

# Finance and Audit Committee- July 2019

# **Treasury Update:**

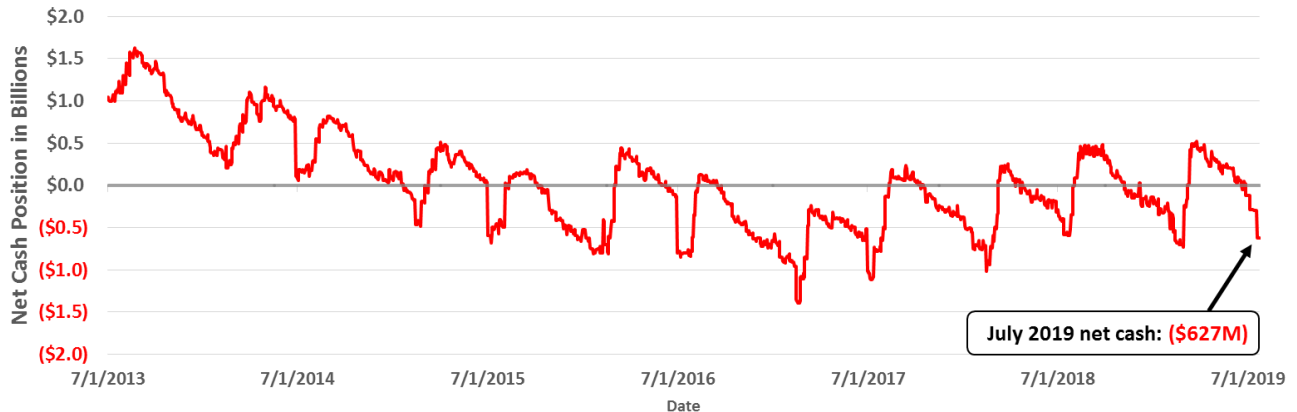
## **Cash and TANs**

# Cash and TANS – Ending the Fiscal Year

as of July 24, 2019

- The Board ended Fiscal Year 2019, with **Net Negative Net Cash of -\$115M**.
  - Based on \$450M in TANS owed and a \$335M Operating Account bank balance.
- **Net Negative Net Cash is projected to be -\$627M in July 2019, when the FY19 property tax levy closes out and TANS outstanding will be \$694M**

FY14 to FY19 Net Cash Position



# Current TANS / Cash Borrowing Program

- \$1.25B was the maximum principal amount of TANS authorized for FY19.
- In August, we will request a new \$1.25B authorization for TANS.
- Aggregate amount of TANS outstanding cannot exceed 80% of the taxes levied for 2018 tax levy year (collections in 2019).
- TANS borrowed against the first installment property taxes were fully repaid in March.
- Second installment TANS of \$694M will be repaid with second installment property tax receipts of \$1.1B and are typically repaid fully in August.

Issued and Projected Issuance Schedule For FY19 Authorized TANS					
First Installment			Second Installment		
Series	Date	Par	Series	Date	Par
2018A	10/31/18	\$200M	2018C	6/4/19	\$200M
2018B	12/5/18	\$200M	2018G	6/20/19	\$250M
2018C	2/4/19	\$200M	2018X <sup>1</sup>	7/11/19	\$244M*
	2/16/19	\$100M			
2018D	2/16/19	\$60M			
2018E	2/21/19	\$60M			
2018F	2/27/19	\$24M			
	<b>Total</b>	<b>\$844M</b>		<b>Total</b>	<b>\$694M</b>
	<b>Receipts</b>	<b>\$1.28B</b>		<b>Receipts</b>	<b>\$1.18B</b>

