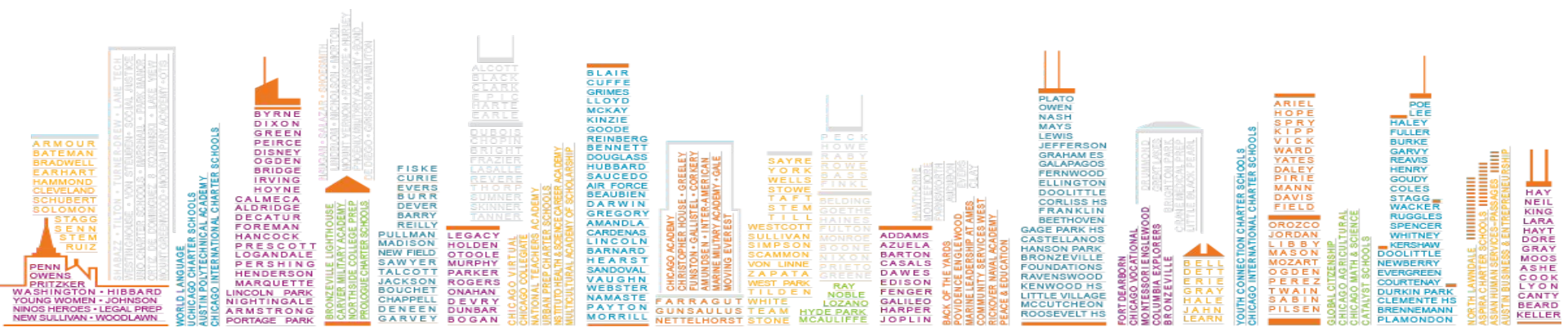




April 2022 Board Briefing

Internal Audit & Advisory Services

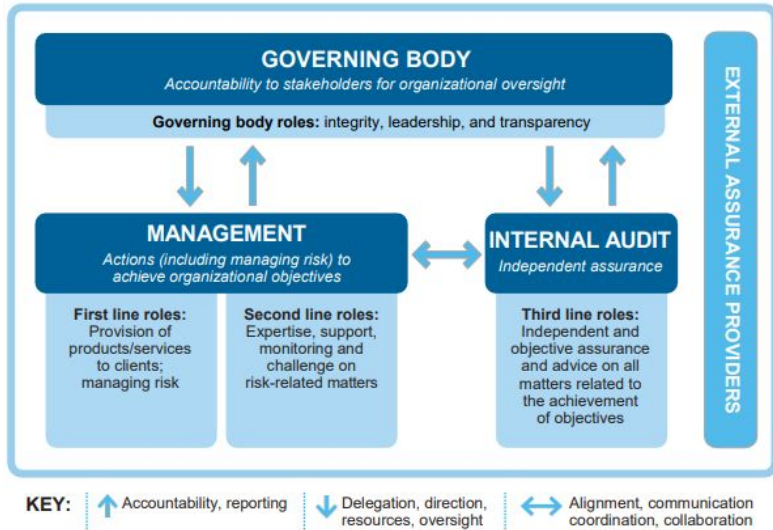
Finance & Audit Committee Meeting



Our Mission, Responsibility, and Purview

Internal Audit & Advisory Services (IAAS) provides assurance and advisory services through independent and objective reviews to continuously improve systems and processes across the District, in a collaborative and coordinated fashion, that better prepares every child for success in college, career, and civic life.

The IIA's Three Lines Model



IAAS serves as the third line of defense in conducting assurance activities and facilitating risk mitigation activities at CPS.

Three Lines Model outlines the roles of various leaders within an organization, including **oversight by the board** or governing body; **management and operational leaders** including risk and compliance (first- and second-line roles); and **independent assurance through internal audit** (third line).

The Board, Management, and Internal Audit have distinct responsibilities, but all activities need to be aligned to achieve our objectives and mission.

