

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee met on Tuesday, August 28, 2018 at 4:30 PM at the Cincinnati Public Schools Education Center in Conference Room 1-A.

### **Fiscal Year 2017 Financial Audit Report**

Kevin Vaughn, Plattenburg & Associates, updated the Committee on their audit of the District's financial statements for fiscal year 2018 that ended June 30, 2018. He informed the Committee about Plattenburg's audit of internal controls over financial reporting and compliance.

Mr. Vaughn also informed the group that Plattenburg is in their fourth year of the five-year contract with the District.

Mr. Vaughn updated the Committee on changes in the Government Accounting Standards Board Requirements (GASB 68); an amendment of GASB Statement No. 27. The changes improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Please click on this link for additional information about [GASB 68](#).

Lauren Roberts, Internal Auditor, brought the *Independence Verification Form* to the Committee's attention. The document is required to be fulfilled as outlined in the Audit Committee Charter. The form documents the external auditor's independence.

A copy of the document is available upon request in the Board office.

### **2018-19 Annual Internal Audit Plan**

Ms. Roberts informed the Committee that the purpose of the annual Internal Audit Plan (IAP) is to outline the activities and objectives of Cincinnati Public Schools' Internal Audit Department. In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), a risk-based methodology was utilized to identify areas for inclusion in the IAP.

The following outlines the activities and objectives of Internal Audit for 2018-19. The plan includes two engagements which align to the strategy and objectives of the District's senior leadership. The plan also includes the two areas identified through the risk assessment, as well as other critical components for the development and maintenance of the Internal Audit function.

#### **Engagements Supporting District Strategy and Objectives**

- Virtual High School and Cincinnati Digital Academy Attendance

Virtual High School is an alternative learning environment for grades 9-12 which uses an individualized, computer-assisted web curriculum to over 300 students. It offers scheduling flexibility and educates students to CPS' academic standards outside the traditional classroom.

Cincinnati Digital Academy, a subset of Virtual High School, is a K-12 online school offering over 300 students a rigorous and college-preparatory curriculum delivered to any Internet-connected

computer with 24-hour access to online courses. Class schedules are structured around individual needs.

As online school attendance reporting has been a significant topic in the media, Cincinnati Public Schools wants to ensure the District is maintaining a high level of compliance and proper internal controls. Internal Audit will partner with District leadership, including the Superintendent and General Counsel, to determine the objectives and scope of this Internal Audit project.

- Strategic Project Review and Verification

Strategic improvement projects are a top priority of the Cincinnati Public Schools' Performance Leadership Team (PLT) for the 2018-19 school year. The PLT consists of the following key members: Superintendent, Treasurer, Deputy Superintendent, Assistant Superintendents, Chief Information Officer, Chief Operating Officer, General Counsel, Chief Strategic Communications Engagement Officer, and Director of Human Resources.

The PLT is participating in Improvement Science Education through Cincinnati Children's Hospital which focuses on quality improvement and change management. Through this training, each member of the PLT selects a strategic project in which they will define a process, identify areas in need of improvement, apply various solutions, and track data to identify the most effective solutions in which to implement more broadly.

Internal Audit will support the strategic project initiative by reviewing the PLT's resulting process documentation and data to independently determine if the project objectives have been met and if there are additional opportunities for improvement.

#### Engagements Resulting from Risk Assessment

- Technology Security Assessment

The Internal Auditor and the Information Technology Management (ITM) department will partner in the execution of a network security assessment. The objective for the 2018-19 audit year is to select a third-party vendor through a request for proposal (RFP). By taking unified approach in selecting a third party to perform this assessment, requirements from both departments will be fulfilled.

- Transportation Expenditures

The Transportation Department coordinates service to 124 schools, including charter and private, within the Cincinnati Public Schools' 91-square-mile district boundary. On a daily basis, 350 yellow school buses cover 1,275 routes, carrying approximately 12,000 elementary students, and Metro buses (public transportation on special routes) carry 11,550 high school students daily. To perform these transportation services, Cincinnati Public Schools incurs approximately \$40 million in transportation expenses each year.

Internal Audit will address the following objectives through the course of this engagement for school-to-home transportation services:

- Transportation expenditure processes are documented and contain adequate internal controls.
- The following financial aspects are properly and reasonably executed: budget, purchase orders, invoices, payments and journal entries.
- The District processes are in compliance with Ohio purchasing laws and Board Policies.

#### Internal Audit Development and Advancement

- Prior Engagement Follow-Up and Annual Reporting

The Internal Auditor continued to monitor the recommendations made over the 2016-17 and 2017-18 audit cycles and reported upon this through the Annual Internal Audit Report released June 26, 2018. Providing a summary of the status of the recommendations will help guide the

Administration, Audit Committee, and Board of Education as to which areas may need additional attention or resources. Through periodic follow up during the remaining portion of the 2018-19 audit cycle, Internal Audit can continue to monitor the progress towards the implementation of the recommendations.