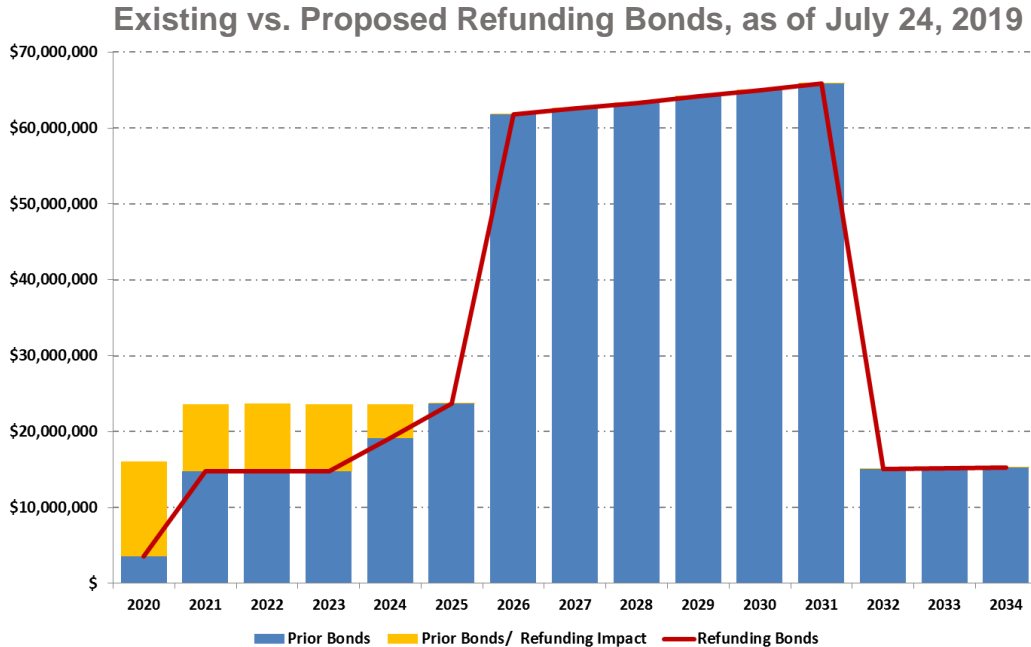
*\*2018X<sup>1</sup> totaling \$244M consists of \$100M Series 2018C, \$60M Series 2018D, \$60M Series 2018E, and \$24M Series 2018F*

# Bond Refunding

# Series 2008A&B Bond Refunding Opportunity

- **At the July Board Meeting, finance is requesting approval of a Bond Resolution authorizing the sale of Refunding Bonds.**
- **CPS currently has approximately \$432M in variable rate debt (Series 2008A and 2008B issues).**
- Variable rate debt payments constantly move as short-term interest rates adjust due to the market.
- It is a positive financial outcome for CPS to eliminate variable rate by refinancing into a fixed rate.
  - CPS eliminated \$600M of variable rate debt in FY17 and 18 by refunding 7 issues into fixed rates.
  - The only remaining CPS variable rate bonds are the 2008A and 2008B issues.
- **Bond Refunding Objectives**
- The refunding will not increase the amount of debt outstanding for CPS.
- The refunding bonds will be structured to produce overall debt service savings and to also show savings in every year.
- The refunding bonds will be primarily payable from the same alternate revenue sources as the prior 2008A and 2008B bonds: EBF (Evidence Based Funding / General State Aid), PPRT (Personal Property Replacement Taxes), and IGA (Intergovernmental Agreement Revenues).
- The final repayment of the refunding bonds will be in 2034 which is the same as the prior bonds.

