.

Effect: A capital asset in use was removed from capital asset records and noted as retired.

Recommendation: We recommend that the Board policy of requiring approval for all capital asset retirements be followed.

Management's Response: In an effort to maintain accurate capital asset records, we made one error where a capital asset that was not readily available during review, was determined that it had been disposed of, but was later found and reactivated. Additionally, we made one clerical error causing an erroneous retirement. We will review procedures with staff to minimize future errors, but we expect this to remain a challenge given how many capital assets we have throughout the district.

V. Other Items

Item 2013-14 – Compare Tax Receipts to Supporting Documentation When Available

Condition & Criteria: The Board collects tax revenues from various sources and relies on the submitting party for accuracy of the amount received.

Cause: The Board does not collect its own tax revenues.

Effect: Amounts remitted could be in error and the Board would not know in a timely manner.

Recommendation: We recommend that when available the amount received be compared to supporting documentation.

Management's Response: We have implemented the recommended documentation steps. In addition, we will continue to reconcile our tax receipts to the tax collectors' records periodically throughout the tax year.

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Item 2013-15 – Collection of Tax Revenues

Condition & Criteria: Per KRS 160.500 - .510, the Sheriff or other property tax collector is not to deduct his fees from the taxes collected. Currently, the Sheriff is deducting his fee prior to remitting funds to the Board.

Cause: Tax revenues are remitted daily by the Sheriff as a convenience to the Board. The fees are only required to be remitted monthly. Because the taxes are remitted on a daily basis the Sheriff withholds his fee from the remittance.

Effect: Non-compliance with Kentucky Revised Statutes.

Recommendation: This issue should be discussed/negotiated between the Board, KDE and the Sheriff's Office.

Management's Response: We agree that all laws must be followed precisely. However, the law also allows the Sheriff to hold tax revenues and only remit to us monthly, exacerbating our cash flows requirements and causing lost interest revenue. We will continue to work to get the law changed or explore other ways to meet the letter of the law.

Item 2013-16 – School Activity Funds

Condition & Criteria: 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 school.

Cause: Redbook policies/requirements were not followed by bookkeepers/principals in accounting for the various activities at the school in areas such as multiple receipt forms, ticket sales, invoice approval, and transfers.

Effect: Non-compliance with Kentucky Department of Education Redbook policies/requirements.

Recommendation: We recommend the Board require training for all bookkeepers and principals on the new Redbook issued by the Kentucky Department of Education, which was effective July 1, 2013.

Management's Response: The Assistant Superintendents have directed all school principals and bookkeepers to attend a *2013 Redbook* training session in October or November, 2013. The Board has provided *2013 Redbook* compliance information to staff since the document was in draft. More than 100 employees have already attended *2013 Redbook* training sessions, and 83 principals have enrolled for November sessions thus far.

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VI. Internal Audit

Item 2013–17 – Internal Audit Report Process

Condition & Criteria: It was noted that formal reports by Internal Audit were not always being prepared or sent to the appropriate management personnel.

Cause: Instances where a formal report or memo was not provided occurred.

Effect: Uncertainty of the scope of the audit or review and the conclusion by Internal Audit could lead to inappropriate or incomplete action being taken by management personnel.

Recommendation: In all cases where a special audit or review is conducted by Internal Audit staff, a formal report should be completed. These reports should have the following characteristics:

- Same format and structure
- Address all necessary areas including school or department, issue investigated, work performed, conclusion, and recommendations
- Signed by preparer and reviewer
- Maintained in an organized electronic or manual filing system
- Should note whether a follow up by Internal Audit is necessary
- Listing of those the report is provided to
- All correspondence and support should be filed with the report

The follow-up process should be documented and included with the Special Audit/Review file.

Management's Response: We will ensure the Internal Audit reporting processes meets or exceeds the needs of the district, the superintendent, and the school board, including both formal and informal reports and subsequent follow-up and reports of follow-up:

Formal or informal report formats:

Condition & Criteria: What is the compliance issue and non-compliance event.

Cause: What happened.

Effect: How the non-compliance effects operations or legal procedures

Recommendation: What corrective action should occur.

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Item 2013–18 – Audit Plan for Internal Audit Department should be Developed

Condition & Criteria: It was noted that Internal Audit does not have a formal Audit Plan.