- PwC Skills for Society Project Coordination

PwC recently launched a professional skilled volunteering program which connects a PwC team with a not-for-profit and governmental entity. Cincinnati Public Schools has the opportunity to participate in this program and receive donated professional services.

Internal Audit will serve as the project coordinator and assist management in completing the project application(s). As of August 2018, the brainstorming phase has been completed and the project applications will be submitted shortly. Internal Audit will ensure the results of the projects are communicated to the Audit Committee upon completion.

- Recruiting and Internal Audit Department Development

The Internal Auditor will coordinate and attend campus recruiting events with the objective of hiring an Internal Audit Intern. The Internal Auditor will organize recruiting events at the University of Cincinnati, Miami University, and Northern Kentucky University with the support of the Human Resources department. The Internal Auditor will also foster a partnership between the CPS Internal Audit function and Miami University's Accountancy Department by serving as a member of the Miami University Accountancy Advisory Group (AAG).

In order to align with peer districts within the Council of the Great City Schools and governmental organizations within the Association of Local Government Auditors, it is recommended that the Internal Audit Department head be formally named a Director. The Internal Auditor position within CPS is currently categorized as a Director within the Human Resources system; however, the title has not been formalized. In an effort to prepare the Internal Audit Department for expansion, a clarification in the Internal Auditor's title to "Director of Internal Audit" would allow for an organizational structure to be developed with clear lines of reporting.

- Professional Development

As required by the Accountancy Board of Ohio, 120 continuing professional education (CPE) credits must be earned over a three-year period to maintain the Certified Public Accountant; including:

- A minimum of 20 credits are required per year.
- A minimum of 24 credits (of the 120) must be related to accounting or auditing.

The Internal Auditor will also attend the Association of Local Government Auditors Annual Conference to ensure the most relevant and specialized training is received.

The Committee had extensive conversation about Transportation. The group discussed concerns about routing, on-time drop-off, pick-up, contracts, and the Board's relationship with First Student and Metro.

The Audit Committee agreed with all contents of Ms. Roberts' 2018-19 Internal Audit Plan and formally recommended the Board's approval (via approval of these minutes) at the September 17, 2018 Regular Board Business meeting.

A copy of the Internal Audit Plan is available upon request in the Board office.

Internal Auditor Roberts reviewed her following goals for the 2018-19 evaluation year with the Committee:



# Memo

**To:** Cincinnati Public Schools Audit Committee

**From:** Lauren Roberts, Internal Auditor

**Subject:** Internal Auditor 2018-19 Goals

**Date:** August 28, 2018

The following table outlines the goals of the Internal Auditor for the 2018-19 year\*

Goal	Description
<b>Risk Assessment &amp; Internal Audit Plan Development</b>	<ul style="list-style-type: none"> <li>• Develop an annual Internal Audit Plan (IAP) using full risk assessment methodology, incorporating projects to support the district’s strategy and objectives</li> </ul>
<b>Engagements &amp; Reporting</b>	<ul style="list-style-type: none"> <li>• Complete the following engagements from the 2018-19 Internal Audit Plan:               <ul style="list-style-type: none"> <li>○ Virtual High School &amp; Cincinnati Digital Academy Attendance</li> <li>○ Strategic Project Review &amp; Verification</li> <li>○ Transportation Expenditures</li> <li>○ Technology Security Assessment</li> </ul> </li> <li>• Communicate engagement progress via Internal Audit Status Reports to the Audit Committee on a bimonthly basis.</li> </ul>
<b>Internal Audit Development &amp; Advancement</b>	<ul style="list-style-type: none"> <li>• Complete the following activities as summarized in the 2018-19 Internal Audit Plan:               <ul style="list-style-type: none"> <li>○ PwC Skills for Society Project Coordination</li> <li>○ Internal Audit Engagement Follow-Up &amp; Annual Reporting</li> <li>○ Professional Development</li> <li>○ Recruiting &amp; Internal Audit Department Development</li> </ul> </li> </ul>

*\*The 2018-19 year begins 5/1/2018 and concludes 4/30/2019; however, in accordance with CPS evaluation guidelines goals are not formally set until 8/28/2018.*

**ACTION:** The Audit Committee agreed with the Internal Auditor 2018-19 Goals and formally recommended the Audit Committee submit them, via these minutes, for approval by the full Board at the September 17, 2018 Regular Board Business meeting.

A copy of her full report is available upon request in the Board office.

## Charter Funding Update

Connie Solono, Director of Performance and Accountability, reported and discussed the following charter school funding with the Committee. She updated the Committee on an estimated amount of aid that was not released to charter schools.

