

Finance & Audit Committee Meeting

First Quarter Fiscal Year 2018

October 25, 2017

Office of Internal Audit & Compliance Update

Central Office Audit Highlights – Payroll

Objectives

To evaluate the effectiveness of key internal controls related to payroll transactions (employee payments, withholdings, and third-party remittances).

Payroll Volume Perspective:

- ***33,000 employees*** with an average bi-weekly payroll was approximately ***\$110 million***.
- ***93% of employees*** are represented by seven collective bargaining units – each with ***varying work rules, pay schedules, and pay codes***.

Key Findings

When evaluating end-to-end payroll processes, or from the time an employee swipes in through payroll check, the Office of Internal Audit and Compliance (Internal Audit) determined there is a need for **significant improvement in payroll processes or broad-based payroll optimization**.

- While payroll is large and complex, the scale and complexity has existed for years - likely decades.
- As the scale and complexity increased over the years, processes were not updated and made more efficient at an appropriate pace.
 - FY2016 audit findings identified **75% of schools had timekeeping related irregularities**, such as lack of supporting documentation for supplemental pay.
 - FY2017 revealed approximately **980,000 manual payroll edits**, or an average of **30 per employee**, for issues such as missed swipes, inverted swipes, or benefit days.
 - Based on sampling of FY2017 paycheck data, **10% of paychecks contain hours (error corrections)** from prior periods. This “payroll re-calculation metric” for a typical organization, including large governmental organizations such as CPS, averages 5%.

Central Office Audit Highlights – Payroll

Key Findings (continued)

- Several groups are involved in the payroll process including schools, School Support Center, Talent, and Payroll. This distributed responsibility is not inherently flawed and is necessary due to the size of CPS and the number of employees.
 - **Coordination across departments to detect root causes of payroll processing errors** - which add significant operating costs - is inadequate.

Key Recommendations

Organizational process changes such as expanding employee Kronos self-service, a leading practice to increase employee accountability for managing their time, has been a step in the right direction; however, **additional process improvements and efficiencies are necessary** such as:

- Automation and reporting that analyzes payroll data for trends and corrections.
- Invest in better quality card stock for employee IDs and require all employees to swipe in, rather than manually punch in their employee ID.
- Create policies and procedures related to historical edits and required approvals.
- Require all employees to confirm their Kronos work schedule prior to start of school year, which will reduce manual timekeeping adjustments.

Central Office Audit Highlights – Safe Haven

Objectives

To assess the performance and operations of the Safe Haven program, including procurement process, contract management, student safety, and fiscal management.

Key Findings

- **Minimum Student Attendance:** Vendors are required to maintain student participation at a minimum of 250 for all sites they supervise. **Two of the three vendors fell below the 250 minimum. If these had been closed for the 2016-2017 After School Program, it is estimated that CPS would have saved \$422,760.**
- **Invoice Review and Maximum Sites:** Certain vendors invoiced CPS based on the **maximum number of sites they are contractually allowed to operate**, rather than the actual number of sites operated. **It is estimated that the vendors were overpaid by \$151,099 due to this overbilling (CPS will pursue recovery).**

Central Office Audit Highlights – Safe Haven

Key Recommendations

- Establish a standardized protocol for Safe Haven sites with low student attendance. The process should include issuance of warning emails to sites after two days of failing to have at least 17 students, a standardized period to cure prior to site termination, and sample recruitment action plans.
- Design and implement a formal process for reviewing vendor invoices and verifying the information included is complete and accurate prior to PO creation and payment.
- Monitor and enforce vendor contract compliance and take appropriate action when vendors are non-compliant.