Cause: Management and other responsible users of Internal Audit projects do not request an annual audit plan be prepared and submitted for prior review and approval.

Effect: Improper usage of Internal Audit Department dilutes its' effectiveness.

Recommendation: We recommend that Internal Audit perform a risk assessment and develop an audit plan for each fiscal year based on the assessment. At the end of each fiscal year, the Director of Internal Audit should report to the Board the projects that were completed during the fiscal year, projects scheduled but not completed due to various circumstances and the plan for the upcoming fiscal year. This plan should include:

- Audits of the School Activity Funds for the 155 schools within the District
- Operational reviews of internal processes throughout the District
- Control Testing of Cash Receipts, Cash Disbursements, Payroll, Capital Assets, Terminations, New Hires and Transfers which are external audit requirements

Management's Response: We will ensure that the Internal Audit planning process meets or exceeds the needs of the district, the superintendent, and the school board with financial and operational audits. We will submit an annual audit plan to the superintendent and request presentation for school board acceptance. We will provide annual reports on the completion of the plan. This plan will include activities such as:

School Activity Fund Audits/Monthly

- Spring interim visits to schools
- Finalize annual school audits after Summer Break
- Improve efficiency with more paperless info from bookkeepers
- Monthly monitoring per the 2013 Redbook

Attendance Audits

- Annual state audit schools visited by specialist auditor
- All auditors perform attendance audits for remaining schools

Family Resource/Youth Service Center Audits (FRYSC)

- Complete approx. on third locations by end of the school year
- Half-day visits
- Every three years.

Extended School Service Audits (ESS)

- Complete sample of locations as applicable
- Half-day visits
- Every three years.

Current Year Comments and Management Responses--Continued

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Special Audits

- As requested by management
- Fraud investigations as occur
- Extended days principals follow up
- Title I and other federal programs
- Vendor file and other operational control reviews
- Other federal programs
- Various operations/controls reviews
- Other assistance and investigations as needed and requested

Other

- Bookkeeper and school staff support and training (on-going)
- Communication and collaboration among Internal Audit staff to better serve the schools
- Streamline Internal Audit staff through efficiency: eliminate one auditor position (retirement)

Annual Audit Assistance to external auditors

- Internal controls testing
- A-133 federal program testing.

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VII. Technology

Item 2013-19 – IT Organization

Condition & Criteria: The Board has recently undergone a major reorganization which resulted in the IT functions of the Board being split into two groups: Management Information Services (“MIS”) and Digital Technology (“DT”).

Cause: These two groups must work together to complete projects, address issues and outages and plan strategic initiatives.

Effect: The current organizational structure is not helpful in creating a collaborative working relationship. The two groups are not located in the same building and rarely meet in person.

Recommendation: We recommend that MIS and DT managers and team leads meet weekly in person to work on common open tickets and pending projects, document processes and policies, implement tools and performance measures, and work with KDE on technology planning and strategy together. We also recommend team building sessions to foster more positive relationships.

Management’s Response: Staff from MIS and DT work closely to share project and status information on a regular basis. Efforts are also underway to unify monitoring and notification mechanisms across server and network platforms.

Item 2013-20 – KDE Communication

Condition & Criteria: KDE provides tools and services available to districts to communicate status of network and obtain support for network issues.

Cause: The Board currently provides a list of contacts that KETS uses to send e-mail updates and alerts.

Effect: The Board is currently using the toll-free number for KETS help desk, but does not use the KETS alert site (<http://ketsalert.kyschools.us>) or the KETS Remedy site to check for status.

Recommendation: We recommend that the MIS and DT staff use the KETS alerts site and Remedy site to obtain status on network issues and to share this information with Board users. In addition, the users on the KETS contact list for the Board should be expanded to include all managers on MIS and DT as well as the COO and STC Coordinator.

Management’s Response: The KDE outage emails recipient list has recently been expanded to include the MIS Director. All pertinent staff should use kets.kyschools.us and have it bookmarked.

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Item 2013-21 – IT Tools

Condition & Criteria: The Board has installed new hardware and software which can be managed using tools provided by the related vendors (Microsoft SCOM, Brocade, Falconstor, Avaya, Fortigate).

