

JEFFERSON COUNTY PUBLIC SCHOOLS

## Audit Plan

ASSURANCE \* INDEPENDENCE \* OBJECTIVITY

**2020-2021**

I am pleased to provide you with the 2020-2021 Internal Audit work plan (Audit Plan). Upon reflection of the past two years as the Director of Internal Audit, I continue to be proud of the work we have completed as well as my efforts to increase the visibility and reputation of the internal audit function as a trusted advisor and effective evaluator of processes to support Jefferson County Public Schools (hereafter “the District”) in achieving its objectives. This document lays out the steps taken to create an audit plan that meets the needs of the District but remains flexible to meet changes in the future.

## Internal Audit’s Purpose and Mission

The Internal Audit Department provides independent, objective assurance and consulting activities that are guided by a philosophy of adding value to improve the operations of the District. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. By bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal control, internal audit supports the District’s efforts in achieving its strategic objectives.

## Audit Plan Overview

The audit universe serves as the foundation of the audit plan and represents all of the potential auditable components including, programs, activities, processes, systems and initiatives throughout JCPS. A risk assessment is performed to help identify higher risk areas to be included in the audit plan. Through meetings with members of the Board of Education (JCBOE), members of the Audit Risk Management Advisory Committee (ARMAC), the Superintendent, Cabinet members and other District personnel, the Director of Internal Audit uses the information to update its audit universe and create a work plan that contributes to the improvement of the District’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. The 2020-2021 Audit Plan covers the period of October 1, 2020 to September 30, 2021.

## Audit Plan Approval Process

In accordance with Institute of Internal Auditor’s (IIA) International Professional Practices Framework (IPPF), the Audit Plan is submitted annually to the JCBOE for approval. With the uncertainty resulting from COVID19, some activities may be adjusted to accommodate the work environment in place at the time of the reviews. In response to changes in the District’s business, risks, operations, programs, systems, and controls, the Director of Internal Audit continuously reviews and adjusts the plan throughout the audit plan period, as necessary. Significant changes required of the plan will be presented to the JCBOE for approval. Periodic updates on the status of the Audit Plan activities are provided to the ARMAC, management and JCBOE throughout the year.



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# Overview of District Activities

The District enrollment for school year 2019-20 was approximately 98,000 students that attended 167 schools and learning centers throughout the county. Goals set out in the *Vision 2020 In Action* outlines the path the District follows to provide learning opportunities to its students. The District is in the midst of several significant transformational activities, including creating a strategic plan for the next five years. In or around October 2020 the district will be undergoing a follow up review by the Kentucky Department of Education in response to the Corrective Action Plan that was finalized in October 2018. JCPS is revising its student assignment plan that will improve equity for students who reside in the West End of the county. Construction projects have begun to provide necessary upgrades to several schools as well as building new schools in the east end of the county and proposing the construction of new schools in the West End of the county. In order to provide the necessary funds for these and other initiatives, a proposed tax increase has been approved by the JCBOE. In addition, the District is continuing to perform the necessary work to implement its Racial Equity Policy and make it fibrous throughout the District. Finally, in response to the COVID19 pandemic, the District is looking at how automation can be effectively implemented throughout its processes to improve efficiency of operations.

## Strategic Objectives

Vision 2020 in Action defines three focus areas and 17 actions steps that guide the District's work. The focus areas are Learning, Culture and Climate and Organizational Coherence. Each activity included in the audit universe has been aligned to one of these focus areas. While some activities could cover more than one strategy, for purposes of the audit universe, the key strategy driver was identified for each activity. These are validated through meetings with Cabinet members during the annual audit plan discussions.

## Audit Plan Methodology

The goal of the audit plan methodology is to create a work plan that includes areas with the greatest exposure to the key risks that could affect the District's ability to accomplish its goals, strategic priorities, and objectives. As a result, the following activities were performed:

- Update the audit universe based on changes throughout the year;
- Meet with JCBOE members, ARMAC members, the Superintendent, Cabinet Leaders and other district personnel to identify areas of concern or opportunity;
- Perform a risk assessment;
- Identify engagements that have the potential to improve management of risks, add value and improve the District's operations;
- Build a plan that is flexible to ensure Internal Audit can be responsive to unforeseen issues and changes in the District's risks, operations, programs, systems, and controls;
- Align the work plan with the District's goals as well as the expertise of the internal audit staff;

- Contract with outside firms to augment the limited number of internal audit staff as well as limited information technology expertise; and
- Consider reviews performed by oversight entities, external auditors and others to avoid duplication and redundant activities.

