

Finance & Audit Committee Meeting

Third Quarter – Year 2018

April 25, 2018



Audit Update



Continuous Monitoring - Data Analytics

Continuous Monitoring Program

- **Period:** July 1, 2017 - February 2, 2018



- **Outcomes:**
 - IAC helped recover a \$10K donation over 120 days old that was never deposited
 - SSC is taking ownership of the ongoing follow-up and resolution of exceptions identified in internal accounts & cash receipts
 - Procurement is following up individually with schools to root-cause and provide policy guidance
 - Student Support & Engagement is working with schools to improve transfer verification process and quality of data

Benefits of Continuous Monitoring Program

- Identify and respond to risks more effectively
- Increase transparency
- Make better informed decisions
- Provides value-added insights, instead of just exceptions to help drive better awareness and improvement actions



School Audits Update

Below are the FY18 YTD school audit results:

Audit Type	Audits	Satisfactory	Needs Improvement	Unsatisfactory	Not Rated
Full Scope	36	8	26	2	N/A
Audit Follow-up/Other	16	0	14	2	N/A
Principal Transition Review	25	n/a	n/a	n/a	25
Totals	77	8	40	4	25

Common School Audit Findings

Audit Finding	Risk	Impact
Check Requisition Not Approved Prior to Purchase	Unauthorized or Unallowable Purchases	\$300K
Unsupported Student Transfers	Inaccurate Student Data	55%
Unsupported Attendance Changes	Inaccurate Student Data	41%
Grant Account/Program Code Reclass	Inaccurate Grant Data	\$2.2M
Untimely Submittal of Cash Collections	Funds Are Lost/Stolen	\$104K

School Audit Scope Areas:

- Internal Accounting
- Cash Receipts
- Cash Disbursements
- Fixed Assets
- Payroll
- Supplemental Pay Transactions
- Procurement
- Safety & Security
- Grants Compliance
- Attendance Changes
- Grade Changes
- Enrollment



School EL Program Review Update

Below are the FY18 YTD EL Program Review results:

Type	Reviews	Implemented	Partially Implemented	Minimal
EL Review	36	10	13	13

Common EL Program Review Findings

Compliance Finding	Risk	Impact
Deficient Maintenance of EL Student/Program Files	Loss of Student/Program Records	86%
EL Language Proficiency Progress Not Included in Report Card	Deficient Communication of EL Student Progress	83%
Inaccurate EL Student SIM Data	Improper Identification of EL Student	83%
Untimely Administration of Screener	Delayed EL Student Identification	58%
Inadequate Tracking of Transitioned EL Students	Untimely Identification of Possible EL Student Regression	42%

Background:

IAC collaborates with the Office of Language and Cultural Education (OLCE) to determine which schools with EL Programs require a compliance review. The following is a breakdown of the EL programs reviewed:

- 27 schools with a Transitional Program of Instruction (TPI) for 19 or less EL Students with the same language background.
- 9 schools with medium EL student populations, the majority are in a transition year due to an increase in EL students, requiring the school to offer a Transitional Bilingual Education Program (TBE) for EL students of 20 or more in same language background.
- Minimal ratings school visits are in progress.

Next Steps:

At EOY, IAC will meet with OLCE Network Specialists to share findings and ensure schools are obtaining the support and training needed to better serve EL students across the district.



Audits in Process

- Testing Protocols & Detection Analysis
- Charter School Reviews
- Chicago Teacher Pension Fund
- Lead Engineer Review



CPS Financial Update



CPS' Financial Picture Continues to Improve

1. **FY2018 cash is improved by \$455M versus FY2017**

- Maximum TANs outstanding in FY2017 was \$1.55B versus FY2018 of \$1.1B
- \$1.1B Maximum TANs outstanding beats \$1.3B projections in November
- CPS projects saving \$62M in TAN interest costs in FY2018
- The improved cash flow is due in part to accelerated state and local funding as well as active cash management

2. **The City has paid all of the \$80M of Security Funding**

- CPS has received all of the \$14M of security funding via an IGA and \$66M of TIF Surplus funds to fund security funding, which is ahead of schedule

3. **State funding is no longer a risk**

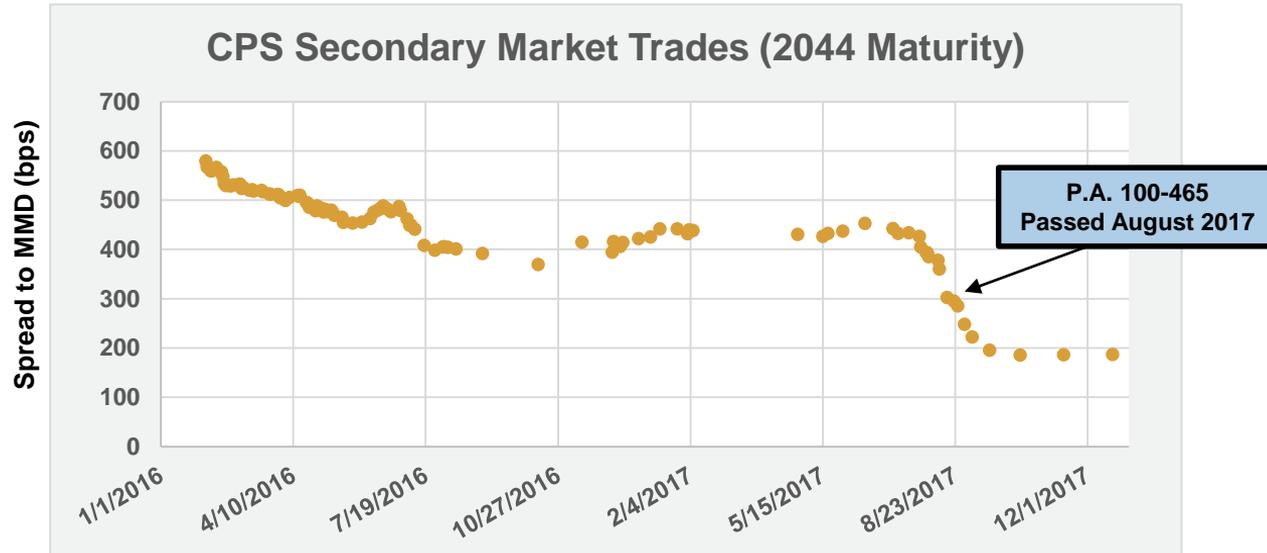
- With the passage of SB5812, the State has confirmed that they will increase the Evidence Based Funding beginning with the first April distribution
- \$141M of \$296M in FY18 state grants have been paid year to date