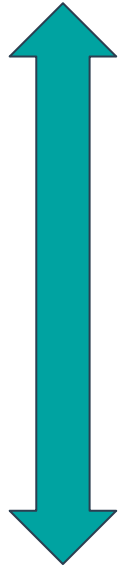
Source: Institute of Internal Auditors

Internal Controls Maturity Model

Observable Process Characteristics

Maturity Stage	Procedures	Controls	Metrics	Improvement Mechanisms	Internal Audit Progression
5 - Optimized	Processes and controls are continuously reviewed and improved.	Preventive and detective controls are highly automated, reduce human error and cost operation.	Comprehensive, defined performance metrics exist, with extensive automated performance monitoring.	Extensive use of best practices benchmarking, and self assessment to improve continuously.	Audit due to optimized maturity stage.
4 - Managed	Procedures and controls are well documented and kept current.	Preventive and detective controls are employed, w/ greater use of automation to reduce human error.	Many metrics are used with a blend of automated and manual performance monitoring.	Best practice and/or, benchmarking are used to improve process.	Audit due to managed maturity stage.
3 - Defined	Procedures are well documented, but not kept current to reflect changing business needs.	Preventive and detective controls are employed, still reliant on manual activities.	Some metrics are used, but performance monitoring is still manual/or infrequent.	Generally occurs during periodic(e.g. annual) policy and procedure renewal.	Transition between Advisory to Audit due to defined maturity stage.
2 - Repeatable	Some standard procedures exist, relies on "tribal knowledge."	Mostly detective controls are in place, minimal preventative controls, and highly manual.	Few performances exist, thus performance monitoring is inconsistent or informal.	Most likely in reaction to audits or service disruptions.	Advisory due to repeatable maturity stage.
1 - Ad Hoc	No formal procedures exist.	Controls are non-existent or primarily in reaction to a *surprise*.	There are no metrics or performance monitoring.	None.	Advisory due to ad hoc maturity stage.

Assurance



Advisory

FY22 Initiatives

Internal Audit & Advisory Services (IAAS)

School Audits	Central Office Audits	Risk Assessment	Risk Committee	Advisory Services
<p>The joint audit report for the 2021 Continuous Monitoring Audit Program Phase II and Principal Transition Reviews was issued March 2, 2022 and engaged stakeholders from ONS, Finance, Payroll, Procurement, etc.).</p> <p>IAAS continues to partner with this group to collaborate on a strategic plan to provide additional training and policy awareness for school administration. Monthly updates on stakeholder feedback, planned training logistics, including content and delivery, are ongoing.</p>	<p>We completed two comprehensive audits, reviewing end-to-end operational and financial processes (where applicable) for the District's Community Schools Initiative and Financial Controls - Accounts Payable activities.</p> <p>We leveraged traditional audit risk assessment procedures along with data analytics to understand the impact of these processes on the broader stakeholder groups.</p>	<p>Risk assessment refresh discussions were held with key risk owners in mid 2021. As our risks are complex and interconnected a total of 16 departments and 70 interviewees were included as part of this process.</p> <p>IAAS will partner with District leaders in October 2022 to revisit risk assessment topics and changes since the 2021 refresh. Additionally, ongoing risk assessment touchpoints continue to be held with District leaders on emerging risks that are time sensitive.</p>	<p>A cross functional team of District leaders from operational departments who are charged with supporting and operationalizing district-wide management practices and risk mitigation strategies aligned with our Five-Year Vision.</p> <p>We are currently focused on end-to-end Vendor Management activities given the District's significant reliance on 3rd party vendors.</p>	<p>IAAS conducted several advisory reviews in response to changes in operations related to the pandemic, partnering with management in the following areas: Principal Transition Reviews (PTRs), Emergency Spend - Good Faith Payments, Chicago Connected, COVID-19 Employee and Student Athlete Compliance Testing, COVID-19 Relief Funds.</p>

FY22 Audit Overview

Audit insights and next steps

School Audits

Continuous Monitoring Audit Program (CMAP) and Principal Transition Reviews (PTRs)

Background - The CMAP and PTR programs are designed to assess and evaluate the effectiveness of the internal controls and business environment designed to help the District achieve its operational, financial, compliance, and strategic objectives. Additionally, the CMAP allows Internal Audit and Advisory Services (IAAS) to achieve greater audit coverage over all district schools while our traditional on site school audit program covers a maximum of 100 schools a year.

Audit assessment and observations - Using continuous monitoring auditing we tested 288 schools including sample testing of 424 journal entries, 242 cash receipts, 279 deposits, 1 manual check (print flag) and 90 outstanding payments eligible for escheatment. We also completed 33 Principal Transition Reviews.

Based on our testing, along with strategic facilitated discussions with the Office of Network Support, Finance, Procurement, Family and Community Engagement, Real Estate, Safety and Security and others, enhancements are needed to strengthen policy awareness and oversight of school level internal controls.