Cause: These tools allow IT staff to observe the status of systems, perform troubleshooting and maintenance and make changes to systems if authorized. These tools must be configured to work properly and staff must be trained to use them.

Effect: Underutilization of resources.

Recommendation: Scheduling implementation and training time with major vendors to complete the configuration of these tools and provide staff training would be beneficial to the IT staff. In addition, appropriate access to these tools should be granted to all IT staff to allow for collaboration and reduce lag time for issue resolution.

Management's Response: MIS and DT staff are working closely to incorporate the data and network entities into common notification systems whereby staff from both teams can receive timely alerts. Our servers and storage entities can be configured to facilitate such timely notification to both teams. DT is currently working with vendors to set up all needed training to learn how to better use these tools.

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Item 2013-22 – Technology Planning and Strategy

Condition & Criteria: The Board has a number of issues to resolve in the near future including:

- Active directory self-management
- Munis cloud
- Network devices out of warranty
- Internet connectivity and bandwidth requirements
- Desktop refresh in schools

Cause: The current Board Technology Plan is dependent upon the KDE Kentucky Education Technology System plan for approval and implementation. Communication between the Board and KDE regarding these matters has been problematic in the past, and several of the technology items in this letter are pending resolution of a KDE project.

Effect: Board administration has taken steps to work with KDE, however, the risks associated with not finding an appropriate solution to these issues remain, and include inability to provide adequate, reliable, and secure technology services to students, teachers, staff, and other stakeholders.

Recommendation: Coordination and planning between the Board and KDE needs to be prioritized to complete these needed projects timely.

Management's Response:

Active Directory: KDE has granted us elevated rights to manage the Jefferson domain without actually making us domain administrator. KDE recognizes the current layout of a single forest and is planning on upgrading the forest design. In considering the scope of this task, the project is being planned carefully. KDE also intends to shift the Active Directory implementation to the Microsoft cloud in the near future. Our understanding is that the redesign of the forest would coincide with the cloud migration.

Munis Cloud: Presently, JCPS has a premise-hosted implementation of Munis. There are two areas of concern related to the cloud migration viz. Time and Attendance and Internet backbone. The JCPS Chief Financial Officer has communicated the concerns of the Cloud environment to KDE Finance. KDE Finance understands the issues and feels confident JCPS will make the switch to the Cloud when appropriate.

- Time and Attendance: JCPS uses a tightly integrated and highly customized Time and Attendance system developed in-house. The Time and Attendance system runs on the same servers as Munis and provides real-time information to Payroll. JCPS has discussed the cloud migration with Tyler in the past. A significant concern is that the cloud implementation would not allow JCPS' Time and Attendance system to coexist with the Munis implementation. This would not only break the tight integration of Time and Attendance required to run Payroll in Munis but also cause the Munis payroll system to not generate a payroll. The effort required to break the tight integration between Munis and the Time and Attendance system is significant (time and resources). More importantly, this would require a thorough testing by running dual systems until the new version is deemed accurate. All teams have concluded that this would be an unaffordable undertaking given our current financial and staffing levels.

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- **Internet Backbone:** The Munis cloud would require a highly reliable and dedicated internet backbone to that essential payroll services continue to function in the event of internet access outages. Presently, JCPS has a single internet backbone provided by KDE through AT&T. Ideally, there has to be a secondary backup internet connection through a different provider and our network should be configured for automatic failover. This need has become self-evident during the internet outages being experienced frequently. In addition, the Munis payroll requires a constant connection to the database server, and takes several hours to run. It does not presently have the ability to regain its previous state when it fails. This results in the entire payroll having to run from the beginning. Using a single internet backbone with the aforementioned drawbacks cannot result in a successful implementation unless addressed appropriately. A secondary internet backbone will be a recurring district expense.

Network devices out of warranty: The new data network upgrade has been completed. New voice upgrade is under way.

Internet connectivity and bandwidth requirements: This is under the control of KDE. We are told that the bandwidth will be increased in the near future.

Desktop refresh in schools: This is reliant on the KETS funds which have been decreasing over the years unless another funding source can be found.

Item 2013-23 – Network Devices

Condition & Criteria: The Board has a network with a large number of switches and devices to manage connectivity to the Internet as well as connectivity between KDE, Board Administration, and the schools. The equipment currently in place is either not under warranty or is at/or approaching vendor end-of-life warranty, and is no longer going to be supported with firmware updates and maintenance agreements.

