

# **Finance & Audit Committee Meeting**

Third Quarter – Year 2018

January 24, 2018

# Audit Update

# Completed Audits – Parking Programs

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## Objectives

- Evaluate the effectiveness of internal controls over CPS' three employee benefit parking programs:
  - CPS-paid parking is an employee parking benefit paid for by CPS and reserved for chief and executive level employees who require in and out parking privileges for CPS business.
  - CPS-paid parking passes are paid for by CPS and made available to employees who must use their car for a work related reason.
  - Employee-paid parking is a benefit offered by CPS to allow employees to pay for reduced monthly parking with pre-tax payroll deductions.

## Key Findings

- CPS lacks effective internal controls and policies and procedures for all three of the parking programs, i.e. lack of proper reconciliation and usage substantiation, and segregation of duties.

## Impact to CPS

- CPS risks overpayment to vendors, underpayments from employees, and possible misappropriation of funds (parking passes).

## Key Recommendations

- Establish and communicate clear policies and procedures for CPS parking benefits.
- Update all processes to ensure proper segregation of duties over benefit approval, record maintenance, invoice reconciliation, safeguarding of inventory (i.e. parking transponders), and vendor payment authorization.

## Building Management's Efforts

- Building Management has been making a number of changes to improve its operation. This includes implementing a new request form for parking passes and consulting with Internal Audit to improve their monthly reconciliation.

# Other Audit Highlights

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## Safe Haven

- Met with Safe Haven vendors and communicated contract terms related to required documentation, minimum participation levels, and employee background checks.

## Option Schools

- IAC completed a count of all Option schools in January. The results are as follows:
  - IMPACT count (count entered by school) vs. Internal Audit count (physical count) has an average variance of 6 students per school in total.
  - IMPACT attendance % (attendance % to date) vs. Internal Audit attendance % (three counts per school) has a variance of 7% in total, which equates to 8 students per school.

# School & Accountability Audit Highlights

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## School Audits (District Schools)

- Risk Related - High School/Elementary (6)
- Conference Call - Principal Transition Reviews (25)
- High/Medium Finding - Follow Up (15)
- English Learners School Audits (25)

## Accountability Audits

- Employee Discipline
- Time/Attendance
- Misappropriation of Funds



# Finance Update

**Chicago Public Schools  
Annual External Audit Results  
For Fiscal Year Ended June 30, 2017  
Board Meeting Presentation**

**January 24, 2018**



# Annual External Financial Audit

## Audit Findings For The Last Five Years\*

**Definitions:**

1. **Material Weakness**-An internal control deficiency(ies) which has a material affect(s) on the financial statements.
2. **Significant Deficiency**-Less severe than a material weakness, but important enough to communicate to those in charge of governance.
3. **Control Deficiencies**-Other identified weaknesses in the design or operation of an internal control, but does not constitute a significant deficiency or material weakness.

<b><u>Audit Finding By Type:</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Material Weaknesses	0	1	4	0	0
Significant Deficiencies	1	1	0	1	0
Control Deficiencies	16	22	15	13	0
<b>Totals</b>	<b>17</b>	<b>24</b>	<b>19</b>	<b>14</b>	<b>0</b>

- ❑ *All Federal Single Audit findings and questioned costs from Fiscal Year 2016 were also resolved as of June 30, 2017. Major programs audited this year: Title I thru Title III & Head Start.*
- ❑ *Unlike prior years, there were no material Control Deficiencies in 2017 and immaterial issues will be submitted to CPS management for review.*

# Annual External Audit Components

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- ❑ **Annual Financial Audit:**
  - ❑ Statutorily required audit performed by independent certified public accountants and covers all CPS policies, procedures and Board Rules, as well as the District’s financial and non-financial records.
  - ❑ The audit culminates in the preparation and issuance of the District’s Comprehensive Annual Financial Report (CAFR), and for the 1<sup>st</sup> time in seven years, the District will prepare a Popular Annual Financial Report (PAFR).
  - ❑ The deliverable is an Unmodified Audit Opinion on the District’s financial statements and internal controls.
  