# Series 2008A&B Bond Refunding Overview



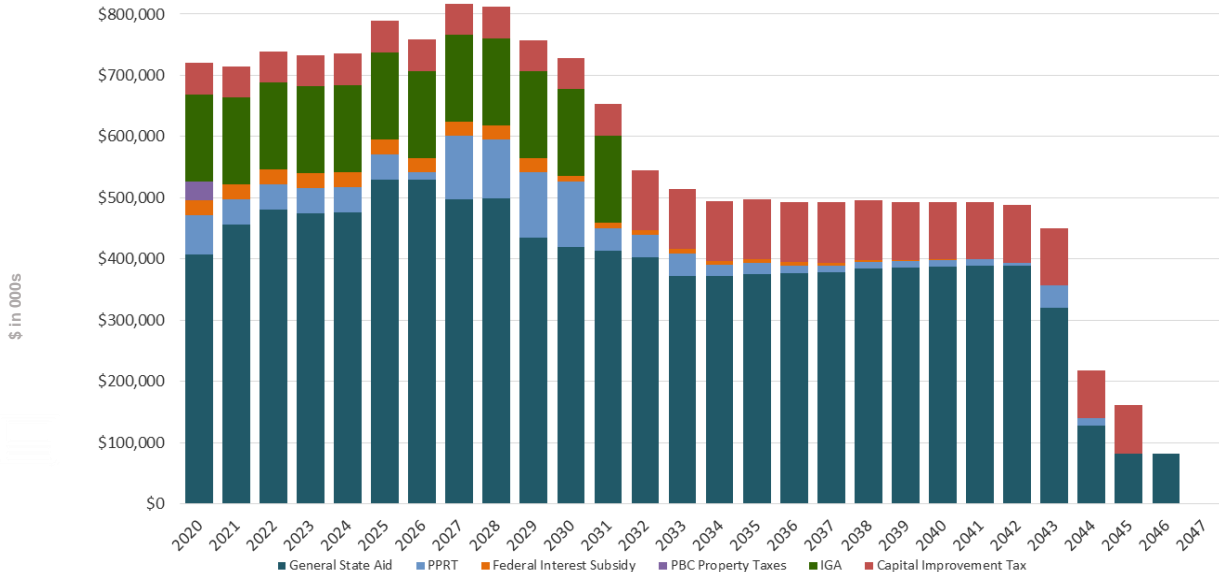
<b>Closing Target:</b>	<b>1<sup>st</sup> week of Sept.</b>	<b>Est. Average Interest:</b>	<b>3.5-4%</b>
<b>Max Authorized Par (\$):</b>	<b>\$432M</b>	<b>Est. FY2020 Impact:</b>	<b>\$10-15M</b>
<b>Bond Maturities:</b>	<b>2020-34</b>	<b>Est. Net PV of Savings:</b>	<b>\$35-40M</b>
<b>Bond Length:</b>	<b>14.5 years</b>	<b>Est. Savings Percent:</b>	<b>8-9%</b>

*Note: Preliminary Estimate. Subject to change based on bond sale result.*

# Current Long-Term Debt Service Profile

- CPS has approx. \$8.4B of Long-Term Debt (\$8.0B fixed rate and \$400M variable rate) that have funded capital needs
- \$7.5B CPS Bonds are GO (Alternate Revenue) Bonds and \$880M are Dedicated Capital Improvement Tax (CIT) Bonds.

Long-Term Debt by Funding Source, as of July 24, 2019





# CPS IS Still Junk Bond Rated Credit

as of July 24, 2019

	S&P	Moody's	Fitch	Kroll
	AAA	Aaa	AAA	AAA
	AA+	Aa1	AA+	AA+
	AA	Aa2	AA	AA
	AA-	Aa3	AA-	AA-
	A+	A1	A+	A+
	A	A2	<b>A</b>	A
	A-	A3	A-	A-
	BBB+	Baa1	BBB+	BBB+
	BBB	Baa2	BBB	<b>BBB</b>
	BBB-	Baa3	BBB-	BBB-
	BB+	Ba1	BB+	BB+
	BB	Ba2	BB	BB
	BB-	Ba3	<b>BB-</b>	BB-
	<b>B+</b>	B1	<b>B+</b>	B+
	<b>B</b>	<b>B2</b>	B	B
	B-	B3	B-	B-
	CCC+	Caa1	CCC+	CCC+
	CCC	Caa2	CCC	CCC
	CCC-	Caa3	CCC-	CCC-

 **CPS Capital Improvement Tax Credit**

 **Current CPS GO Ratings**

 **Previous CPS GO Ratings**

Since the new State educational funding, CPS has secured 3 notch upgrades and 5 outlook upgrades

	Kroll	Fitch	Standard & Poor's	Moody's
<b>General Obligation</b>				
Ratings:	BBB*	BB-	B+	B2
Outlook:	Positive	Positive	Stable	Stable
<b>Capital Improvement Tax</b>				
Ratings:	BBB	A	NR	NR
Outlook:	Positive	Negative	NR	NR

\* Assumes impact of special revenue opinion; Underlying rating is BBB-

# ACCOUNTING

# AUDIT FINDINGS FOR THE LAST FIVE YEARS

## WHAT IS AN EXTERNAL AUDIT FINDING?

**1. Material Weakness** - An internal control deficiency(ies) which has a material effect(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.

