Finance & Audit Committee Meeting
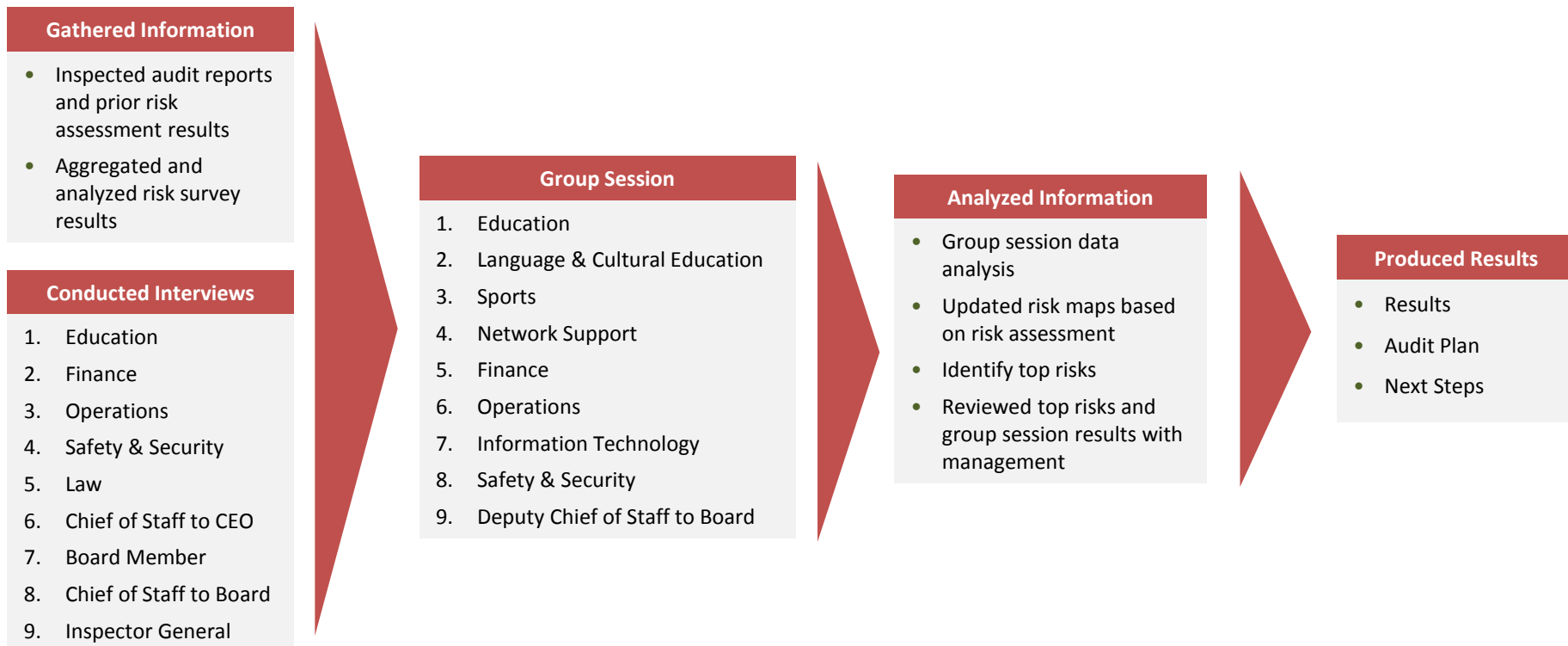
Second Quarter FY17

October 26, 2016

Audit Update

Enterprise Risk Assessment – Overview

Unlike an audit, the primary purposes of the Enterprise Risk Assessment were to:

- Begin the process of identifying, evaluating and prioritizing risks and

- define a risk-based audit plan.

    - ✓ **Key risk categories** included: Strategic, Financial, Academic & Student Support, Operational, People, Information Technology, and Compliance.

    - ✓ **Ongoing process to monitor and manage risk**, which changes over time; start driving toward a sustainable risk management program.

Gathered Information

- Inspected audit reports and prior risk assessment results
- Aggregated and analyzed risk survey results

Conducted Interviews

1. Education
2. Finance
3. Operations
4. Safety & Security
5. Law
6. Chief of Staff to CEO
7. Board Member
8. Chief of Staff to Board
9. Inspector General

Group Session

1. Education
2. Language & Cultural Education
3. Sports
4. Network Support
5. Finance
6. Operations
7. Information Technology
8. Safety & Security
9. Deputy Chief of Staff to Board

Analyzed Information

- Group session data analysis
- Updated risk maps based on risk assessment
- Identify top risks
- Reviewed top risks and group session results with management