- ❑ **Federal Single Audit (Federal Grants):**
  - ❑ Simultaneously conducted audit of all the District’s major Federal grant programs and in Fiscal Year 2017, the major programs tested included Title I, Title II, Title III and Head Start.
  - ❑ Expenditure and compliance based and includes all CPS charter schools, as they are considered subrecipients of CPS due to the “pass thru” of Federal funding to these entities.
  - ❑ The audit culminates in the preparation and issuance of the Schedule of Expenditures of Federal Awards (SEFA), which we include in the CAFR document for easier reference.
  - ❑ The deliverable is an Unmodified Audit Opinion on the SEFA and the District’s internal controls for Federal grants.

# Annual External Audit Components Cont'd

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- Illinois State Board of Education Annual Financial Report (AFR):**
  - Statutorily required report of the District's financial activities converted from the CAFR format to the ISBE format.
  - The deliverable is a separate Audit Opinion issued by the external auditors on the information contained in the AFR.
- Federal Annual Financial Report ("FAFR"):**
  - New reporting requirement for site-level reporting for all school districts nationwide under the Federal Every Student Succeeds Act (ESSA).
  - The first required report is due no later than September 30, 2018 and will contain information that has not yet been audited.



# Financial Highlights (Unaudited)

## Year Over Year Comparison

Chicago Public Schools is required to issue two sets of financial statements. The first set is similar to those issued in the private sector and the second set is preferred by government officials and our citizenry and ties directly to our annual budgets.\*

### *Revenues and Other Financing Sources (In Millions)*

	<b>2017 Amount</b>	<b>2016 Amount</b>	<b>Increase (Decrease) from 2016</b>	<b>Percent Increase (Decrease) from 2016</b>
General Operating Fund	\$ 5,150	\$ 4,928	\$ 222	4.5%
Capital Projects Fund	926	597	329	55.1%
Debt Service Fund	638	538	100	18.6%
<b>All CPS Funds</b>	<b>\$ 6,714</b>	<b>\$ 6,063</b>	<b>\$ 651</b>	<b>10.7%</b>

\*Overall revenues increased in the (1) General Operating Fund due to collections from the new Teacher's Pension Levy; (2) in the Capital Projects Fund from new bond issuance proceeds and (3) in the Debt Service funds from GSA monies allocated for debt payments.

### *Expenses and Other Financing Uses (In Millions)*

	<b>2017 Amount</b>	<b>2016 Amount</b>	<b>Increase (Decrease) from 2016</b>	<b>Percent Increase (Decrease) from 2016</b>
General Operating Fund	\$ 5,298	\$ 5,414	\$ (116)	-2.1%
Capital Projects Fund	241	358	(117)	-32.7%
Debt Service Fund	531	672	(141)	-21.0%
<b>All CPS Funds</b>	<b>\$ 6,070</b>	<b>\$ 6,444</b>	<b>\$ (374)</b>	<b>-5.8%</b>

\*Overall expenses decreased in the (1) General Operating Fund due to reduced career service salaries, professional development, and Districtwide savings initiatives; (2) in the Capital Projects Fund from delayed capital spending and (3) in the Debt Service funds from lower debt service costs due to restructuring.

# Financial Highlights (Unaudited)

## Year Over Year Comparison Cont'd

*Cumulative Fund Balance  
(In Thousands)*

	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>
	<b>Amount</b>	<b>Amount</b>	<b>from 2016</b>	<b>from 2016</b>
General Operating Fund	\$ (275,230)	\$ (126,632)	\$ (148,598)	-117.3%
Capital Projects Fund	792,586	107,248	685,338	639.0%
Debt Service Fund	577,166	469,307	107,859	23.0%
All CPS Funds	<b>\$ 1,094,522</b>	<b>\$ 449,923</b>	<b>\$ 644,599</b>	<b>143.3%</b>

- *Though the cumulative fund balance in the General Operating Fund decreased in fiscal year 2017, revenues increased by \$222MM from last year and spending was down \$116MM from 2016 attributable to spending slowdowns, district-wide savings initiatives, transportation savings, and reduced professional development.*
- *As of June 30, 2017, CPS also recorded \$291MM in “Unavailable Revenue”, which represents cash receipts owed to the District, which had not been received by the end of our recognition period.*