## Allocation of Resources

The 2020-2021 Audit Plan available budgeted hours equal 8,352 hours which were determined based on the four (4) full-time equivalent audit professionals (not including the Director of Internal Audit). See Exhibit A for a breakdown of the staff available hours and the proposed usage.

Majority (98%) of the department's budget is devoted to salary costs and other uncontrollable costs, such as the District's Anonymous Reporting Hotline, and Audit Services (external and outsourced Internal Audit), we carefully manage all discretionary aspects of our budget. Exhibit B provides a summary of the department's budgeted resources.

## Audit Universe

The audit universe includes around 150 potential auditable processes, many of which operate at the schools. A risk assessment serves as a tool used by Internal Audit to develop the annual Audit Plan since it will help us identify and prioritize the key areas of high risk, so that focus is placed on the auditable activities of greatest significance.

The audit universe consists of District's key risk areas that could be subject to audit (auditable units). The auditable units may include key departments, programs, functions, or processes in the District that are exposed to sufficient risks where controls should be implemented/reviewed. We identify the auditable units based on a review of the District's goals/objectives, strategic plan, organizational charts, position inventory listing, annual budget, emerging risks and trends, and Internal Audit staff's understanding of the current risks impacting school districts. Key auditable units included in the risk assessment are those that:

1. Contribute to the District's goals,
2. Are sufficiently large to noticeably impact the District, and
3. Are sufficiently important to justify the cost of a control.

## Risk Assessment Overview and Methodology

A risk assessment is recognized as the preferred process for identifying, measuring, and prioritizing risks based on their likelihood of occurrence and the magnitude of impact. Risk is defined as "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood." A risk assessment is a process for identifying risks to achieving District's goals, objectives, and strategic plan.

Once the audit universe is established, Internal Audit measures the risk for each auditable unit based on likelihood and impact risk factors. We use seven likelihood/impact risk factors and a

three-point risk factor scale with one representing the lowest level of risk and three representing the highest. The risk factors are defined in Exhibit C Risk Factors. The risk factors are reviewed annually to ensure they are relevant and effective in helping assess the operating, financial, and compliance risks of the District.

To help us determine the risk scores, we gather information relevant to the risk factors through interviews conducted with management and leadership from the auditable units as well as staying abreast of the District's activities through interactions, board meeting minutes and other relevant sources of information. The risk scoring is performed by Internal Audit. Once all auditable units have been scored, they are ranked from highest to lowest based on their risk rating. The results of the 2020-2021 Risk Assessment are evaluated in concert with requests by management and assist in defining the work plan which is provided in Exhibit D.

It should be noted that not all projects included in the plan were assessed as high in the risk rating process. In some instances the higher risk areas are subject to increased reviews by oversight entities or the external auditors and therefore are not necessarily included Internal Audit's Work Plan.

## Audit Plan Engagements and Activities

Audit Plan engagements encompass, but not limited to, the objective examinations of evidence for the purpose of providing independent assessments to the JCBOE, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the District. Internal Audit conducts assurance (audit), follow-up, and consulting (non-audit) engagements.

- **Assurance:** Objective examinations of evidence for the purpose of providing independent assessments on governance, risk management, and control processes for the organization. Examples include financial, compliance, performance, and information technology audits.
- **Consulting:** Advisory and related client service activities, the nature and scope of which are agreed to with the client, are intended to add value and improve the District's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, and process improvement.
- **Compliance/Monitoring:** Activities that are compliance focused such as attendance reviews, school activity fund reviews or ongoing monitoring such as the school activity fund monthly verification form process.
- **Investigations:** Activities that come from reports through the anonymous hotline, potential fraud related, or special assignments from Superintendent/Cabinet/JCBOE Board members.
- **Follow-up:** Follow-up engagements, also referred to as corrective action plan follow-up reviews, are conducted to determine the adequacy and timeliness of actions taken by

management on reported engagement findings and recommendations. This work determines if management has taken action or accepted the risk of not taking action on reported findings.

The work plan also includes hours dedicated activities required and/or recommended as best practices by the IIA Standards, and administrative duties, such as professional development and participation on various committees.