Produced Results

- Results
- Audit Plan
- Next Steps

Enterprise Risk Assessment – Risk Universe

Based on range of information gathered from interviews conducted, prior audits and monitoring reports, and analysis performed, below is the _**possible**_ **enterprise-level or overall risk universe** facing CPS arranged by category.
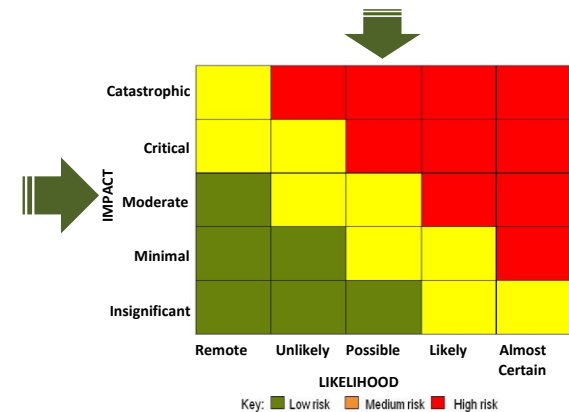
Internal

Strategic	Operational					Financial
• Academic Program Strategy/Changes • Brand and Marketing Communications • Funding • Planning • Capital Improvement Program • Real Estate Strategy and Capital Investments • Publicity • Strategic Partnerships & Collaborative Arrangements • Student Health & Safety • Vision & Strategy	• Accessibility • After School Programs • Building & Ground Maintenance • Communication & External Affairs	• Disaster/Crisis Preparedness • Family & Community Involvement • Food Services • Local School Council	• Outsourcing • Internal Controls / Policies & Procedures • Procurement • Records Retention Mgmt • Safety & Security		• School & Faculty Admin • Sports Administration • Student Support Services • Data & Reporting • Transportation • Warehouse Operations	• Accounts Payable • Accounts Receivable • Budgeting • Cash Management • Capital Management • Credit Risk • Debt Management • Donations • Expense Management • Financial Reporting • Fixed Asset Inventory • Fundraising • Insurance • Payroll • Pension Liability • Revenue • Treasury
	Academic & Student Support	People	Information Technology	Compliance		
	• Counseling & Advising • Core Curriculum • Diverse Learning • School Network Support • Student Admission/Enroll. • Student Assessment • Student Engagement	• Code of Conduct • Compensation • Labor Relations • Performance Management • Personal Record Mgmt. • Recruitment, Retention, & Attrition • Training & Development	• Application Administration • Business Continuity • Cyber Security • Data Admin & Integrity • Operations & Support • Organization & Govern. • Segregation of Duties • Vendor Management	• ADA • Board Reporting • Contract Management • Ethics • FMLA/Work. Comp. • Federal & State Requirements • Government Relations		

← Reputation can be Affected by One or More Risk Events →

Enterprise Risk Assessment – Risk Criteria

Below is the risk ranking criteria used during the group session to evaluate top risks.

Level	Description	Risk description
	Risk or Threat – *Impact* on Business Processes	
1	**Insignificant**	• Minimal impact on ability to meet strategic goals or execute priority initiatives • Little or no impact on reputation or operations • Little or no impact on cash flow • Little or no impact on school quality performance • Not reportable – requires primarily senior and middle management attention
2	**Minimal**	• Low impact on ability to meet strategic goals or execute priority initiatives • Potential impact on reputation or operations • Low impact on short term cash flow • Visible educational impact on a small number of students • Requires senior and middle management attention, executive management is likely aware of the issue
3	**Moderate**	• Moderate impact on ability to meet strategic goals or execute priority initiatives • Impact in the short to mid-term on reputation or operations • Moderate impact to cash flow/debt covenant compliance • Visible educational impact to a large number students • Requires executive management attention, Board is likely aware of the issue
4	**Critical**	• Significant impact on ability to meet strategic goals or execute priority initiatives • Major damage on reputation or operations • Not able to meet short term cash flow needs/not able to comply with debt covenants • Regulators impose fines on the organization • Significant educational impact on a large number of students • Requires active involvement of executive management and Board in issue remediation
5	**Catastrophic**	• Catastrophic impact on ability to meet strategic goals or execute priority initiatives • Significant loss of reputation or operations • Adverse publicity on a nationwide basis • Requires significant investment to recover • Imminent cash flow/debt covenant problems • Significant enforcement actions and/or fines are brought against the organization • Requires immediate and ongoing executive management and Board attention

Level	Description	Risk description
	Risk or Threat – *Likelihood* of Occurrence	
1	**Remote**	Event may only occur in exceptional circumstances (<5%)
2	**Unlikely**	Event could occur at some time (5-25%)
3	**Possible**	Event will likely occur at some time (25-50%)
4	**Likely**	Event will probably occur in most circumstances (50-90%)
5	**Almost Certain**	Event is expected to occur in most circumstances (>90%)

IMPACT (rows top to bottom): Catastrophic, Critical, Moderate, Minimal, Insignificant

LIKELIHOOD (columns): Remote, Unlikely, Possible, Likely, Almost Certain

Key: Low risk, Medium risk, High risk

Enterprise Risk Assessment – Subject Areas

- IT General Controls & Security

- Quarterly Compliance Assessments

- Data Integrity Reviews

- Records Management Audit

- Procurement Lifecycle Audit

- Hiring Lifecycle Audit

- Payroll Audit

- Financial Controls

- School Audits

- Enterprise Risk Management Coordination

Compliance Risk Assessment – Overview

Purpose: Unlike an audit, the purpose of the Compliance Risk Assessment is to identify and prioritize key compliance requirements.