# General Operating Fund

## Budget to Actual Results (Unaudited)

*(Amounts In Millions)*

	<u>FY2017 Original Budget</u>	<u>Supplemental Appropriations &amp; Tranfers In/(Out)</u>	<u>Final Appropriations</u>	<u>Fiscal FY2017 Actual</u>	<u>Over (under) Budget</u>
<b>Revenues:</b>					
Property taxes.....	\$ 2,608	\$ -	\$ 2,608	\$ 2,614	\$ 6
Replacement taxes.....	131	-	131	170	39
State aid.....	1,499	-	1,499	1,288	(211)
Federal aid.....	830	-	830	752	(78)
Interest and investment earnings.....	-	-	-	2	2
Other.....	263	-	263	265	2
Subtotal.....	<u>\$ 5,330</u>	<u>\$ -</u>	<u>\$ 5,330</u>	<u>\$ 5,091</u>	<u>\$ (239)</u>
Other financing sources (uses).....	-	-	-	59	59
Total.....	<u>\$ 5,330</u>	<u>\$ -</u>	<u>\$ 5,330</u>	<u>\$ 5,150</u>	<u>\$ (180)</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Salaries.....	\$ 2,350	\$ 68	\$ 2,418	\$ 2,397	\$ (21)
Benefits.....	1,361	(33)	1,328	1,321	(7)
Services.....	1,194	92	1,286	1,211	(75)
Commodities.....	249	23	272	251	(21)
Other.....	257	(150)	107	118	11
Total.....	<u>\$ 5,411</u>	<u>\$ -</u>	<u>\$ 5,411</u>	<u>\$ 5,298</u>	<u>\$ (113)</u>
Change in fund balances.....	<u>\$ 81</u>			<u>\$ (148)</u>	

# General Operating Fund

## Budget to Actual Variance Explanations

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### **Total Revenues for 2017: \$5.15 Billion**

- ❑ **Property tax** revenues received in fiscal year 2017 totaled \$2.6 billion and generated a positive variance of \$6 million and was due to a combination of a higher collections percentage, as compared to original estimates.
- ❑ **Personal property replacement taxes (PPRT)** received by CPS totaled \$170 million and were \$39 million higher than budgeted due to a correction of the State of Illinois allocation, which adjusted the revenue recognized in 2017.
- ❑ **State aid and Federal Aid** received by CPS in fiscal year 2017 totaled \$1.3 billion and \$752 million, respectively, and were a combined \$289 million lower than anticipated. The fiscal year 2017 budget relied on a state contribution for normal cost to the Chicago Teachers' Pension Fund (\$215MM), which never came to fruition. A lower than expected spend on Federal grants occurred in 2017, therefore the District did not receive the corresponding revenue reimbursements.
- ❑ **Other** local revenues totaled \$265 million and are comprised of miscellaneous or one-time receipts such as TIF surplus funds, rental income, daycare fees, private foundation grants, school internal account fund transfers, and flow-through employer contributions to the Municipal Employees' Annuity and Benefit Fund of Chicago. Other revenues received were \$2 million higher than budget in 2017.

### **Total Expenditures for 2017: \$5.29 Billion**

- ❑ **Salaries and Benefits** expenses for the fiscal year 2017 totaled \$2.397 billion and \$1.321 billion, respectively, and resulted in a \$21 million positive variance from budget due to a reduction in career service salaries, as well as a \$7 million variance due primarily to lower than expected spending on health care claims.
- ❑ **Services** related to student transportation, tuition for charter schools and special education purposes, as well as contractual and professional services, telephone, printing and equipment rental costs, were budgeted at \$1,286 billion and ended the year \$75 million below budget. This amount included a \$33 million reduction due to charter schools receiving a proportionate share of central and school-based budget cuts and \$42 million from spending slowdowns, district-wide savings initiatives, transportation savings, and reduced professional development.
- ❑ **Commodities** expenditures of \$251 million are derived from utility costs, food purchases for school breakfast/lunch, textbooks, and general supplies. Spending on commodities was lower than budget by \$21 million in 2017.
- ❑ **Other** expenditures includes equipment, facility rental, insurance, repairs, and contingencies for new grants. In total, spending for the "other" category ended the year at \$11 million over budget. This category also included budgeted savings for various organizational savings initiatives.

# Questions?