<b>Total Audit Findings By Year*:</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	24	19	14	0	0

*\*Includes all material weaknesses, significant deficiencies and control deficiencies reported to the Board of Education.*

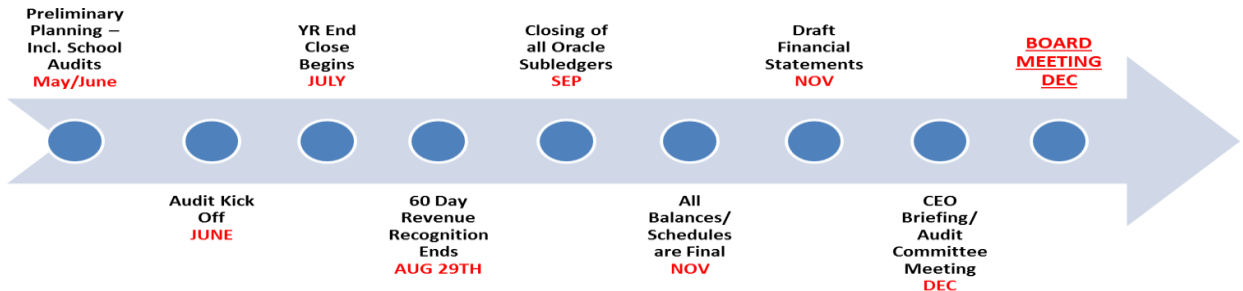
There were no prior year Federal Single Audit findings or questioned costs to resolve as of June 30, 2018.

Major programs audited in 2018:

- Child Nutrition Cluster & Child/ Adult Care Food Program (“Nutrition”)
- Twenty-First Century Community Learning Centers (“21st Century”)
- Student Support and Academic Enrichment Program (“SSAE”)

# External Audit Timeline – Baker Tilly

- Preliminary Fieldwork performed in May and June. Includes School visits and internal control testing.
- Baker Tilly will issue a planning communication letter to the Board in July and is available to meet with the Board in August.
- Final Fieldwork begins in September and runs through December.
- CAFR presented at either the December or January Board meeting.



# INTERNAL AUDIT

# SY19 School Audits Update

**Accomplished goal to audit every high school every 3-years and every elementary school every 6-years by June 30, 2019**

- 63 Full Scope Audits completed by May 31, 2019
- 30 Principal Transition Reviews (PTRs) have been completed YTD

**These full scope audits include the expanded scope which focuses on student safety and climate**

- **Safety & Security:** Verify Recording Procedures, Sexual Abuse & Response Training Completion, Anti-Bullying Policy Compliance, Hallway, Lunchroom & Bathroom Procedures, AED Defibrillators, EpiPens
- **Sports Safety:** Aquatics safety (Pool Operating Hours & Procedures), Sports Equipment maintenance and secure storing, Physical Education (observation/inventory of equipment and overall condition of PE equipment and gymnasium)

**IAC has also expanded its follow up on FY18 & FY19 audits**

- Followed up and confirmed all **80** FY18 full scope audits have completed their management action plan.
- Follow up is being conducted for FY19 remaining open management action plans
- IAC is in progress of finalizing and distributing 56 FY19 audit reports

Audit Type	Audits	Satisfactory	Needs Improvement	Unsatisfactory
Principal Transition Review (PTR)*	30	1	19	10
Full Scope	63	24	35	4
Limited Scope	4	0	2	2
<b>Total</b>	<b>97</b>	<b>25**</b>	<b>56**</b>	<b>16**</b>

## Completed Audits by year

School Type	FY17	FY18	FY19
High Schools	14	27	24
Elementary Schools	46	53	43
PTRs*	3	33	30
<b>Total</b>	<b>63</b>	<b>113</b>	<b>97</b>

\* PTRs are upon new Principal request

\*\*in progress of finalizing 56 audit reports completed in FY19; final rating may change

# School Audits – Enhancements & Initiatives

## FY2019 Enhancements

- Risk Assessment Discussions with key stakeholder to expand school audit coverage, including updated audit procedures
- Audit Scope Expansion adding testing procedures around student safety and sports safety
- Audit Follow Up Process- more formalized and extended follow-up on prior school audits to drive change