Scope: The areas identified as within scope for the assessment included the following:

- Grants Management
- Office of Language and Cultural Education (including the ISBE-issued corrective action)
- Sports Compliance (including the sports compliance consent decree)
- Early Childhood
- State Reporting (both programmatic and funding-related compliance requirements)
- Charter Schools
- Nutrition Programs
- Diverse Learners (programmatic compliance)

Compliance Risk Assessment – Key Roles at CPS

Two key departments have unique compliance roles. They also have shared roles, all of which address key compliance requirements.

Internal Audit & Compliance

Desktop Monitoring

School Visits

Audit Report & Management Action Plans

T&E Attestation Monitoring

Title IX

Audit Report Writing

Charter School Monitoring

Expenditure Monitoring

Technical Assistance to Schools

Data/Budget Line Remediation

Finance – Grants

External Auditors & Partners Coordination

Grant Application Review & Development Support

Grant Verification

Technical Assistance to Functional Units

Training Development for Schools

Policy & Procedure Updates

Charter School Management

Compliance Risk Assessment – Risk Universe

Based on range of information gathered from interviews conducted, prior audit and monitoring reports, and analysis performed, below is the possible **compliance and grant risk universe** facing CPS arranged by major categories.

Overall

- Fraud/Corruption
- Conflicts of Interest
- Privacy and Information Security
- Data & Records Management
- Third Party & Vendor Risk

- Standards of Business Conduct
- Policies & Procedures
- Channels for Reporting Concerns
- Enforcement & Discipline Standards
- Training

- Investigation & Case Management
- Compliance Governance
- Organizational Structure and Central Mgmt.
- Intellectual Property
- Personnel Certification

Grants Management	Facilities	Nutrition	Sports Compliance	Early Childhood
• Private Grant Development • T&E Attestation • Grant Monitoring (Charter/Non-Public) • Grant Revenue Mismanagement • Knowledge transfer • Students in Temporary Living Situations • Career and Technical Education	• Federal & State OSHA • Environmental Health & Safety • Maintenance & Condition • Construction • Campus Safety & Crime • Lab Safety • Aquatic Safety • Special Education Facilities • School Playground Safety • After School Activities	• Food & Safety Storage • Health Inspection & Reviews • Food & Staffing Vendor Management • Community Eligibility Program • Training & Certification • Inventory Management • Fraudulent Meal Charges	• Staffing Requirements • Certifications & Background Checks • Student Eligibility • Concussions • Title IX • Principal Attestations • IHSA • NCAA • Principal & Student Interactions	• Grant Revenue Management • Grant Monitoring • Curriculum Standardization • Accreditation & Quality Rating • Teacher Qualification • Community Partnership Agencies

State Reporting	Charter	Diverse Learners	Cultural & Language Education	
• Change Management • Management Reporting • Data Quality & Accuracy • ISBE Reporting Requirements	• Charter Schools Management • Grants Financial Systems • Financial Management • Transparency and Oversight • Grant Monitoring	• IEP Minutes Requirements • Student Safety • Grant Monitoring	• Data Quality & Reporting • Staffing and Capacity • Grant Monitoring	

← Reputation can be Affected by One or More Risk Events →

Compliance Risk Assessment - Recommendations

1) Improve Coverage of Compliance Risks with Low Level of Assurance:

- Incorporate new compliance procedures into school audit program (e.g., coaching certifications).
- Expand coverage of areas to charter and non-public schools, early childhood grant requirements, and private grant requirements.

2) Improve Awareness and Communication with Affected Stakeholders:

- Enhance schools visits, consolidating audit and compliance reviews, to improve awareness of compliance risks leading to a reduction in instances of non-compliance.
- Enhance communication and training on appropriate policies and procedures to increase the associated knowledge base across responsible departments.

3) Establish the Risk & Compliance Committee led by IAC:

- Identify, evaluate, and drive mitigation of compliance risks and ensure appropriate guidance is provided to management, including updating relevant policies and procedures.
- Meet quarterly with stakeholders to evaluate compliance requirements, identify risk ownership, and coordinate mitigation strategies, as needed.
- Discuss the remediation of audit findings from internal and external sources.