Cause: The Board currently has no documented plan to replace these devices prior to the expiration of support.

Effect: Lack of support and firmware upgrades could result in downtime, data breaches, and failure to prevent attacks on the network.

Recommendation: We recommend the Board develop and implement a plan for replacement of network devices with equipment that is supported and will meet Board needs.

Management's Response: The new data network upgrade has been completed. New voice upgrade is under way.

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Item 2013-24 – Business Continuity Plan

Condition & Criteria: While the Board has made some arrangements for continuity of Munis and Infinite Campus processing in case of disaster, certain technology systems, including telephony, internet, and student information systems are not covered by a formal Business Continuity Plan.

Cause: A major disaster could cause loss of data and operational downtime.

Effect: If a major disaster occurs, the Board does not have a plan for how to continue business as usual.

Recommendation: The Board should consider the development of a comprehensive Business Continuity Plan for critical business functions. The Board should consider a formal Risk Assessment which will identify all critical systems and functions. The Business Continuity Plan will be driven from the results of the Risk Assessment. This plan should include not only MIS but also key accounting and business functions that are required to continue in operation.

Management's Response: DT has provided costs for our own internet connection as a backup to the KDE internet connection. If approved, this could be implemented in 30-60 days. DT is researching the costs of installing a backup data core which would provide fail-over if the main core failed. MIS continues to work toward a Business Continuity and Data Recovery Plan. A fully executed analysis and risk assessment will require significant resources. We are currently working on a cost analysis for a potential impact analysis and risk assessment initiative and determine whether to issue a Request for Proposals for outside consultant support.

Item 2013-25 – Domain Administrator Accounts

Condition & Criteria: The Board currently has several user accounts that have Domain Administrator privileges. These users use this account to sign onto their PC's to do their daily work.

Cause: This was apparently done to make it more convenient for administrators to sign in.

Effect: If a virus, spyware, or malware is installed on their PC, the infection could be spread across the entire network.

Recommendation: We recommend the Board to create a second account without Domain Administrator rights to be used to sign into the PC.

Management's Response: We currently do not have domain administrator rights on our accounts but we have local server administrator and some administrative rights on our domain associated with our account. We will take a stronger look at it this year and anticipate taking 6-12 months to identify, communicate and implement. Our focus this year has been cleaning up all Active Directory accounts for the KDE rollouts of Office 365 etc. which has been major undertaking.

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Item 2013-26 – Password Expiration

Condition & Criteria: The Board currently does not force user passwords to expire when logging into the Domain.

Cause: There is no policy in effect to enforce password changes.

Effect: Unauthorized users could gain access to the system.

Recommendation: We recommend that the Board establish a policy to require user passwords to expire.

Management's Response: We have expired approximately 51,000 of the approximately 170,000 user accounts following a major cleanup for Office365. We are still examining accounts and will continue to do so on a regular basis. A password expiration policy will result in an increased call volume for the service desk. In addition, JCPS has multiple systems that would require tracking of passwords for the employee as well as IT when passwords are forgotten. JCPS emphasizes the importance of password protection as well as developing a strong password to avoid a security breach. Employees can change their password as needed. In addition, KDE is working with Microsoft to implement password policy and unified provisioning systems in the next 2 years.

Prior Year Comments and Management Responses

Jefferson County Board of Education

VIII. Accounts Payable

Item 2012-1 – Segregation of Duties

Condition & Criteria: There are accounts payable clerks that have the ability to set up and edit vendor information, including EFT information, as well as process invoices.

Cause: There are no controls in place that allow for proper segregation of duties.

Effect: Clerks could potentially enter fraudulent invoices for payment.

Recommendation: We recommend that segregation of duties be implemented as much as administratively possible. When not possible we recommend an alternate review, such as a vendor audit, be performed.

Management's Response: During the year, we removed the vendor maintenance functions from all clerks except the clerk responsible for the vendor file. We have substantially reduced the invoice processing from this clerk, but we have been unable to completely remove this task without causing the position to be less than a full-time position. We continue to perform additional reviews of the invoices processed by this clerk and of vendor file changes.