School Audits and Compliance Update

School Risk Assessment

To select District schools to be audited in FY2018, Internal Audit performed a school risk assessment of District schools based on key performance and risk indicators, such as the following:

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| <ul style="list-style-type: none">• Length of Time Since Last Audit• Timeliness of Bank Reconciliations• Negative Internal Account Balances• Timeliness of Cash Deposits• Volume of Cancelled Cash Receipts• Title I, Title II, Title III (ELL), IDEA, and Early Childhood Budget Size | <ul style="list-style-type: none">• Multiple Purchases Aggregating Over LSC Approval and/or Bidding Requisition• Verified Transfers That Later Required to be Re-coded as Dropouts• Volume of Student Transfers including Students Transferred Out and Back In Within Same School Year• Volume of Grade Changes from Fail to Pass or Two Levels Up• School Quality Rating Policy (SQRP) Score |
|---|---|

School Audit Plan

Anticipate 178 school-related audit activities including:

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|---|--|
| <ul style="list-style-type: none">• 25 District High Schools• 45 District Elementary Schools• 15 District School Follow-up Audits | <ul style="list-style-type: none">• 3 Charter Entities (with multiple schools/sites)• 65 English Learner Reviews• 25 Non-Public School Reviews |
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School Audits and Compliance Update

EL Compliance

- Internal Audit will continue **performing English Learners (EL) Program Reviews** to determine school compliance with IL Administrative Rules for EL Programs.
- This year will include **reviews of Transitional Programs of Instruction (TPI) at several charters and traditional schools** with EL populations of 19 or fewer from the same language background, as well as follow-up with certain schools with repeat “Minimal” audit ratings in FY17.

Title IX Compliance

- Internal Audit will perform its continuous monitoring of **Title IX issues**, as well as performing tasks included in the Title IX agreement with the Office of Civil Rights (OCR).
- Key deliverables include the **Student Interest Survey and Athletic Director (AD) Survey**, CPS Title IX Disparity Calculation, and the Individual School OCR reports.

Non-Public Schools Compliance

- Internal Audit will perform **non-public school reviews to verify proper use of Title I funds**.



Finance Update

CPS is Financially Stronger

- **Thanks to the efforts of the Board, CPS families, the Mayor, Aldermen and State Legislators – CPS is finally on much better financial footing. We still have room for improvement but progress has been made.**
- **Eliminated \$1.1B deficit in 2 years**
 - \$900M in new revenue over the last two years
 - \$200M in management efficiencies in FY17
- **Historic Education Reform**
 - SB1947 has established a progressive funding formula for all school districts
 - Passing of Illinois budget stabilizes the State's ability to fund its obligations
- **Cash improved due to SB1947** – reduced reliance on short-term borrowing.
The maximum amount of TANs outstanding at any time will be \$1.3B vs. \$1.55B
- **CPS continues to have good market access and lower long-term borrowing costs** – bonds are trading over 200 basis points lower due to SB1947

Proposed Bond Authorization

- We are seeking authorization from the Board to issue \$1.1 billion of bonds. Our plan is to go to market to sell \$900M-\$930M of bonds. We have asked for extra authorization to have flexibility in case we have strong market demand and can take advantage and fill extra orders.
- The \$900M-\$930M of bonds are comprised of the following:
 1. Approx. \$630M Refinancing of Existing Bonds for \$175M of total Savings
 - \$440M Floating Rate Notes and \$190M Fixed Rate Bonds
 - Replacing 9% bonds with new 5% bonds
 - \$12M FY18; average \$10M/year thru FY35
 2. \$290M New Money Bonds to net proceeds of \$250M for Capital Projects
 - \$225M Bonds repaid from operating funds to net \$190M of proceeds
 - \$65M Bonds repaid from Capital Improvement Taxes (CIT) which will net \$60M of proceeds
- We will price the bonds during the week of November 13th subject to market conditions.

