Chicago Public Schools

Finance & Audit Committee Meeting

Fiscal Year 2018 – First Quarter

August 28, 2017

Audit Update

Year in Review Highlights – Achievements

The Office of Internal Audit and Compliance (IAC) has performed a range of activities at CPS over the last year. IAC's success metrics generally relate to:

✓ *Assessing the design and operational effectiveness of internal controls.*

✓ *Assessing compliance with Board policies and applicable rules & laws.*

✓ *Driving enterprise risk mitigation.*

✓ *Identifying business process improvement and efficiency opportunities.*

Qualitative Accomplishments

- **Conducted the first enterprise risk assessment since 2011** with the goal of developing a risk-based audit plan and driving increased organizational risk management.

- **Expanded the audit scope of district-managed schools** to increase the number of in scope processes (including grants), expand testing sample sizes, and expand in-scope timeframe. Objective to more effectively monitor the internal control environment.

- **Completed a range of central office and school audit activities and provided recommendations for any needed improvement**

  ➢ Central Office audits included Procurement, Payroll, Cyber Security, Option Schools, and Supplemental Payment Systems

- **Data analytics design and planning initiated** to enable several financial processes to be audited in real-time across the full population.

Year in Review Highlights – Achievements

Quantitative Accomplishments

- **$12 million –** Option schools attendance audits revealed overstating of student attendance. CPS identified significant annual savings if Option school funding was based on attendance data or actual headcount data, instead of enrollment that is significantly higher. Approximately $2M was removed from option schools quarterly payments – a direct result of the audits.

- **$6.0 million (finding impact) –** School audit findings, including: over $3.7 million related to fixed assets, $0.8 million in grant positions were not supplemental, $.07 million in unsupported cash receipts, $.04 million in unsupported cash disbursements and purchase orders, $0.3 million in unsupported grant expenditures, and $.01 million in unsupported payroll/supplemental pay.

- **$0.5 million (finding impact) –** Accountability audits related to employee misconduct and internal control override has led to past or pending disciplinary action for at least 20 individuals for issues including time & attendance, misappropriation of funds, and other policy violations.

Year in Review Highlights – Key Open Findings

Project Name	Recommendation/Status
Cyber Diagnostic Assessment	• Hire an information security engineer responsible for managing information and cyber security infrastructure and implementing recommendations. • Re-establish a formal cyber security governance program with a defined business objective, scope, and purpose that is endorsed by senior management. • Enhance training program requirements for staff and students (i.e. acceptable use, data classification, data privacy, protection and handling, security policies and procedures, and social engineering). • Require mandatory cyber security training before employees, contractors, and third parties are granted access to CPS computer systems.
Vendor Payments & Employee Reimbursements	• Improve procurement processes related to vendor management and expenditures including, but not limited to 1) enhanced analysis, reporting, and monitoring capabilities to more proactively identify the data abnormalities; 2) enhanced information technology systems to promote data quality, improve management reporting, and strengthen management internal controls; and 3) update policies as needed. • Perform follow-up procedures on potentially high risk vendors and transactions identified through analysis.
Internal Accounts Assessment	• Develop updated Internal Accounts Manual incorporating all new directives and policy changes. • Implement additional system-wide controls to prevent transactions that violate Board policy and enhance reporting capabilities. • Enhance universal chart of accounts for all schools to use.
Option School Attendance Audit	• Develop a new program model and funding allocation that takes into consideration student attendance. • Perform a reasonableness check on IMPACT attendance data. • Enhance oversight of the Option schools program to better detect programmatic issues.

Year in Review Highlights – Data Analytics

Continuous Monitoring / Auditing Capabilities through Data Analytics all IAC to:

- Perform real time assessments of large transactions to detect issues, identify root causes, facilitate conversations, and promote needed training provide recommendations for improvements.

- Effectively audit *full populations* of transactions at all schools, which was not feasible until now.

Process	Currently Performed Data Analytic Procedures	Owners
Internal Accounting	- Checks Escheated > 365 days* - Negative Account Balances/Pointer Lines* # of Manual Journal Entries - Deposited in a Timely Manner* # of Cancelled Cash Receipts - Outstanding Deposits	School Support Center
Oracle iProcurement	- Identify vendors that exceeded procurement thresholds ✓ $10,000 - biddable ✓ $25,000 - non-biddable	Procurement
Cash Disbursements	- Identify Split Payments ✓ Over the $10,000 biddable based on similar vendor name matching ✓ Over the $5,000 single check threshold ✓ LSC approval threshold	Procurement
Enrollment	# of verified transfers that needed to be re-coded # of geographic location verified transfers (i.e. data quality issue) # of students transferred out and back in within the same school year	Student Support & Engagement
Grades	# of grades changes from fail to pass # of grades changed at least by two levels	Student Support & Engagement

* Leveraged existing Oracle capabilities

FY2018 Tenative Audits

- Financial Controls Audit

- Options School Attendance Audits

- Hiring Practices Audit

- Minority Participation Goal Achievement Audit

- Payroll Inputs Audit

- Sole/Single Source Committee Audit

- Student Records Management Practices Audit

- Testing Protocols & Detection Analysis

Finance Update

Major Accomplishments

General

- 2017 was quite a financially challenging year with ups and downs.