The Audit Plan engagements and activities, along with broad objectives and selection criteria (risk rating), are included in Exhibit D. The specific objective(s) of each engagement will be determined after the engagement is initiated and an engagement- level risk assessment is conducted in concert with the process owner.

The Audit Plan services/activities are listed in alphabetical order within the following sections:

- [Assurance \(Audit\), Consulting, Monitoring/Compliance and Follow-up Engagements](#)
- [Administrative and Other Activities Recommended or Required by the Standards](#)

# Exhibits

## Exhibit A Staff Resources

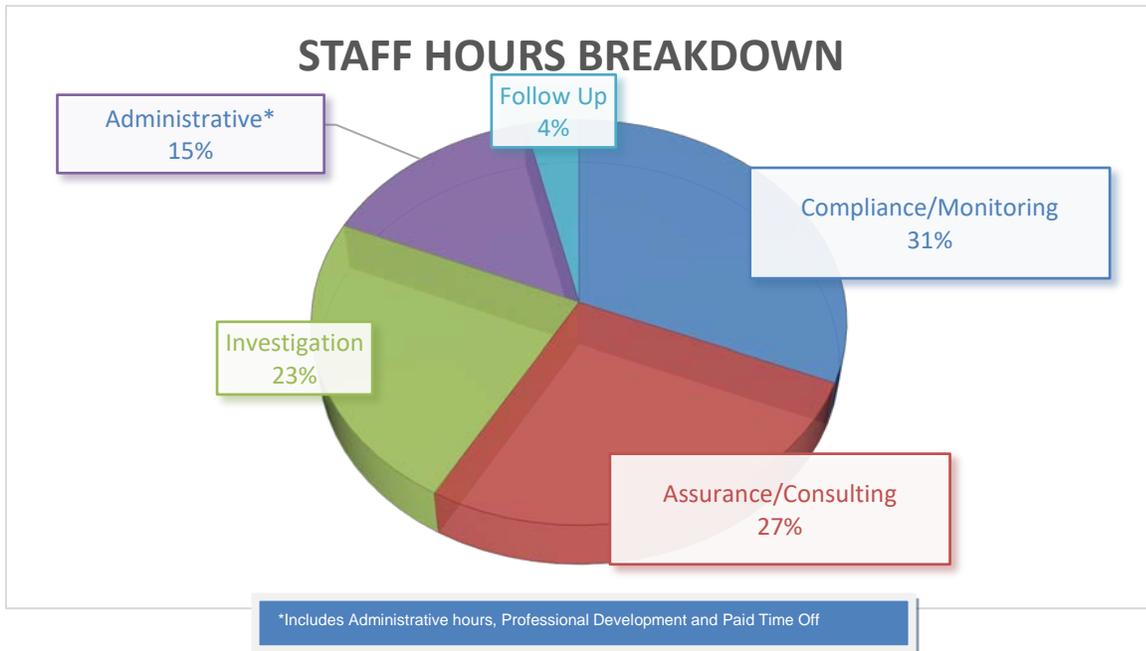
### Available Hours Calculation

A. Weekdays in fiscal year 2020-2021	261
B. Number of hours per day	8
B. Internal Audit Staff Full-time Equivalents (FTEs)	4
D. Available Hours (A x B x C)	16,704
C. Total Available Staff hours	8,352

### Audit Plan Chargeable Hours Calculation

Category	Hours	Percentage
Available Staff hours	8,352	100%
Less:		
Holiday hours (8 days per FTE)	256	3%
Leave hours (18 days per FTE)	576	7%
Professional development	120	1%
*Administrative hours	292	4%
Equals: Audit Plan Chargeable Hours Available	7,108	85%

\* Administrative hours include committee assignments and other non-allocated activities.