4. **As a result of these improvements, S&P upgraded the outlook from stable to positive**



The markets agree that CPS is more stable financially

- CPS' bond rate has improved dramatically over the last 2-years
- Most recently, the market reacted positively to the passage of P.A. 100-465 and CPS was able to lower its 30-year bond rate from a 7.65% to a 4.80% or 285 bps
- On the \$1B 2017C-H Bonds, the lower rates saved over \$200M in interest
- CPS credit spreads are now comparable with the State of Illinois and closer to historical relative value to the City of Chicago



Refunding Transaction

- **As a result of our improved trading, CPS expects to be able to generate savings from the upcoming financing**
- **This refinancing would generate savings by replacing outstanding debt at higher interest rates with new debt at lower interest rates**
 - Outstanding debt: 4.50% - 7.50% rates
 - New debt: 4.00% - 5% rates
- **The new debt service will be lower than the old debt service in all years**
 - The operating fund will see savings in all years
- **Savings are dependent on the market reception at the time of bond sale**

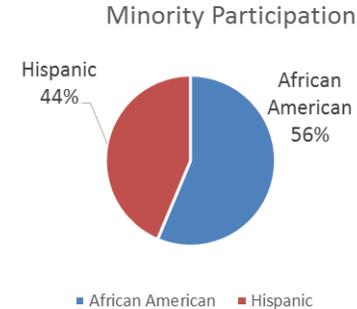


Investment Overview (As of April 5)

- **CPS currently invests a \$2.2B investment portfolio**
- **The investment portfolio generates a 1.91% yield for a 1 year duration**

	Balance	Yield	Duration
Operating Fund	\$714M (37%)	1.75%	2 month
Capital Fund	\$842M (40%)	2.07%	1.7 years
Debt Service Fund	\$714M (23%)	2.00%	1.3 years
Total	\$2,270M	1.91%	1.0 years

- **For FY18, CPS will generate \$4M more operating fund earnings than budgeted**
- **CPS has purchased 100% of its investment securities from minority brokers**
 - 56% from African American and 44% from Hispanic and firms



Asset Management Briefing



Background

- Board approved two new Asset and Inventory Management policies in Oct 2017.
- Beginning in FY2017, CPS began a Districtwide count of all items valued at \$500 and above at all locations.
- For the first time at CPS, we are on track for a 100% inventory of non-depreciable assets.



Contract Summary

The vendor, Hayes Software Systems and its MBE subcontractor, ProBar, Inc. were contracted for the following:

- Supply CPS with an automated system of accounting and reporting on its assets (IT and non-IT) and instructional materials.
- Total contract value: \$8.78MM/Total contract spend to date: \$4.03MM.
- The District purchased licenses for asset management software which is used to identify, assign, track, transfer and dispose of assets.
- The software implementation is 65% complete as conversion of TechXL data is ongoing.
- Inventory of assets over \$500 at schools and Central Office is required per Federal and State guidelines.
- Current M/WBE Goals: 30%/7%



Asset and Inventory Management Highlights

In order to comply with Federal and State guidelines:

- Over 88% of schools have been inventoried
- 96% of school staff have been trained
- Ongoing communications, live trainings and webcasts will continue through the end of implementation
- Only 53 support calls to the SSC have been logged since Fall 2017 by schools for assistance
- Central Office and all satellite locations will also be inventoried in May 2018
- A detailed plan for inventorying Central Office and CPS Warehouse has been presented to Executive Cabinet
- The District is on track to complete its first ever 100% inventory of all assets (\$500+) by June 30, 2018



School Asset Inventory

- Phase 1 includes software licensing and other IT costs, consulting for policy and procedures documents, as well as the physical inventory of CPS school buildings.
- Estimated Cost: \$4.5MM
- Estimated Timeframe: October 2017 – June 2018
- Number of schools inventoried: 451 of 514 (88%)
 - Number of assets counted: 485,099
 - Value of assets counted: \$107,235,460
- 96% of schools trained on new software, w/80% positive survey results
 - Only 19 schools remaining
 - Additional training scheduled throughout the month of April



Central Office Inventory

- Estimated Cost: \$1.6MM
- Timeframe: May 2018
- All Central Office locations inventories are currently scheduled for:

May 7th thru May 17, 2018

42 W. Madison/1 N. Dearborn
Western Avenue
Colman
Bridgeport
Garfield
CPS Warehouse

- Central Office (Loop) location scheduled inventory days are:

May 14, 2018

Garden Level 08:00-2:30
1st Floor 08:00-9:30
2nd Floor 12:30-6:30

May 15, 2018

3rd Floor 08:00-2:30
9th Floor and Vehicles 12:30-6:30

Note: "Makeup" day for Loop inventory will occur on May 16, 2018.

