

Audit Committee Meeting

July 17, 2023 – 9:30am – John D. Price Administration Bldg. – Conference Room 139

Attendees:

Jaclyn Badeau (Audit Committee Chair)
Dave Osborne (Audit Committee)
Nick Clark (Internal Auditor for the District)
Jill Recor (Administrative Assistant)
Jana Moulton (Associate Internal Auditor)
Alicia Miller (Compliance Officer)
Amy Green (School Board Representative)
Houston Barber (Deputy Superintendent)
Greg Hodge (Audit Committee)
Larry Forester (Audit Committee)

Absent: Joe Gibson (Principal Representative)
Rodney Jackson (Executive Director of Financial Accounting & Benefit Services)
Chris Salyers (Certified Representative)
Kacey Urbaneja (Classified Representative)

INTRODUCTION & APPROVAL OF MINUTES

Jill Recor was introduced as Administrative Assistant.
April 17, 2023 Minutes approved by the Audit Committee.

INTERNAL AUDIT UPDATE – Nick Clark

ESSER-ARP Audit:

A draft of the ESSER-ARP audit report presented to the committee. Internal Audit is waiting on Management responses to finalize the report. The audit was conducted on transactions from March 2020 to March 2023 and included ESSER I, ESSER II, and ARP ESSER Funds. One of the recommendations in the audit was for management to put a plan in place for the fiscal cliff. Dr. Barber indicated that management was already having those discussions. Nick Clark provided a summary of the scope and objectives of the audit. Committee requested detail on testing be included in the findings to provide a point of reference for materiality.

There were five findings noted. Finding #1 identified that items intended for employees' use were being shipped to their home addresses instead of their designated work locations. Shipping items to an employee's home instead of the work location raises concerns about the potential misuse or unauthorized use of company resources, and the ability to appropriately track inventory. It was recommended to evaluate and update existing policies to clearly define guidelines on the shipping and delivery of items, specifying that they should be sent to designated work locations unless authorized by management. In addition, it was recommended to establish monitoring mechanisms to track shipping activities and verify compliance with the revised policies. Finding #2 identified that approvals for purchases were obtained after the purchases were made, indicating a deviation from established procurement procedures. It was recommended to strengthen approval procedures, provide more employee training, monitor, and review approvals, and consider appropriate disciplinary actions for

employees who consistently fail to obtain pre-approval for purchases. Finding #3 was inaccurate calculation of indirect costs. The excel spreadsheet used to calculate the indirect costs had an error in the formula. Management has already corrected this error. Finding #4 identified 9 expenditures where a disallowed account code was used. At the time of the report only three expenditures have not been corrected. It was recommended that training be provided to employees involved in financial transactions emphasizing the importance of adhering to the approved chart of accounts and the potential consequences of using disallowed account codes. Finding #5 identified 2 individuals who were paid as independent contractors for contract tracing. Other employees within the district were also performing contract tracing. It is recommended that the district conduct a comprehensive review of worker classification to ensure compliance with applicable labor laws, tax regulations, and employment standards.

The audit committee requested detail within the audit report regarding sample sizes, total dollars tested, etc. to provide a more complete picture of the potential audit risks.

Bryan Station High School Student Activities Fund Audit:

Conducted by Interns from University of Kentucky under the direction of Dave Osborne. The interns selected September 2022 to audit. There were three findings noted. Finding #1 indicated that there were several instances of incomplete forms including missing signatures, lack of completed inventory forms, and missing approvals on fundraiser forms. It is recommended that the district follow up with the bookkeeper to emphasize the importance of correct and complete documentation and emphasize that it is their responsibility to check that other school staff are following procedures. Finding #2 was the missing signature on the invoices indicating that the goods and services were received prior to payment. It is recommended that the bookkeeper and principal receive additional Redbook training. Finding #3 indicated that cash drawers for ticketing at sporting events were often out of balance. It is recommended that staff and faculty help with the ticketing. These individuals can be more easily trained on proper procedures. The findings were of low or moderate risk.

