

Audit Committee Meeting

October 20, 2021 – 9:30 am - 450 Park Place – Conference Room 139

Attendees:

Chris Ensslin (Audit Committee Chair)
Dave Osbourne (Audit Committee)
Larry Forester (Audit Committee)
Jaclyn Badeau (Audit Committee)
Larry Forester (Audit Committee)
Bill Kohm (Dean Dorton - Internal Auditor)
Amy Justice (Dean Dorton - Internal Auditor)
Jeanna Jones (Strothman & Co– External Auditor)
Katie Reed (Strothman & Co – External Auditor)
Amy Green (FCPS Board Member)
Bret Nathaniel (Equity Council)
Alicia Miller (Compliance Officer)
Brandon Turnley (Compliance Officer)
Rodney Jackson
Myron Thompson
Sherry Price
Casondra Jones

Introductions & Approval of minutes – Chris Ensslin

Approved by Chris Ensslin

Internal Audit - Dean Dorton (Bill Kohm)

Explanation of why internal audit is so important. Governance Audit began several months ago but auditors waited on the new Superintendent to start in his role with the District. Auditors have already met with him twice and noted he's been very instrumental in providing responses the governance observations. They felt like this audit helped him understand things better and make informed decisions. The auditors look forward to continuing a good relationship with him and the Board.

Risk assessment update: There were really no new risks but certain items have been elevated. A decision was made not do a transportation audit this fiscal year with all the challenges going on in that department. It was agreed upon, that a Transportation audit will be conducted in fiscal year 2023. Feedback was welcomed from the Audit Committee on what else should be done to fill the gap.

Governance Internal Audit Report: It's helpful to talk about what we need from governance and from a District application. The auditor shared eight characteristics of effect school boards some were Accountability, Data centric, Data savvy, Unity and Team development and training. They also shared 8 principals of effective governance that can be applied to any entity. They took those 8 principals and attributes and applied them to the district, most were pretty effective but there were some areas of improvement, there were some improvement opportunities around conflict of interest. Overall the

governance audit indicates an acceptable environment with room for improvement. All findings are things that can easily be taken care of and some have already been handled. There are three levels of findings: acceptable, acceptable with findings and not acceptable. The auditors stated that FCPS is in the middle, with a score of acceptable with findings. Everything is pretty good but there is room for improvement.

Some highlights of strength to compliment the district and encourage to keep doing substance of meetings, frequency of meetings, website, core values, delegation of authority, budget process, compliance hotline.

Findings where there are areas of improvement:

- **Conflict of interest** – Use of safe school training module to document annually. Conflict of interest statement is in the code of conduct (available to the committee if requested).
- **Equity assessment** – There is an equity report presented at board meetings. No identifiable metrics measuring equity improvements (hiring, student achievement, diversity). We need a level of accountability creating these metrics. Management agreed we need substance around equity. There should be a clear demonstration of equity? The auditors gave an example of hiring and retention of diversity at Central Office and by Departments. The auditors stated after talking with Dr. Liggins and Board Member Spires and interactions with Board member Green on the Audit Committee, we are moving in the right direction on this issue.
- **Compensation** – Compensation and benefits represent 85% of the total cost in the district so there needs to be good governance.
 - Personnel committee – The auditors noted, FCPS has a personnel committee but there wasn't a lot of substance or accountability around this group. There needs to be some structure as well as representation from the Equity department included on the committee. They also stated the committee needs charter and mission statement.
 - Compensation study – It was noted that there is currently a study being conducted hourly employees and will be followed up by an administrative study. These studies take a while, so it is important that the district make sure to get the right firm. The auditors stated they wanted to make sure we're not benchmarking against just other districts but need to do it against local and regional industry as well. It was noted that the district has lost quality employees to other sectors due to compensation as well. It was specifically mentioned that the loss of the MUNIS Manager of Financial Systems is an example of a quality employee lost to industry and it is important that the district find a qualified replacement as the MUNIS department is critical to the financials of the school district operations.
 - Compensation changes – There needs to be more visibility to administrative additive changes. At the beginning of the year, the board approves the compensation guide with pay grades and additives. However, if during the year someone changes position or moves pay grades the board doesn't see the changes. These changes need to be visible to the board. Recommended that an administrative additive change report be submitted to the board monthly as this warrants board attention. Such as anything over 5% gets kicked out an exception report. This is for all levels of salaried positions. It was reported in relation to this checks and balances have already been put in place. MUNIS

working with Finance has created reports that automatically go to the Director of Finance and will show employees with more than a 5% pay increase, a pay additive change, a certification pay change or something outside of the salary schedule. This information can be cross referenced with the action history report to whether the Superintendent or the Board have approved these scenarios. Anything that is kicked out is to be taken directly to the Superintendent to review, this was at the recommendation of the Audit Committee Chair. Additionally, management will ensure that all posting of job positions and the administrative grade additive will be displayed on job description when presented to the board for the Board's approval. All current job descriptions when posted related to vacancies will also display the administrative grade additive if applicable when advertised.