External Entity Interactions

A key role of the Office of Internal Audit & Compliance is to help coordinate Chicago Public Schools audit and oversight activities with external entities. In this capacity, our objectives are to:

1) reduce any duplication of effort,

2) leverage existing work, whenever possible, and

3) help ensure findings identified by external entities are remediated in a timely manner.

Key interactions with external entities include:

- **Illinois State Board of Education (ISBE)** – Periodic meetings to discuss issues and concerns; discuss results of monitoring related to their oversight of local education agencies. Includes coordination with key department such as Grant Management

- **U.S. Department of Education** – Coordinated recent meetings with CPS departments as part of their audit of ISBE. Effectively, the "auditor was audited" and CPS was part of the audit sample.

- **External Auditor** – Involved in the single and financial audits, which are primarily coordinated by Finance. Provide updates on risk monitoring efforts and IAC activities; working with external auditor to place reliance on school audits performed by IAC to reduce external auditor time and CPS cost.

- **CPS Inspector General** – Monthly meetings since January 2016 and bi-weekly meetings since May 2016 to discuss accountability audits involving employees and indications of fraud identified during IAC activities. To date, IAC has referred 10 cases to the IG for investigation.

Prior Meeting Follow-up

Fixed Assets

- Finance has created a team responsible for leading an effort to enhance fixed asset processes.

- Monitoring will include periodic inventory or cycle counts, as well as improved processes and standards.

- We will leverage the Hayes Software Solution, which is an existing platform.

Quantification of Financial Impact of Audit Activities

- As reported at the prior Finance and Audit Committee meeting, the Office of Internal Audit & Compliance (IAC) will, when appropriate, quantify the financial or economic impact of audit activities.

- We have already achieved the following example results:

  - ✓ Decreases in food and travel spend totaling $1 million in less than one year.

  - ✓ School audit findings, including $12 million related to fixed assets, $1.2 million in improperly documented cash, and approximately 15,000 payroll hours including inadequate documentation.

  - ✓ Accountability audits related to employee misconduct with an aggregate economic impact of over $100,000, leading to past or pending disciplinary action for 23 individuals to date.

Finance Update

General

- Continuing to actively manage the 2017 Budget and cash flows, one third of the way into the fiscal year.

- To date, achieved $95 million of the $300 million budget savings target

- State committed $215 million for normal pension cost.

- Present a revised budget for Board approval incorporating labor agreement ratification, along with a supplemental budget for capital. Public hearings will be announced shortly.

- Piloting Shared Services program with 40 schools participating. The strategy is to centralize certain financial functions that will reduce school workload, increase efficiency, and improve financial controls.

- Identifying potential upside on Title I and Title II carryover from 2016 due to aggressive reimbursement efforts of our Grants Department.

Financings

Short Term Financings

- CPS has drawn $475 million on our Credit lines and has been approved for another $475 million. We expect the additional $475M will close by Friday.

Long Term Financing plan

- CPS is asking for Board authority for a $160 million financing to refund outstanding bonds and other obligations. The refunding is expected to generate $5M of FY17 debt service savings to the Board by lowering the rate on outstanding bonds and converting it to a fixed rate.

- CPS is also asking for board authority to issue the CIT bond deal for capital projects. We are seeking Board approval for up to $840 million in bond authorization although the actual deal size is still to be determined. The bonds have a dedicated repayment source and will have no impact on the operating budget.

- Projects funded from this transaction will be approved in a supplemental capital plan. Hearings on the supplemental capital plan will be announced shortly.

- Other refunding and reimbursement opportunities are under evaluation and depend on market conditions.

M/WBE Policies

Disparity Study

- Evidenced based study to determine if the goals for the M/WBE program are appropriate
- Economist Dr. David Blanchflower - More than ten years conducting studies for CPS and Sister Agencies
- M/WBE policies sunset December 31, 2016; recommendations will be presented at next Board Meeting

Annual Outreach Event – December 9, 2016 (tentative)

- Review FY17 Spending Plan with M/WBE attendees to improve exposure to contracting opportunities
- Increase CPS database of M/WBE's
- Highlight improved Business Diversity Website
- Develop outreach collaboration with Sister (City, CHA, CTA, CPD) and Assist (HACIA, Urban League, PUSH) Agencies
- Create forum to strengthen M/WBE's connection with Prime Vendors
- Include financial institutions on-site to discuss how to obtain working capital and bonding

B2GNow

- Comprehensive reporting system to manage stated M/WBE goals
- Current users include City, CTA, CHA, Chicago Park District
- Customized M/WBE Management Reports
- Robust monitoring and tracking process
- Accurate and independent payment confirmation by M/WBE vendors
- Outreach Marketing Tool
- System operational November 2016