Current Status: The Board has implemented some compensating controls to address this issue, see 2013-2.

IX. Financial Reporting

Item 2012-2 – Proper Inclusion of Component Units

Condition & Criteria: Management believes the Jefferson County Public Education Foundation to be a component unit and it is not included in the Board's financial statements.

Cause: The information necessary to properly include the Foundation has not been available by the date needed for inclusion.

Effect: This component unit is not included in the Board financial statements

Recommendation: We recommend that management engage and complete in a timely manner the audit of the component unit so that it can be properly included in the financial statements.

Management's Response: We have tried to get the audited financial statements of the Jefferson County Public Education Foundation by the deadline for inclusion in our financial statements for a number of years. We will continue to ask for them, but they are a separate entity with their own audit schedules.

Current Status: See 2013-1

Jefferson County Board of Education

X. Personnel

Item 2012-3 – Terminated Employees not Reported in Board Minutes

Condition & Criteria: Board policies require all terminated employees to be included in Board minutes.

Cause: Seven of twenty-five terminated employees selected for testing were not noted as terminated in the Board minutes.

Effect: Board policy was not followed.

Recommendation: We recommend that management emphasize to all employees the importance of following Board policies.

Management's Response: Our current procedure for preparing the Board report depends on compiling data from hard copy Personnel Action Forms. This procedure has exposed us to the risk of printer and print set-up issues, which we had numerous times during the 2011-2012 year, the year of our conversion to Munis. We have worked through many of the printing issues but are still confronted with an inefficient process. We are reviewing the feasibility of converting this to an electronic form with hard copy review.

Current Status: See 2013-3

Item 2012-4 – Terminated Employees' Termination Date not Reported Correctly in Board Minutes

Condition & Criteria: Board policies require termination dates for all terminated employees to be included in Board minutes.

Cause: Two of twenty-five terminated employees selected for testing were not noted as terminated in the Board minutes.

Effect: Board policy was not followed.

Recommendation: We recommend that personnel in Human Resources ensure termination dates are reported correctly in Board Minutes.

Management's Response: This error was due to differences between the date fields in our old payroll system and our new payroll system. We have reviewed these fields with staff and corrected the errors.

Current Status: No instances were noted during testing, appears to have been corrected.

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Item 2012-5 – Notice of Change Document not Included in Personnel File

Condition & Criteria: It was noted during the audit that required documentation related to a terminated employee was not included in the personnel file.

Cause: Four of twenty-five terminated employees selected for testing did not have the required “Notice of Change” document included in their personnel file.

Effect: Board policy was not followed for those items required in an employee’s personnel file.

Recommendation: We recommend that personnel in Human Resources ensure a “Notice of Change” document for terminated employees is included in the personnel file.

Management’s Response: We have worked through many printing issues during our year of Munis conversion. These systems are now functional.

Current Status: Not noted as an issue for the current year, however there were issues related to the consistency and application of procedures and completion of the Notice of Change document. See 2013- 4.

Item 2012-6 – Ensure Personal Days for Retirees are Paid Out and at the Correct Rate

Condition & Criteria: It was noted during the audit that one retiree did not receive payout for personal days upon retirement and one retiree was paid out at the incorrect rate.

Cause: One of twenty-five terminated employees selected for testing did not have the correct rate from MUNIS.

Effect: Board policy was not followed.

Recommendation: We recommend that Payroll personnel ensure personal days are paid out for all retirees and correct rates are utilized in the calculation.

Management’s Response: We have reviewed required procedures with the staff and have put additional controls in place to minimize the risk of missing payments such as these in the future.

Current Status: No instances were noted during testing, appears to have been corrected.

Jefferson County Board of Education

Item 2012-7 – New Hires not Reported in Board Minutes

Condition & Criteria: Board policies require all new hires to be included in Board Minutes.

Cause: Two of twenty-five new hires selected for testing were not disclosed as new hires in the Board Minutes.

Effect: Board policy was not followed.

Recommendation: We recommend that Human Resources personnel ensure that new hires are properly included in Board Minutes and the importance of following board policies.

Management's Response: We have experienced many printing problems during our year of Munis conversion, but these have been overcome. We continue to strive for ways to eliminate errors and refine our processes toward greater efficiency.