**Exhibit B Internal Audit Department Budget**

<b>Internal Audit Department Budget</b>			
<b>98%</b>	Salaries and benefits (estimate based on current year's budget)	\$ 422,000	
	Anonymous Reporting Hotline	21,300	
	Audit Services		<b>Audit Services</b>
	Outsourced Internal Audit	80,000	<b>External Audit</b> <b>\$ <u>322,000</u></b>
<b>2%</b>	Registration Fees (Professional Development)	4,000	
	Reference and reading materials	500	
	Equipment and software renewals	1,555	
	Department supplies	250	
	Subscription (Chief Audit Executive Center - IIA)	1,195	
	In/Out of District travel	<u>2,500</u>	
	<b>Total Internal Audit Activities budget</b>	<b>\$ <u>533,300</u></b>	<b>Total External Audit Services</b> <b>\$ <u>322,000</u></b>
			<b>Total Internal Audit budget</b> <b>\$ <u>855,300</u></b>

## Exhibit C Risk Factors

 <p><b>Financial Impact</b></p>	<p>This considers the overall dollar amount flowing through, committed to, or generated by the unit/process (e.g. expenditures, grant amount, revenues collected/earned). This evaluates the impact of inappropriate activity from a financial perspective.</p>
 <p><b>Regulatory Compliance</b></p>	<p>The complexity, volume, and clarity of regulations/compliance requirements from external requirements impacts the District's ability to comply, and therefore influences risk. Risks relate to the inability to comply; penalties, fines or litigation; loss of funding sources; and regulatory restrictions. In addition, the number of locations/people involved and the level of monitoring of these activities take to ensure compliance.</p>
 <p><b>Public Sensitivity</b></p>	<p>This measures the sensitivity of the unit to public exposure of critical internal issues. This considers the potential effect to the District overall as the result of negative information.</p>
 <p><b>Changes in the Unit</b></p>	<p>Changes in management personnel, organizational and operational structure, and the operational systems can influence risk. In some cases, reorganization of responsibilities and activities can result in significant changes that compromise controls.</p>
 <p><b>Complexity of Monitoring Activities</b></p>	<p>The complexity, and volume, of transactions. This factor considers the amount of manual input involved.</p>
 <p><b>Audit History</b></p>	<p>This considers whether there has been an audit of the unit, the last time an audit was performed, and the results of such audit.</p>
 <p><b>Criticality of the Unit</b></p>	<p>This factor measures the importance of the unit to accomplish the mission of the District. This considers the impact if the unit is unable to provide its service within a required time frame and/or at the expected level.</p>

## Exhibit D: Proposed 2020-2021 Internal Audit Work Plan

Assurance, Consulting, Monitoring/Compliance and Follow-up Engagements

Engagements (in alphabetic order)		Overall Engagement Objective	Risk Rating
1.	Building Modification Process	Consulting engagement to evaluate current process, identify opportunities for improvement and ensure effectiveness of the activity.	M
2.	Construction Management Process Review Possibly co-sourced	Assurance engagement to evaluate the practices in place to ensure that effective monitoring regarding minority owned and women owned business participation exists with construction partners as well as effective procedures have been implemented to identify areas of increased risk, control the construction costs, provide effective oversight to ensure accuracy of billings or charges and contract compliance.	H
3.	Employee Separation Process	Assurance engagement to evaluate the policies, procedures and controls for employee separations.	M
4.	Google Domain Administration – Security Review Co-Sourced	Security review of administration settings for the Google Domain to ensure proper settings are in place and adequate oversight is implemented to minimize the risk of data breaches.	H
5.	Network Administration – Vulnerability Scan and Analysis Co-Sourced	Penetration testing of the information technology infrastructure to ensure safeguards have been effectively implemented to minimize the risk of weak spots in the District's security posture as well as measure the compliance of its security policy.	H
6.	Purchasing Process Administration Review	Assurance engagement designed to evaluate the practices in place to ensure that effective monitoring has been implemented to control the costs, identify areas of increase risk, effective oversight has been implemented to ensure accuracy and efficiency of the purchasing process.	M
7.	School Activity Funds Monthly Monitoring	Compliance/Monitoring engagement designed to perform monthly reviews of a sample of transactions to identify compliance with high probability errors noted in prior external audits.	M
8.	School Activity Funds On-site Reviews	Review FY20-21 school activity fund administration for 15 schools identified through a risk assessment. In addition, we will perform reviews of 12 schools that were identified for FY19-20 but due to COVID19 were postponed.	M
9.	School Attendance Monthly Monitoring	Compliance/Monitoring engagement designed to perform monthly monitoring of entry/exit logs to ensure compliance with KDE requirements.	M
10.	School Attendance On-Site Reviews	Compliance/Monitoring engagement that is designed to assist Pupil Personnel by performing 10 attendance reviews in accordance with the KDE monitoring tool. Each year KDE reviews 25 percent of the school's first two pupil month's attendance activities. This project will serve as a pre-audit to review high risk schools (based on personnel turnover and prior year's observations).	M
11.	Data Analytics Project Co-Sourced	Identify and create data sets to be used in continuous monitoring activities that will create efficiencies through effective use of data analytics.	L