\$250M Bond Proceeds to Fund Capital Projects

Project Description	Amount
Roof and Window Replacement Projects	\$133.0M
Mechanicals and Maintenance Priorities	\$36.0M
IT & Security Investments	\$7.3M
Capital Project Support Services	\$19.9M
Emergency and Other Capital Projects	\$53.8M
TOTAL	\$250.0M

CPS Cash Improved – Less Short-Term Borrowing

- Cash improved due to SB1947 – reduced reliance on short-term borrowing. The maximum amount of TANs outstanding at any time will be \$1.3B vs. \$1.55B.
- Improved financial situation allows the Board to reduce TAN interest rate. Initial TAN draws closed at a 3.60% interest rate.
- Strong interest indicated by 1.5x oversubscription and two new banking partners for a total of 5 lenders.
- At this point, CPS has closed on \$350M in TANs.
- By Friday, \$550M of TANs will be closed.
- Grant Anticipation Notes fully repaid.

Grants Management Office Update

Grants Office – Mission & Scope

The mission of the Grants Office is to ensure strategic utilization of all awarded grant funds, aligning them with District priorities to increase student achievement.

Our scope covers nearly \$1B in city, state, and federal grant funds

- The majority of the funds are federal – either direct from federal agencies or via pass-thru from ISBE
- This includes approximately \$25M in proportionate share federal funds for non-public school programs

We provide oversight and management of 95 distinct grant applications from 28 funding sources

- Illinois State Board of Education
- U.S. Department of Education

We manage and/or directly support the implementation of grant-funded programs in 865 schools citywide – traditional, charter, and non-public

- 658 traditional and charter schools
- 207 non-public schools serving approximately 55,000 students

Grants Office – Primary Workstreams

Grant Strategy, Development, and Support:

- Develop and submit competitive and categorical grant applications.
- Support the strategic implementation of all grant initiatives, including Titles I, II, and IV.

Grant Operations:

- Support traditional and Charter schools to maximize dollars and ensure compliance.
- Develop and support implementation of required internal controls and procedures.

School Improvement Grants (SIG) and Statewide System of Support (SSOS):

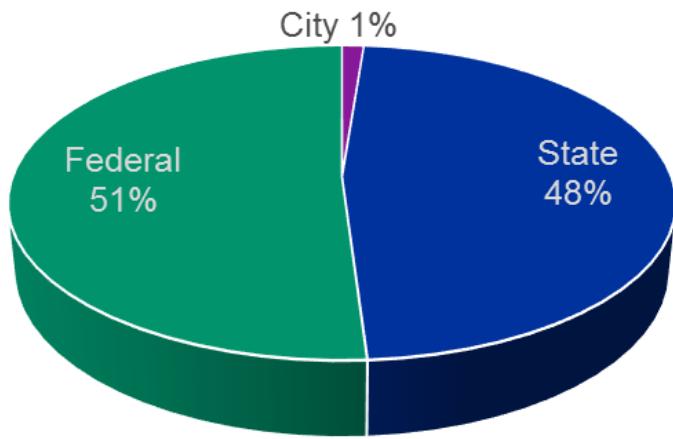
- Support ISBE-identified Title I Priority and Focus Schools with use of funds to improve outcomes.
- Lead the transition of school improvement work under the Every Student Succeeds Act (ESSA).

Non-Public School Programs:

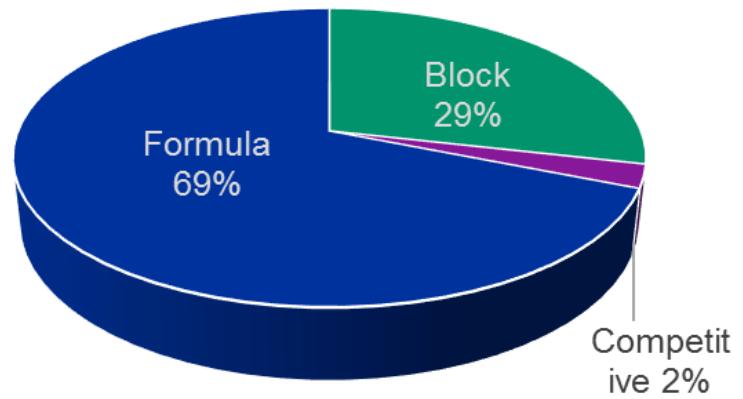
- Administer programs to meet federal requirements for equitable distribution of federal resources to non-public schools including determining student eligibility, assessing needs and developing scopes, vendor management and payment processing, and progress/outcome monitoring.