- **Strategic plan** – Superintendent Caulk set a 5-year plan that would have ended in 2021, however, due to his passing Dr. Liggins will now take the lead with the board's help to set a new strategic plan.
- **IT Steering Committee**- as you think about the district's equipment such as all the chrome books that have been distributed, the internal auditors want to make sure the district is well represented as this will a large group. It is also recommended that there be community representation with an expert IT background be a part of the group. It has been identified that there is not a representative at FCPS with a cybersecurity role.
- **Board Training**-There should be specific governance training for the board. It's important for the board to self-assess how well they're doing with the Superintendent's help. The self - assessment should be 3-5 questions, fairly quick and easy. This is an important exercise that the community would appreciate this. Board member Green note that the board is currently putting together an operating governance manual for a level of transparency so that everyone is in agreement and understands how the board works as a team.

The Internal Auditors stated, the Council of Great City Schools does annual financial conferences for school district financial personnel, for benchmarking and surveys of the size of the internal audit department for organizations the size of FCPS. The benchmarking of Fayette County suggests the internal audit budget should be around \$400,000, Dean Dorton's budget is \$100,000. They have made a lot of strides thanks to the audit committee. The previous internal auditor's had a budget of \$50,000. This will be the 3rd year with the \$100,000 budget however similar sized districts have larger budgets. This is working for FCPS but looking at other internal audit plans, Dean Dorton could be doing a lot more for the district with an increased budget.

As an example, in (ESG) Environmental Social Governance – The district has a sustainability department that reports up through Risk Management. With restructuring, will the sustainability group get more visibility or will there be changes are yet to be seen. There a lot of educational benefits for our students. Can our sustainability group work together with teachers to do science projects to promote this? Is there an ESG formal assessment plan? This is something we need to look to elevate and get more governance as they present to the board twice a year. In the next ten years, if you're going to get the state and federal funding then there needs to be evidence of progression for these metrics. With the year being like it was, some of those things were put on the back burner due to schools being so overwhelmed.

Risk updates presented to the audit committee by the Internal auditors:

Litigation – Confidential matters going on that external auditors and management are currently discussing from a financial reporting standpoint. No work is being done around this.

ESSER – School districts were given funds to be used in a certain way. External auditors will be doing single audits to validate money is being used appropriately. There have been project codes created to keep track of funds. Collectively \$149,000,000 has been given.

GASB 87 Leases – The pronouncement is related to off balance sheet leases. This will be ongoing annually There have been a lot of GASB's over the years. A big concern is that from a resource standpoint, FCPS may not have enough resources to do this work currently and additional resources may be needed accordingly going forward. Once staff and both the internal and external auditors get a feel for how big this is the risk will be elevated as GASB's will continue to be added. Staff reported the goal is to go back to the Superintendent or Personnel committee once this analysis is done to discuss whether additional resources are needed that can focus on all the GASB's as they are not stopping.

Transportation – That audit has been pushed out as it has been a challenge. The district has gotten creative to try and find ways to tackle this as has other districts.

Mental health – The district has done well promoting mental health, a lot of resources has been focused on this issue. There is no audit being planned around this.

Operational pay (hourly) – Being addressed through the study mentioned earlier.

Organizational structure – Being addressed through a study.

Human Resources – Supplemental pay has gotten elevated risks. Critical shortage has become more relevant, partly because it's tough to hire. The state allows the district to apply critical shortage under certain circumstances. This has been added to the payroll audit. There are currently ten employees brought in under critical shortage. Additionally, the ESSER funds allowed the creation of more positions throughout the district.

MUNIS- currently has a gap with the Director leaving as indicated earlier. MUNIS which is separate from the department of Technology is the state's accounting financial software system. MUNIS is used by all school districts in the state. It is our understanding that FCPS and JCPS are the only districts to dedicated MUNIS staff to handle these functions. It is critical as 85 – 90% of FCPS budget is payroll & fringes related and MUNIS is an integral in making sure it all works. It was also noted that MUNIS is functioning very well as a separate unit from IT and is strategically focused on district financial systems.

External Audit – Strothman & Co. (Jenna Jones)

Brief report. Everything is going well, finalizing single audit (taking longer this year because of ESSER funds, tying up report for November and will have a detailed draft at that time.

Compliance Report -

Introduction of two new compliance officers in the legal office Alicia Miller and Brandon Turnley. No report today but Ms. Miller will be the designee to give future reports.

Audit Committee Miscellaneous Requests and Comments

Audit Committee will provide a report to the board annually. There will be a report before the end of 2022 School year. The next audit committee meeting will be in person, Nov 8, 2021 at 3:00pm

Motion to adjourn by Jaclyn Badeau, seconded by Dave Osbourne