

Audit Committee Minutes October 18, 2017

Attendees: Rodney Jackson
Tiffany Davis Williams
Mendy Mills
Myron Thompson
Dave Osborne
Letoria Jackson
Sherry Price
Rebecca Riley
Lindsay Wright
Debbie Smith
Jeanna Jones
Bill Meyer
Cory Ogburn
Allison Marcum
Craig Cammuck
Beverly Reese
Casondra Jones
Daryl Love (via phone)
John White (excused)

The meeting was called to order on October 18, 2017 at 9:35 am. Introductions and approval of the minutes were discussed. Rodney Jackson, Director of Finance informed the committee that Mr. John White, Senior Director Administrative Services (C.F.O.) would not be in attendance because he was in School of Financial Management Training at KDE. There was a change to the minutes to reflect changing the word “detailed” to “brief summary” update by Strothman and Co. related to the October 18th meeting attendance. Lindsey Wright, Compliance Officer reported that Lisa Deffendall, District Spokesperson would like for the Compliance Hotline up and running by January 2018 after first presenting it to Administrators and Principals.

Debbie Smith (MCM) reported that Stacey Huff of MCM Director of Advisory Services is leading the Benefits Internal Audit. Debbie gave a brief history of the necessity for the internal audit. In 2012, based on an IRS audit comment in the previous year (2011) stated that Employee Benefits could be improved. Additionally, the management comment related to the IRS Taxpayer Annuity Audit made by the external auditors, Strothman and Company, which further confirmed that monitoring and oversight of Employee Benefits needed improvement after the IRS Taxpayer Annuity initial audit. Therefore, the recommendation was made to enhance the Employee Services to better serve the district and all district employees. Financial Services was assigned the task to assume the responsibilities of the Employee Benefits Office, and to provide the oversight/monitoring of the combined functions.

Rodney, also, added that Human Resources was presented with the original risk assessment questionnaire of approximately 30 questions; and approximately 80% as a majority of the responses to

the questions came back as, "See Financial Services". Rodney also shared that the initial estimate of the 2011 IRS Audit of Benefits Plan resulted in fines and penalties by the IRS of approximately \$600,000.

Based on the responsibility to incorporate financial best practices for the financial expenditures (75% - 90% of payroll and benefits), as well as, to provide the oversight in ensuring the operations and compliance of the processes, the change for Employee Benefits/Services was moved under the Financial Services Department in 2012. Financial Services took the lead over the IRS audit, and ultimately, was able to get the penalties and fines to only \$10,000; and established a liability of roughly \$66,000 for the employees, who should have been offered universal availability when they were subs.

The scope of the internal audit included testing of benefits/insurance deductions, Affordable Care Act Compliance, insurance billing and processing amongst several other financial related benefit items. Stacy Huff has been working with the Financial Services Staff under the direction of Byron Costner and Rodney to complete all requests and reviews. Stacy is scheduled for November 13th to come back and follow up on final items. The goal is to have a final report by December.

Debbie Smith of MCM also has started the initial stages of the compliance and procurement purchases review. Selections to be made by MCM internal auditors in this area, and an update will be presented to the audit committee in January.

Tiffany Davis Williams, the Associate Director of Finance, and Letoria Jackson, the Accounts Receivable Specialist presented and discussed the operations of Accounts Receivable, and processes in place to mitigate risks of fraud. Some highlights of their presentation were:

Collections:

Letoria reported AR collected over \$400,000,000 in Revenue. The question was asked about who sends cash payments, OLT office and some schools.

All bank notifications, such as return checks for NSF goes directly to Director of Finance, first.

Letoria discussed the cash management guidelines; the types of revenue; the process for invoices and adjustments (Grants, Transportation, Sub reimbursement, Facility usage, printing, gross utility tax); and other accounts receivable topics.

Letoria reported that the schools receive an Outstanding Invoice Statements and Aging reports. AR team makes phone calls to collect to ensure every dollar is collected. She also reported that we have compliance officers who monitor collections. Check Redi Service Company handles checks presented with NSF.

A question was asked "How do we know how much revenue we will be getting for afterschool programs?" Based on the # of school days, parents know in advance how much they have to pay.

Dave (audit committee chair) asked what are schools collecting for? The response was summer school tuition and gate receipts were examples given. These things are paid for with cash no cashier checks.

Also that there is a cash handling process in place for those who need to see it in accordance with Redbook.

Another question was how do we know how much money is owed for Summer school? We know in advance how many kids are enrolled and the office that takes care of summer school is cross referenced with the Financial Services office. Also, no cash can be sent via Carrier.

After the presentation, the committee was informed that Financial Services has presented in all areas (Accounts Payable, Tax Collection, Travel, Fixed Assets, Grants Management, Benefits & Payroll, School Activity Funds and Accounts Receivable) over the last 2 years related to risk management processes as requested by the Audit Committee. Dave stated "When we see risks in an organization, we need to assess that we play a key role in Risk mgmt." The question was then asked to the committee "Is there any other group that should be included?" The response was that all areas under Administrative Services and that HR needs to start in January with the other areas of Budget & Staffing and MUNIS scheduled thereafter. Rodney stated, that he will follow-up with John for coordination of his direct reports risk mitigation presentations.

External Audit, Strothman and Company reported that the external auditors will be presenting School Activity Fund audit comments for the 2016-2017 fiscal year audit in a more detailed format as requested by KDE. This effectively means that each school's individual report will be subjected to higher degree of transparency exposure related to their audit performance. There will be individual schools on there with a few issues and others that have more than a few issues. There are currently 3 Auditors on site performing the external audit. It was also reported by the external auditors that there will be at least another week on site collecting information. KDE now requires a new spreadsheet on findings that could be posted on their website related to the compliance of the entire Redbook. The external auditors stated that they will be back to present to the audit committee in detail the audited financials prior to presenting to the board at the planning meeting on November 6th at 4:00 p.m. Final audit has to be sent to KDE by Nov 15th.

On behalf of John, Rodney, discussed the potential of the committee adding 1 or 2 members from the community with a Finance background in Jan 2018. The committee stated that they think that it is a good idea and looks forward to John's recommendation in January. Also, Rodney, on behalf of John, also informed the committee that John would like the focus of the 2018-2019 internal audits to be dedicated to more individual school activity fund audits instead of processing audits as the focus has been in the past.

Rodney reported that there has been discussions regarding donated and promotional clothing. This area is going to require more monitoring at the High School and Middle School level, considering the risk to IRS rules on employee provided clothing fringe benefits.

Next audit committee meeting with the focus of the External Annual Audit will be on November 6, 2017 at 4:00 pm in Conference Room A.