Current Status: Not noted as an issue for the current year, however it was noted that hire dates were reported incorrectly in the Board Minutes. See 2013-5.

XI. Other Items

Item 2012-8 – Collection of Tax Revenues

Condition & Criteria: Per KRS 160.500 - .510, the Sheriff or other property tax collector is not to deduct his fees from the taxes collected. Currently, the Sheriff is deducting his fee prior to remitting funds to the Board.

Cause: Tax revenues are remitted daily by the Sheriff as a convenience to the Board. The fees are only required to be remitted monthly. Because the taxes are remitted on a daily basis the Sheriff withholds his fee from the remittance.

Effect: Non-compliance with Kentucky Revised Statutes.

Recommendation: We recommend the Board assess the potential consequences of this transaction in comparison to the benefits.

Management's Response: We certainly agree that all laws must be followed precisely. However, the law also allows the Sheriff to hold tax revenues and only remit to us monthly, exacerbating our cash flows requirements and causing lost interest revenue. We will work to get the law changed or explore other ways to meet the letter of the law.

Current Status: See 2013-15

Jefferson County Board of Education

Item 2012–9 – Purchases Should not Be Made for Student Incentives for Perfect Attendance

Condition & Criteria: Redbook policies created by the Kentucky Department of Education prohibit the purchase of student incentives for perfect attendance purposes.

Cause: It was noted during our school visits that some schools are making purchases for student incentives for perfect attendance.

Effect: Redbook policy was not followed.

Recommendation: We recommend that management review and ensure that Redbook policies relating to student incentives are being properly followed.

Management’s Response: We will remind schools of this law during training sessions.

Current Status: Not noted as an issue for the current year, however it was noted that other Redbook policies are not being properly followed. See 2013-16.

Item 2012–10 – Additional Compensation Provided to Employees

Condition & Criteria: General Fund monies were utilized to purchase gifts cards for staff appreciation and attendance incentives which could be considered additional compensation.

Cause: It was noted during our testing at one school that gifts cards were purchased from General Fund monies for Board employees.

Effect: Internal Revenue Service (“IRS”) regulations may require such gifts to employees to be reported on their W-2’s.

Recommendation: We recommend awarding of gift cards to employees not be allowed since it could affect contractual pay scales of Board employees.

Management’s Response: In August 2012, we issued new Spending Guidelines which specifically prohibit gift cards. Additionally, we will be monitoring to ensure these Guidelines are followed.

Current Status: Not noted as an issue for the current year. Management has implemented a monitoring process where every invoice from high risk vendors is reviewed for compliance with the spending guidelines.

Jefferson County Board of Education

Item 2012-11 – Violation of Meals and Refreshments Guidelines

Condition & Criteria: The Meals and Refreshments Guidelines of the Board specify that meals are allowable under the General Fund if incorporated into a daylong meeting without a lunch break. A listing of those in attendance along with an agenda indicating no break for lunch must be kept as support for food purchases.

Cause: During our testing, we noted several purchases for food items for staff meetings without the proper documentation that these disbursements were for daylong meetings without a break for lunch.

Effect: Board policy is not being followed.

Recommendation: Board should establish procedures to review disbursements to determine only allowable costs are incurred and are for an educational purpose.

Management's Response: In August 2012, we issued new Meals & Refreshments Guidelines which prohibit any meals or refreshments for staff meetings or activities. We will be monitoring to ensure these Guidelines are followed.

Current Status: Not noted as an issue for the current year. Management has implemented a monitoring process where every invoice from high risk vendors is reviewed for compliance with the spending guidelines.

Jefferson County Board of Education

Item 2012–12 – Insufficient Controls Resulted in Questionable Purchases

Condition & Criteria: Current procedures do not require approval of increases to blanket purchase orders and review of supporting documentation to verify items purchased were for their original stated purpose on the original blanket purchase order.

Cause: During our testing, blanket purchase orders were created in various amounts for food, supplies, and miscellaneous teaching non-bid items from both Target and Kroger. Increases to the purchase orders would be made throughout the year as the amounts expended would exceed the amount originally requested. Questionable purchases were noted including gift cards, Apple iPods, Sony PlayStations and DVD's, which were given as prizes and incentives to students.

Effect: Insufficient controls, combined with the inherent risk of abuse associated with blanket purchase orders, weakened the Board's ability to ensure that funds were being properly controlled and expended.