Next steps - IAAS gathered an collaborative work team with the aforementioned departments to assess existing controls, make modifications where needed, and develop a plan to provide training for all school administrators who manage and oversee school internal controls. The team will establish a system-wide internal controls framework that is succinct and relevant for all District schools. Training will be provided in the fall.

Audit insights and next steps, continued

Central Office Audits

Financial Controls Audit

Background - In addition to working with school administrators to strengthen financial controls at CPS schools, Internal Audit and Advisory Services (IAAS) is partnering with Finance and Procurement to conduct a series of Financial Control Reviews to assess current state processes and identify opportunities for process enhancements, where needed.

Our first review covered Procure to Pay Processes. We reviewed FY 2021 and 2022 data and focused on the following:

- Data analysis on policy compliance*
- Workflow insights and operational efficiencies

**Internal controls over financial reporting is managed by the Finance team in conjunction with the annual Comprehensive Annual Financial Report and assessed by the District's external auditors.*

Audit assessment and observations - Our data analysis largely highlights the need for targeted connection points on the following:

- Compliance initiatives - Timeliness of PO submissions and receipt of good/services in Oracle, including proper resolution of inactive vendors.
- Operational opportunities - Increased alignment with spend pace and strategy, further development of Key Performance Indicators and leveraging those insights to engage business unit leaders.

Next steps - Management Action Plans are underway. IAAS will provide the Board with quarterly progress updates.

Audit insights and next steps, continued

Central Office Audits

Community Schools Initiative

Background - CPS administers one of the largest CSIs in the US across approximately 200 schools operating three program models: 21st Century Community Learning Centers (21st CCLC), Sustainable Community Schools (SCS), and CSI External. With a \$22.5M FY 2021 budget, the program requires coordination between multiple stakeholders (CSI, Safety and Security, Treasury, Risk Management, Procurement, ITS, and Legal) to maintain compliance with contractual requirements and deliver optimal programming. We evaluated the design and operational effectiveness of CSI's internal controls using a risk-based approach.

Audit assessment and observations - We noted the following process enhancement opportunities:

- **Data Management & Quality, Budget & Program Utilization Insights** - Streamline data reporting to provide CSI and the District with integrated insights for decision making.
- **Expense validation and management** - Processes that facilitate invoice review and validation should be strengthened.
- **Vendor management** - Compliance oversight monitoring controls should be further developed to give greater assurance that all vendors have evidenced their compliance with CPS vendor requirements: background checks, vendor insurance, certificates of good standing, etc. This would be best accomplished with consistent process workflows and system generated reporting. Management remediation efforts are underway.
- **Program monitoring** - Enhance and update supporting resource materials to align with program requirements.
- **CSI External Oversight** - Further development and implementation of oversight controls for District visibility should be established.

Next steps - The CSI team has already begun incorporating recommendations from the audit into operational protocols.

Audit insights and next steps, continued

Advisory Services

COVID Relief Funds Assessment

Background - The Office of Internal Audit & Advisory Services is partnering with key stakeholders responsible for the governance and oversight of pandemic relief and recovery funds (Oracle Fund 370 - including ESSER funds) to provide consultative insights on its project management activities. The review includes, but is not limited to, the following: ongoing compliance with ISBE requirements, data validation and reporting, project management framework, accountability, and communication.

Audit assessments and observations - During FY 2021, the District experienced hurdles in facilitating its complete plan, primarily due to:

- **Leadership transitions:** After project plans were developed in the summer, transitions at the helm of some departments contributed to decreased momentum and weakened leadership in performing detailed project management steps needed to methodically execute the strategy.
- **Human capital shortages amplified by increased attrition in key departments: Many of the initiatives tied to Fund 370 strategies and spend were (and remain) heavily reliant on onboarding new vendors, and in some areas, hiring additional personnel.** Key departments that facilitate vendor onboarding activities experienced significant attrition. These departments did not have sufficient staff to match the increased demand.
- **Vendor talent shortage:** In addition to talent shortages among District departments, 3rd party vendors are also experiencing unprecedented staffing constraints nationwide (e.g., certified Social Emotional Learning clinicians, bus drivers, etc.).
- **Project management:** The Moving Forward Together (MFT) has a dedicated project manager for its \$525M allocation covering over 110 project plans. Other project management decisions are underway for the upcoming school year.
- **Stakeholder engagement:** Additional stakeholder engagement initiatives are underway.

Next steps - SY 2023 planning is underway and management is incorporating the audit observations and feedback into planning activities.

2022 Audit Plan - 6 Month Outlook

Projects Underway