## Exhibit D (continued): Proposed 2020-2021 Internal Audit Work Plan

### Administrative and Other Activities Recommended or Required by Standards

Activities (in alphabetic order)		Activity Objective
1.	Risk Assessment	A Risk Assessment is a process for identifying, measuring, and prioritizing risks based on their likelihood of occurrence and the magnitude of impact. The Risk Assessment serves as the primary tool used by Internal Audit to develop the annual Audit Plan since it will help us identify and prioritize the areas of high risk.
2.	Quality Assessment and Improvement Program	The IIA's Standards require the Chief Internal Auditor, "...must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity" (Standard 1300). Activities are performed in preparation of the Quality Assessment Review that is required to be performed every 5 years. The goal is to ensure the internal audit activities are in conformance with the Internal Audit charter and the mandatory elements of the IPPF; the quality and supervision of audit work being done; Internal Audit's policies and procedures; and how Internal Audit adds value to the District.
3.	Anonymous Hotline Reports	The District contracts with a third party (Calls Plus) to provide a platform to collect reports of unethical, illegal or unsafe activity, including Bullying. Internal Audit facilitates reports made through the hotline and coordinates with the appropriate administrator to investigate the complaint. The Bullying Prevention Team works all reports related to student bullying. A reporter can make their report online or via a toll free telephone number. All reports, except discrimination and harassment reports are anonymous, unless the reporter chooses to provide their name and contact information. The platform does not track users of the hotline service to protect the anonymity of the reporter. The reporter is provided a unique report number and password to check on the status of the report and/or to provide additional information if applicable.
4.	Investigation Activities	Internal Audit has a dedicated Risk Investigator that works on investigations that involve fraud and/or special assignments from Superintendent/Cabinet/JCBOE members
5.	Committee Assignments	Internal Audit serves in an advisory capacity on several JCPS staff committees (Racial Equity Analysis Protocol, IT Risk Management and IT Executive Risk Management Committees, Data Governance, Investigations Collaboration work group)
6.	Contingency and Consulting Hours	Audit plans are developed based on priorities and estimations of time. Contingency hours are reserved to ensure the risk-based plan is flexible and responsive to change from unforeseen issues and events during the year. The hours are reserved for unplanned projects, as needed, to include: Consulting services that may include participating in various team meetings, workgroups, or committees within the District to serve in an advisory capacity, to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues. Coordinating requests for information/documentation from external or law enforcement agencies, Follow-up on allegations of fraud or significant non-compliance, and Follow-up on concerns of high risk or internal controls deficiencies.
7.	Professional Development	Auditors are encouraged to obtain 40 hours of continuing professional development. As a result, hours have been budgeted for staff to participate in professional organizations, including the local chapters of the IIA, Association of Certified Fraud Examiners, and KASBO, in an effort to stay up to date with changes in the internal audit profession and best practices in auditing, fraud, school-district operations, and information security management issues.

	Activities <i>(in alphabetic order)</i>	Activity Objective
8.	<b>Administrative Duties</b>	<p>Strategic activities: Developing the annual audit plan, identifying department needs, reviewing staff competency, and planning for staff development.</p> <p>Operational activities involving designing structures and processes aimed at achieving Internal Audit activity objectives and overall goals of efficiency and effectiveness. This includes hours allocated to:</p> <ul style="list-style-type: none"> <li>• Reporting to the JCBOE and ARMAC;</li> <li>• Attending Board meetings, as needed;</li> <li>• Supervising internal audit activities, including monitoring the progression of projects and allocating/tracking time for Audit Plan activities,</li> <li>• District-mandated training;</li> <li>• Staff appraisals;</li> <li>• Ensuring Internal Audit staff follow policies and procedures,</li> <li>• Monitoring the department's budget, and</li> <li>• Processing payroll and purchase orders</li> </ul>



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All Jefferson County Public Schools students graduate prepared, empowered, and inspired to reach their full potential and contribute as thoughtful, responsible citizens of our diverse, shared world.