Recommendation: Board should review the need for blanket purchase orders. If blanket purchase orders are deemed necessary, there needs to be a process in place to review any request for increases in purchase orders. There also needs to be a formal process in place to ensure that items purchased utilizing purchase orders are being used for their stated purpose and not left to the discretion of the Administrators/Principals at the individual schools.

Management's Response: The new Spending Guidelines and Meals & Refreshments Guidelines have eliminated the use of many blanket purchase orders. Routine expenses such as utilities are the only blanket purchase orders that may be increased other than minimal amounts for items like shipping costs. Increases to other blanket purchase orders may only be done by creating a new purchase order.

Additional controls are now in place to ensure that invoices paid against purchase orders are appropriate and align to the purpose of the purchase order. Abuse of the purchase order system will result in disciplinary reviews of the staff.

Current Status: Not noted as an issue for the current year. The new Spending Guidelines eliminated the use of most blanket purchase orders. Issues noted in the prior year are no longer a problem since a new purchase order must be requested rather than just requesting an increase to the original blanket purchase order.

Jefferson County Board of Education

XII. Internal Audit

Item 2012–13 - Internal Audit Report Process

Condition & Criteria: It was noted that formal reports by Internal Audit were not always being prepared or sent to the appropriate management personnel.

Cause: Instances where a formal report or memo was not provided occurred.

Effect: Uncertainty of the scope of the audit or review and the conclusion by Internal Audit could lead to inappropriate or incomplete action being taken by management personnel.

Recommendation: In all cases where a special audit or review is conducted by Internal Audit staff a formal report should be completed. These reports should have the following characteristics:

- Same format and structure
- Address all necessary areas including school or department, issue investigated, work performed, conclusion, and recommendations
- Signed by preparer and reviewer
- Maintained in an organized electronic or manual filing system
- Should note whether a follow up by Internal Audit is necessary
- Listing of those the report is provided to
- All correspondence and support should be filed with the report

The follow-up process should be documented and included with the Special Audit/Review file.

Management's Response: We will collaborate with JCPS administration to determine the optimum special project reporting classifications, formats, protocols, and resolution.

Current Status: See 2013-17

Jefferson County Board of Education

Item 2012–14 – Internal Audit Internal Control Testing

Condition & Criteria: It was noted during our review of Internal Audit's internal control testing workpapers that various internal control attributes marked as tested were either not tested or not properly documented.

Cause: Instances of improperly documented workpapers occurred.

Effect: Workpapers that did not properly document the work performed required additional work and follow up by the external auditor.

Recommendation: We recommend that Internal Audit workpapers be properly reviewed by another Internal Audit staff member to ensure that workpapers are complete and accurate before providing workpapers to external auditors for review.

Management's Response: We will continue to strive to maintain and improve the quality of audit workpaper documentation, regardless of work volumes and time constraints.

Current Status: Not noted as an issue for the current year.

Item 2012–15 – Audit Plan for Internal Audit Department should be Developed

Condition & Criteria: It was noted that Internal Audit does not have a formal Audit Plan.

Cause: Management and other responsible users of Internal Audit projects do not request an annual audit plan be prepared and submitted for prior review and approval.

Effect: Improper usage of Internal Audit Department dilutes its' effectiveness.

Recommendation: We recommend that Internal Audit perform a risk assessment and develop an audit plan for each fiscal year based on the assessment. At the end of each fiscal year, the Director of Internal Audit should report to the Board the projects that were completed during the fiscal year, projects scheduled but not completed due to various circumstances and the plan for the upcoming fiscal year. This plan should include:

- Audits of the School Activity Funds for the 155 schools within the District
- Operational reviews of internal processes throughout the District
- Control Testing of Cash Receipts, Cash Disbursements, Payroll, Fixed Assets, Terminations, New Hires and Transfers which are external audit requirements

Management's Response: We will formally consolidate our annual Internal Audit plans in a single audit plan document.