- Structured and sold an entirely new capital improvement tax (CIT) long-term bond credit in the amount of $729 million that received a five notch upgrade to a single – A investment grade rating and thus received the lowest relative interest rate in recent years. Deal was oversubscribed.

Negatives

- The Governor removed $215 million of pension revenue from the CPS in the middle of the year and we had to work closely with schools to tighten budgets.

- In addition, the State delayed payment of $467 million of Block Grants.

- Finance had to tightly forecast and manage cash and implement a new short-term financing called Grant Anticipation Notes. We borrowed to make sure that every teacher, clerk, paraprofessional – everyone got paid in spite of a significant amount of money owed to CPS – and we made our pension payment.

Corporate Accounting and Accounts Payable

- Received unmodified clear opinion for 2016 audit, with zero material deficiencies.

- Through RFP process, selected new audit firm –Baker Tilly.

- Recruited professional staff with Certified Public Accountant (CPA), Masters of Business Administration (MBA) and Masters of Accountancy (MSA) and Project Management Professional (PMP) credentials to solidify the department's internal knowledge and experience and reduce the reliance on outside consultants.

- Received Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the District' Comprehensive Annual Financial Report (CAFR).

Major Accomplishments

Office of Management and Budget

- Working with other CPS departments, developed and implemented an additional savings strategy and closely tracked results to save the district $300 million in FY17.

- Developed a strategy to address a $544 million budget deficit initially projected for FY18, while increasing SBB rates to help schools cover increased personnel costs.

Treasury

- Executed $1.55 billion in FY17 new lines of credit to cover cash flow needs and have secured 2018 lines expanding from 2 banks to four banks.

- Added two staff members to focus cash forecasting and cash modeling and reduce reliance on cash consultants.

- Issued $500 million of bonds in July to reimburse operating fund and new money. The issuance was successful with 25 new investors out of 51 in total and was oversubscribed.

- During FY17, Risk Management instituted quarterly claims review meetings with our Third Party Claims Administrator (TPA) and the CPS Law Department, to ensure that the timing and amount of potential legal settlements are accurately projected for budget purposes.

Office of Business Diversity:

- Completed an extensive Disparity Study. This allowed OBD to renew both Board Policies that govern our Goods and Services and Construction Programs until December 31, 2021. As a result, CPS MWBE goals will remain at 30% MBE, and 7% WBE on applicable contracts.

- Implementing B2Gnow, the MBE compliance monitoring system, and recently began the payment process validation in the B2Gnow system for all vendors (prime and subcontractors).

- CPS sponsored outreach events in partnership with sister and assist agencies, contractors, and community organizations will be implemented throughout the year.

Major Accomplishments

<u>Office of Payroll Services</u>

- Kronos Upgrade: Payroll Services in collaboration with HRIT successfully implemented an upgraded version of the timekeeping software.

<u>School Support Center</u>

- The revamped School Support Center (SSC) has been working with principals this year to remove mundane and repetitive transactions from daily school operations and create better internal controls.

- To date, the SSC is providing financial and accounting support for 515 district-run schools with successful results. Key processes include:

  - ✓ Budget Transfers
  - ✓ Book Transfers
  - ✓ Journal Entries
  - ✓ Employee Reimbursements
  - ✓ School Reimbursements
  - ✓ Kronos Timekeeping

Information Technology Services Status Update

Information Security – Recent Activity

June

- ✓ Confirmed Ransomware patch levels

- ✓ Implemented cloud document security: FERPA, Personally Identifiable Information (PII), IEP

- ✓ Began cutover of our a new identity management system to improve user account provisioning life cycle and replace an existing end-of-support system

- ✓ Posted position for Director of information Security and began interviews

- ✓ Implemented features to increase phishing protection and more robust internet content filtering

- ✓ Developed training presentation and post-assessment for school leaders and CO staff

July

- ✓ Interviewed for director of information security and identified finalists

- ✓ Delivered security training to 986 attendees at the District's legal conference

- ✓ Implemented a new single sign-on page with user-defined challenge question

Information Security – Recent Activity

August (In Progress)

- ✓ Implement two-factor authentication on remote access (VPN) and restore external HR4U

- ✓ Hire Director of Information Security

- ✓ Evaluate the weaknesses in our network by conducting penetration testing

- ✓ Reconvene web content filtering committee to confirm recommendations for change to the District's Acceptable Use policy: focusing on management practice and social media.

September

- ✓ Begin information security training for staff in Bridgeport, Garfield Park and Central Office

- ✓ [Pending CEO/CEdO approval] begin socializing the new Acceptable Use Policy to the Board for subsequent, formal proposal in October

October

- ✓ Present new Acceptable Use Policy to the Board

FY2017 Major Initiatives

Community	• **GoCPS (Phases I & II)** • Water Quality Application and Reporting
Classroom	• **Implemented 100MB internet standard for all ES and 1GB for all HS** • Online Assessments - Device Management • Classroom Observation Dashboard
Efficiency	• **Technology support of SSC Implementation (Phases I & II)** • Service Anywhere (SAW) demand management workflow • T1-Sonet Network Environment Decommissioned
Staff Development	• **Hosted 1000 school staff at Googlepalooza/Tech Talk** • Hosted 150 Technology Coordinators from 133 schools for one day PD • Conducted pilot of Google certification program