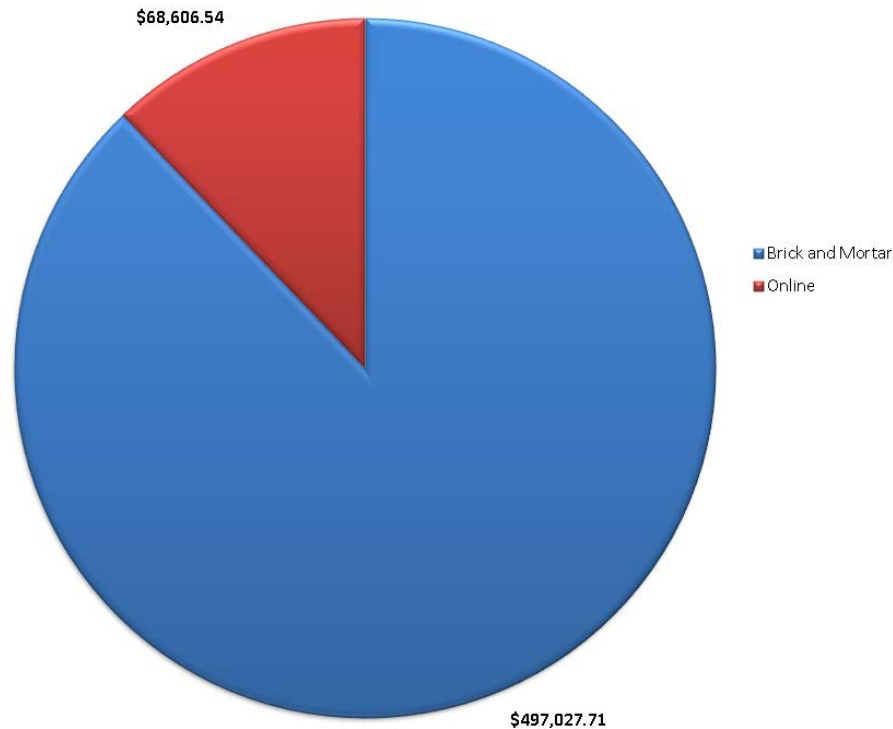
### Loss Prevention Estimate

- Based on limited student information provided by the Ohio Department of Education (ODE).
- Used one FTE (full-time equivalent) for records with an enrollment date but no withdrawal date.
- Additional aid could not be estimated for the following:
  - Disadvantagement
  - Limited English Proficiency
  - Disability
  - Career Technical Education
  - Transportation
  - Bonuses associated with graduation or Third Grade Reading Guarantee

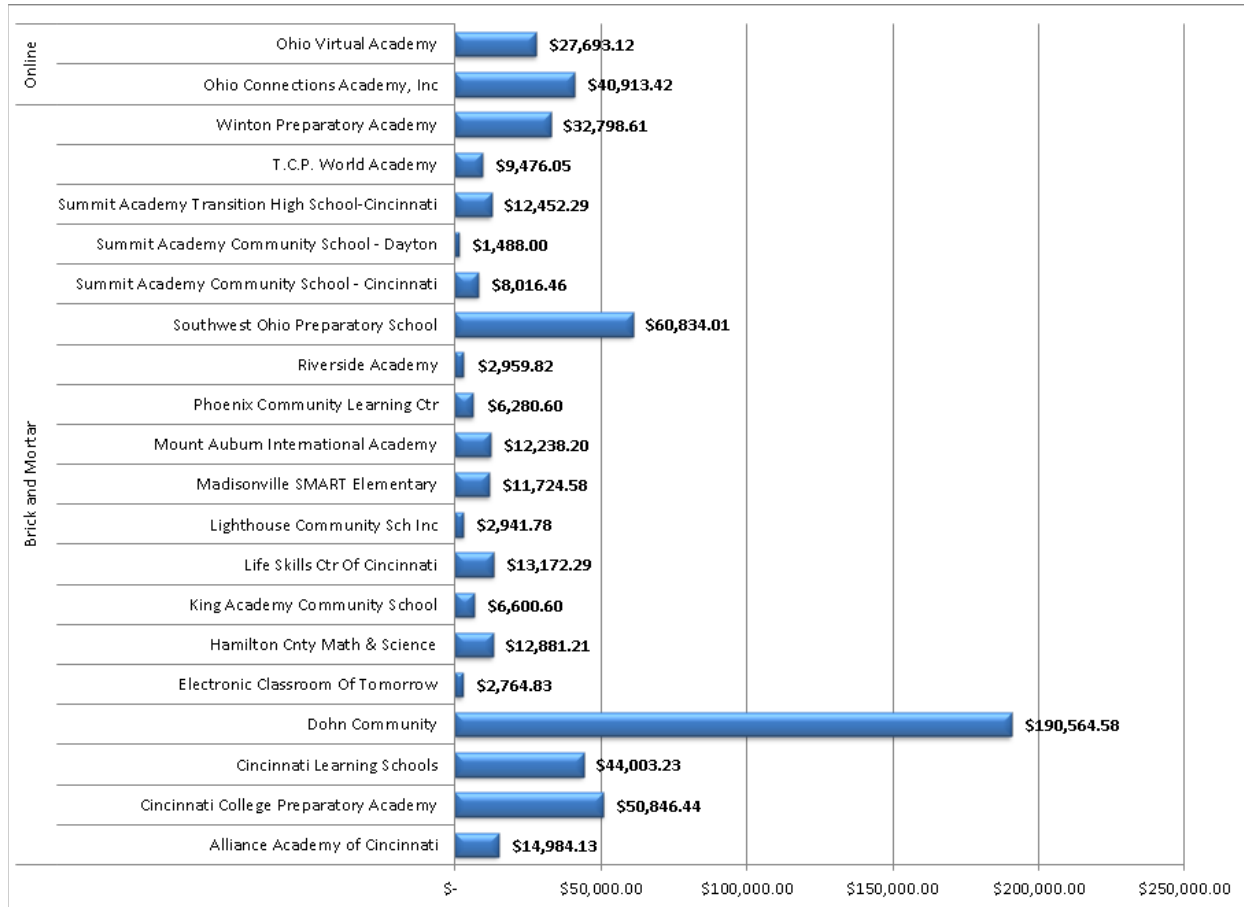
### Estimated Aid Not Released to Charter Schools \$565,634.25