Northern Elementary Student Activities Fund Audit:

Conducted by Interns from University of Kentucky under the direction of Dave Osborne. The interns selected September 2022 to audit. There were three findings noted. Finding #1 indicated that there were several instances of incomplete forms including missing signatures. It is recommended that the district follow up with the bookkeeper to emphasize the importance of correct and complete documentation and emphasize that it is their responsibility to check that other school staff are following procedures. Finding #2 was the missing signature on the invoices indicating that the goods and services were received prior to payment. It is recommended that the bookkeeper and principal receive additional Redbook training. Finding #3 noted that at the end of the prior fiscal year, one account had a negative balance. This is a Redbook violation. It was recommended that all accounts be reviewed at year end and any accounts with a negative balance should receive a transfer from the general account to cover the negative balance. The findings were of low or moderate risk.

Cardinal Valley Elementary Student Activities Fund Audit:

Conducted by Interns from University of Kentucky under the direction of Dave Osborne. The interns selected September 2022 to audit. There were two findings noted. Finding #1 indicated that there were several instances of incomplete forms including missing signatures. It is recommended that the district follow up with the bookkeeper to emphasize the importance of correct and complete documentation and

emphasize that it is their responsibility to check that other school staff are following procedures. Finding #2 was the missing signature on the invoices indicating that the goods and services were received prior to payment. It is recommended that the bookkeeper and principal receive additional Redbook training. The findings were of low or moderate risk.

INFORMATION SECURITY MANAGER UPDATE- Nick Clark

Notably, the ISM's role has transitioned from the Internal Audit department to the Operations Department. The audit committee raised apprehensions about this shift, emphasizing the need for careful consideration. The committee members shared their perspective that an additional professional should be recruited to support Internal Audit in conducting assessments pertaining to IT/Cyber Security.

Furthermore, the committee recommended allocating supplementary resources for conducting two to three audits. To ensure thorough evaluations, they suggested that the district should explore engaging third-party experts specializing in IT audits. The rationale behind this proposal was the acknowledgment that a single individual cannot be an expert in all areas of IT. This approach would promote comprehensive assessments and effective risk management. The Office of Internal Audit would oversee which areas the third-party would audit.

Additionally it was reported that the Information Security Manager (ISM) successfully carried out the Cyber Infrastructure Audit.

Cyber Infrastructure Audit:

The audit focused on assessing the security infrastructure of the following areas: application infrastructure, network infrastructure, physical infrastructure, and system infrastructure. The findings included a lack of formal and documented policies or procedures, lack of documentation of network architecture and design, gaps in physical security measures, gaps in documented security standards, intrusion detection systems are not deployed, and lack of regular reviews of logs and security measures. Based on the findings and recommendations, the audit committee requested that Internal Audit revise the audit report to accurately reflect the audit ratings based on the information provided. The audit will be reviewed and revised accordingly, and presented again at the next committee meeting.

COMPLIANCE OFFICER REPORT – Alicia Miller

Five compliance items were addressed and handled at the school level. There were two harassment/discrimination compliance items, two falsification of paperwork compliance items, and one complaint in regard to how the school determined awards. One item was outstanding from the prior meeting. Due to the lack of response from Northern PTO, Nick Clark issued a report to reflect the lack of cooperation on the PTO's part.

AUDIT COMMITTEE MISC.

Nick Clark presented a draft version of the risk universe for feedback from the audit committee members. The process for creating the risk universe was discussed. The draft included 50 general areas and 20

IT/Cyber Security areas. Nick Clark indicated that he would send the draft of the risk universe to each of the external committee members to review in more detail and provide feedback. He will also meet with various members of management for their review and feedback.

The risk universe and audit plan will be presented to the committee at the next meeting.

CLOSING THOUGHTS

Next meeting is scheduled for October 17th.

Meeting is adjourned by Jaclyn Badeau.