Current Status: See 2013-18

Jefferson County Board of Education

XIII. Technology

Item 2012-16 – Technology Planning and Strategy

Condition & Criteria: The Board has a number of issues to resolve in the near future including:

- Active directory self-management
- Munis cloud
- Network devices out of warranty
- Internet connectivity and bandwidth requirements
- Desktop refresh in schools

Cause: The current Board Technology Plan is dependent upon the Kentucky Department of Education (“KDE”) Kentucky Education Technology System plan for approval and implementation. Communication between the Board and KDE regarding these matters has been problematic in the past, and several of the technology items in this letter are pending resolution of a KDE project.

Effect: Board administration has taken steps to work with KDE, however, the risks associated with not finding an appropriate solution to these issues remain, and include inability to provide adequate, reliable, and secure technology services to students, teachers, staff, and other stakeholders.

Recommendation: Coordination and planning between the Board and KDE needs to be prioritized to complete these needed projects timely.

Management’s Response: We are reviewing all technology needs, costs, and timelines and will present this strategy in the near future.

Current Status: See 2013-22

Jefferson County Board of Education

Item 2012-17 – Network Devices

Condition & Criteria: The Board has a network with a large number of switches and devices to manage connectivity to the Internet as well as connectivity between the Kentucky Department of Education, Board Administration, and the schools. The equipment currently in place is either not under warranty or is at/or approaching vendor end-of-life warranty, and is no longer going to be supported with firmware updates and maintenance agreements.

Cause: The Board currently has no documented plan to replace these devices prior to the expiration of support.

Effect: Lack of support and firmware upgrades could result in downtime, data breaches, and failure to prevent attacks on the network.

Recommendation: We recommend the Board develop and implement a plan for replacement of network devices with equipment that is supported and will meet District needs.

Management's Response: Efforts are underway to replace the aging network (voice and data) infrastructure. The Kentucky Department of Education has a Request for Proposals to provide these assets. We have written these purchases into our 2012-2013 budget.

Current Status: See 2013-23

Jefferson County Board of Education

Item 2012-18 – Business Continuity Plan

Condition & Criteria: While the Board has made some arrangements for continuity of Munis and Infinite Campus processing in case of disaster, certain technology systems, including telephony, internet, and student information systems are not covered by a formal Business Continuity Plan.

Cause: A major disaster could cause loss of data and operational downtime.

Effect: If a major disaster occurs, the Board does not have a plan for how to continue business as usual.

Recommendation: The Board should consider the development of a comprehensive Business Continuity Plan for critical business functions. The Board should consider a formal Risk Assessment which will identify all critical systems and functions. The Business Continuity Plan will be driven from the results of the Risk Assessment. This plan should include not only MIS but also key accounting and business functions that are required to continue in operation.

Management's Response: In September 2012, we installed a new one megawatt generator to provide backup power to the entire VanHoose building which powers the Data Center and all district systems. At full building load and diesel, we can provide 72 hours of backup power. Our new uninterrupted power supply provides 25 minutes of interim power at full load, allowing plenty of time for the generator to power up, which has taken only one minute in our tests. After generator loss, the backup processes we have in place would carry the risk of up to one day's lost data before offsite processing can resume, though Munis can be operated from Maine and Infinite Campus can be operated from Minnesota.

Current Status: See 2013-24

Item 2012-19 – Domain Administrator Accounts

Condition & Criteria: The Board currently has several user accounts that have Domain Administrator privileges. These users use this account to sign onto their PC's to do their daily work.

Cause: This was apparently done to make it more convenient for administrators to sign in.

Effect: If a virus, spyware, or malware is installed on their PC, the infection could be spread across the entire network.

Recommendation: We recommend the Board to create a second account without Domain Administrator rights to be used to sign into the PC.

Management's Response: During the past year, we have cleansed the Global Access Catalog of excess service accounts and continue to clean up Active Directory.

Current Status: See 2013-25

Prior Year Comments and Management Responses--Continued

Jefferson County Board of Education

Item 2012-20 – Password Expiration

Condition & Criteria: The Board currently does not force user passwords to expire when logging into the Domain.

Cause: There is no policy in effect to enforce password changes.

Effect: Unauthorized users could gain access to the system.

Recommendation: We recommend that the Board establish a policy to require user passwords to expire.

Management's Response: We presently have permissions and centralized controls over all of the student documents and staff documents will be underway in 2013. We plan to create a password policy for staff, then students, in 2013 in conjunction with the new identity management software project.

Current Status: See 2013-26