- Based on 135 records challenged
- Includes both online and brick-and-mortar charter schools
- Includes students in grades K-12
- Figures generated through ODE's simulation calculators

### Breakdown by Type of Charter School



**Estimated Minimum Loss to Charter Schools for FY 2018**



**Next Steps**

Ms. Solano reported that she met with CPS’ lobbyist for him to reach out to the Ohio Department of Education’s attorney, who is writing regulations for House Bill 21. The Bill requires charter schools, instead of school districts, to verify charter school student residency and enrollment. The District will have a conference call with the attorney in order to share the District’s concerns about residency and enrollment.

**Community Reinvestment Area (CRA) Process Review**

Nathan Tyahur, Accountant Receivable, provided the Committee with an overview of the below CRA process.

**Key Components/Controls of the Current Process**

- Agreements are received from the City.
- Agreements are Finance Committee and Board of Education approved.
- CPS houses their own CRA Database housing all possible information including agreements, dates, billing, collections, etc.
- All invoices are entered in CPS financial software (B+) where aging and collections are tracked.
- Auditor's website is (manually) checked monthly for any abatement value/note changes to bill a prior pending agreement or re-bill a recently increased/decreased abatement value parcel.

Inefficiencies/Restrictions/Limited Information

- The City must notify CPS of an agreement (CPS otherwise wouldn't be aware of the agreement and know to invoice for it).
- Manually checking the Auditor's website monthly for abatement value/note changes (CPS doesn't receive notification of changes).
- CPS receives regular property tax revenue with standard payments from the county/city. No help from CPS is needed. However, with an abatement the property tax revenue is discounted, and now CPS must use staff and resources to complete the payment process. No abatement revenue would be received otherwise.

Next Steps

- RPA (Bot) in process of being created to help with monthly review changes of Hamilton County Auditor's website. To help with efficiencies of A/R job duties.
- Process being reviewed to invoice annually in February of each year versus the current bi-annual process of February and May. To help with efficiencies of financial statements and forecasting.

The following supporting documents for the overview are available upon request and located in the Board office.

- CRA Process Flowchart
- CPS CRA Overview Instructions
- Detailed A/R Department CRA Instructions

**Other Business**

Conflict of Interest Forms

In accordance with the Audit Committee Charter and Board Policy 6835, Ms. Roberts provided the Audit Committee with the annual *Conflict of Interest and Related Party Disclosure Form* which should be completed by each member of the Audit Committee and returned to her as soon as possible.

The meeting adjourned at 6:00 PM

**Audit Committee**

- Brian Ross, Chair
- Jennifer Couser, *absent*
- Jim Crosset, CLM
- Christine Fisher
- David Foote, CPA
- Thomas D. Heldman, CPA
- Daniel E. Holthaus, CPA
- Carol Lawrence, *absent*
- Jeffrey L. Orschell
- Clarice Warner, *absent*
- Melanie Bates (Finance Committee)
- Ericka Copeland-Dansby (Finance Committee), *absent*
- Ryan Messer (Finance Committee)

**Staff Liaisons**

- Jennifer Wagner, CFO/Treasurer
- Lauren Roberts, CPA, Internal Auditor