Grants Snapshot – Overview of Funds

Grant Funding - by source

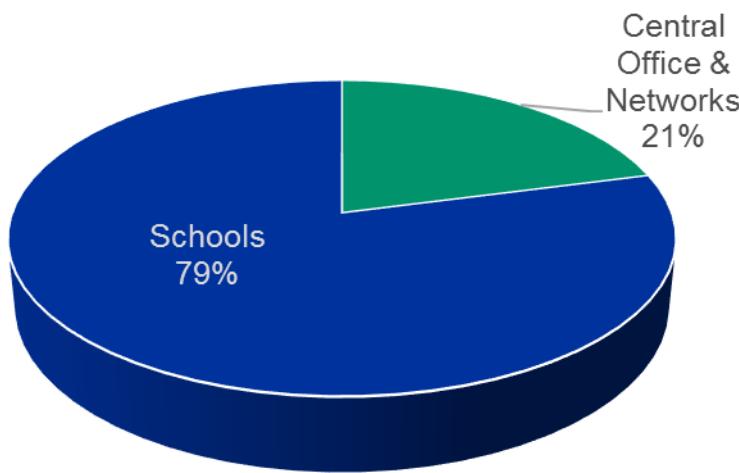


Grant Funding - by grant type

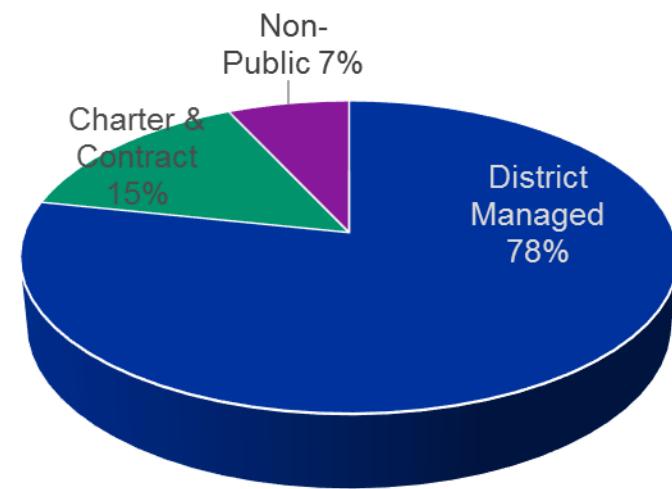


Grants Snapshot – What Grants Fund

Grant Funding – Schools vs Central & Network Offices

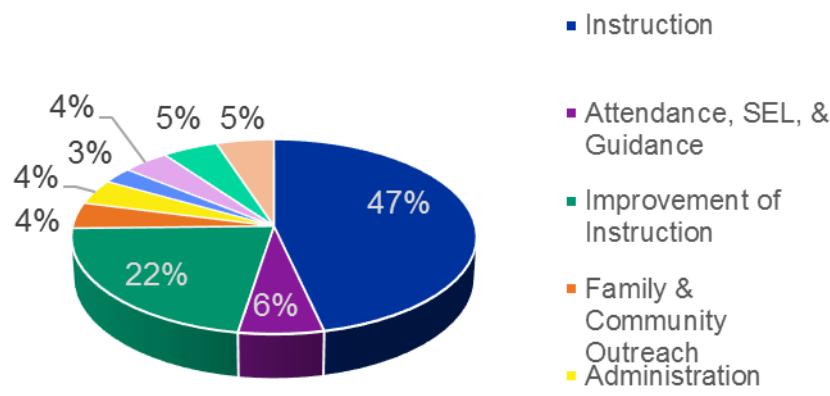


Federal Grants – funding by school type



Grants Snapshot – Programs Funded

Budgeted at Central & Networks



Budgeted at Schools