## FY2020 Initiatives

- Go live of School Administration & Operations Knowledge Center training website for clerks and school support personnel providing resources and webinars to address common audit findings and areas of high training need
- Continue to work with stakeholders to expand school audit scope including compliance with anti-bullying procedures
- Collaboration with SSC to include training dates as part of audit recommendations to be completed by clerks and/or business managers
- Develop stakeholder reporting to provide audit findings and data collection to departments including Safety & Security, SEL, Facilities, Records & Retention, Office of Sports Administration and FACE
- Establish plan, in partnership with Chief Schools Officer, to continuously improve and correct common audit findings and enforce accountability
- Enhanced Data Analytics providing uniform coverage while addressing high-risk areas through a quantitative approach to audit planning

# Audit Plan Overview

To provide district-wide coverage, the audit approach will span across the following areas:

1

## Special Projects

- RMA Phase II Implementation
- Addressing Tier I Risks
- Embedding RMA in Continuous Improvement
- Develop and facilitate training around Board Policies & Procedures
- Serve as a consultative resource to other departments - timely management advice/best practices in a cost-effective manner

2

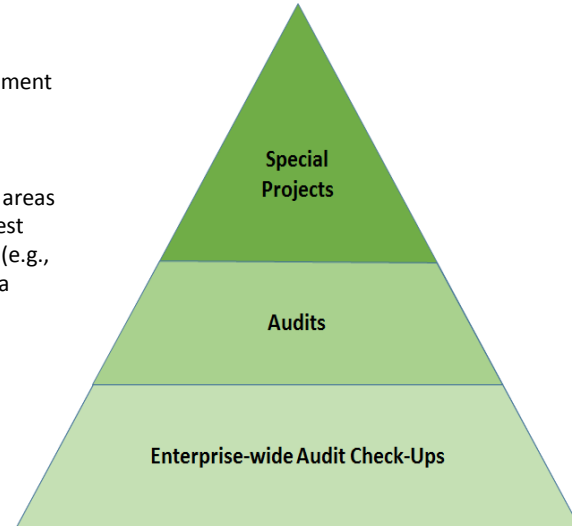
## Audits

- Provide uniform audit coverage, layered with prioritization of high-risk areas
- Central Office - Prioritized by RMA as well as Board/management request
- School Audit Coverage - Prioritized by data analytics, audits by request (e.g., Principal Transition Reviews, or “PTRs”, and Limited Scope Audits) and a schedule of audits to ensure uniform coverage

3

## Enterprise-wide Audit Check-Ups

- On-going risk-based discussions with all 72 departments
  - Identify progress on mitigating strategies toward risks identified during RMA
  - Pre-audit assessment of internal controls, compliance, and overall operational efficiency
- Implementation of data analytics for continuous monitoring in high-risk areas, including compliance monitoring (e.g., testing)
- Annual touch-point with all district-run schools with pre-audit reviews of areas with common findings (e.g., cash handling)





# FY20 Project Plan

Category	Area	Overview
Special Projects	Payroll	Develop dashboard and continuous monitoring metrics to evaluate performance of payroll process.
Audits - Schools	School Audits	Principal Transition Reviews - upon request (FY20 estimate: 30 PTR) Full Scope School Audits (FY20 estimate: 70 full scope) <ul style="list-style-type: none"> <li>• Risk based sample selection</li> <li>• Last audited history</li> </ul>
Audits - Schools	ALOP School Attendance Review	Perform attendance count observations at all ALOP school locations throughout the school year to provide enrollment data to I&I.
Audits - Central Office	Travel Expenses & Reimbursements	Perform 3 year lookback analysis of travel expenses, assessment of policies and procedures, and comparison of CPS policies to other school districts.
Audits - Central Office	Student Safety - Sports & PE	Perform a review focused on assessment of policies, procedures and regulations regarding student safety while participating in programs offered by the Office of Sports Administration (OSA) and Health & Physical Education Department (HPED).
Audits - Central Office	Onboarding/Offboarding	Perform a review of talent's onboarding and offboarding process to evaluate effectiveness of controls.
Audits - Central Office	Charter Governance	Review and provide process improvements over charter governance, oversight and contract compliance.
Audits - Central Office	Community Schools Initiative	Conduct a review of Community Schools and programs to assess alignment with initiative goals.
Audits - Central Office	School Data Quality	Review and provide process improvements over key accountability metrics to continuously improve school data quality.