



January 6

2020

REPORT OF THE AUDIT COMMITTEE

The Audit Committee met on Thursday, December 17, at 4:30 PM via the Blue Jeans Video Conferencing Tool.

ATTENDEES

Audit Committee Members

Chatika Britton; Jim Crosset; David Foote; Elizabeth Gutridge; Tim Heldman; Daniel E. Holthaus; Carol Mitchell-Lawrence; Clarice Warner

Administration

Jennifer Wagner, CFO/Treasurer; Lauren Roberts, Director of Internal Audit; Kevin Ashley, Director of Financial Reporting and Transparency; Paul McDole, Director of Human Resources; Keith Grace, Human Resources Benefits Manager; Isaac Karn, Internal Audit Staff

Finance Committee Members

Melanie Bates, Eve Bolton

Welcome

Tim Heldman, Audit Committee Chairperson, welcomed everyone to the meeting and stated that it's imperative that the Audit Committee develop a better understanding of CPS' financial reporting.

The Committee will review the District's Management Discussion Analysis report for Fiscal Year June 30, 2020. While going through review, the Committee will consider "best practices" and "budget priorities."

Benefits Audit Recommendations Update

Lauren Roberts, Director of Internal Audit, updated the Committee on the current status of the Benefits Audit recommendations and expressed the new idea to hire a third-party firm to assist the Benefits Department in process improvements. The recommendations are from a benefits audit that was reported in February 2020.

Ms. Roberts reported that she and Internal Audit Staff, Isaac Karn, identified third-party firms that could assist the District's benefits team.

Ms. Roberts stated that six third-party firms were identified and then narrowed down to four that offered services specific to the District's need. The four firms were interviewed by Mr. McDole, Ms. Roberts and Mr. Karn to determine how each organization would address the various process improvements.

Mr. McDole reiterated the need for the firm, as well as a need for additional resources. He advised that Julie Ayers, a CPS retired elementary school principal, was brought back into the District and trained to assist in the improvement process of Human Resources. Ms. Ayers also assisted in the Management Team's auditing of sample sizes and reviewing the work of the Benefits Team.

ACTION: The Audit Committee agreed with Mr. McDole and Ms. Robert's recommendation of a third-party firm and will report the selected firm at an Audit Committee meeting in year 2021.

Audit Status Report

Ms. Roberts provided an update regarding the status of the following Internal Audit projects from the Fiscal Year 2021 Internal Audit Plan.

Ms. Roberts reported that agility remains a top priority for the Internal Audit Department to ensure focus is placed on the most important areas as they develop. As such, please refer to updated Annual Internal Audit Plan which reflects the developments in the IA Department's work for the 2021 fiscal year. The following section provides a brief status update for each project of the Internal Audit Plan.

Advisory

COVID-19 School Site Walkthroughs – Complete

As previously reported, the Internal Audit (IA) team worked with District leadership to create and complete safety walkthroughs for all 65 CPS buildings in August, analyzed trends in the safety data, and performed a second round of school visits in October.

Grants Financial Management and Internal Controls – In progress

Internal Audit completed the preliminary project planning meetings with the Grants Department. The Grants Department is currently developing a project plan and will assign the review of internal controls to IA. More information regarding the timing of this work will be shared once the Grants team's project plan is available.

District Strategic Plan Support – In progress

Licensure Verification Process:

IA has completed testing procedures and is partnering with management to develop process interventions and recommendations which will be communicated to District leadership.

Contractor vs Employee Determination:

The IA Department is serving in an advisory capacity on a team that is focused on addressing and remediating the items noted in the Management Letter relating to the proper classification of contractors and employees.

Accounts Payable:

Internal Audit recently received a request from the Treasurer's Office to assist in the review of the Accounts Payables processes. Initial planning meetings have been scheduled to determine the goals and scope of this work.

Assurance

Continuous Auditing – In progress

IA is continuing work with BDO to develop a data analytics and continuous auditing program. The team is working on developing the initial analytics focused on payroll. Once developed, the analytics will be shared with management to gain feedback and adjust the analytics as necessary to ensure they are providing valuable insights. The Internal Audit Department also joined the District's "Data and Analytics Team" which meets biweekly for analytics training and software tutorials.

Follow-Up

Online Learning Compliance – Complete

While a full scale follow-up audit is not necessary, IA reviewed the distance learning plans and related ODE requirements. Management reported a summary of their processes to the Audit Committee at the October 2020 meeting to conclude this project.

Benefits – *In Progress*

The Internal Audit team is assisting the HR Department in identifying a third-party firm to help with the implementation of the Benefit audit recommendations. IA interviewed six consulting firms, narrowed the pool down to four well-suited providers, organized the collection of proposals, and held meetings with the providers and the HR Director. IA has provided input regarding the pros and cons of each vendor, and is supporting management as they make their final selection. The third-party firm will likely begin the work at the end of January 2021, and the IA team will ensure a successful transfer of all relevant knowledge, workpapers and findings to the new team, and will continue providing support as needed.

Potential Carryover Projects

Transportation Follow-Up – *In progress*

Internal Audit is performing limited scope follow-up audit testing procedures by focusing the testing on one vendor. The Transportation Department recently implemented a new pricing structure with this vendor, so Internal Audit will not only evaluate the progress from the original findings, but also provide feedback regarding the cost effectiveness of the new pricing model.

Payroll Follow-Up – *Incorporated into Continuous Auditing*

Rather than performing a full scale follow-up audit, Internal Audit has selected Payroll as the focus of the first data analytics projects, thus combining the two initiatives

Internal Audit Development and Advancement

Documentation of Internal Audit Procedures – *In progress*

In partnership with BDO, Internal Audit has completed a draft of the procedural manual and will continue to expand the documentation of the specific requirements set forth in (IIA) professional auditing standards.

Departmental Staffing Expansion – *On hold*

Hiring for the Internal Audit Supervisor position remains paused and IA is awaiting approval to reopen the position.

Professional Development – *Ongoing*

IA team continues to keep up with virtual trainings and webinars while most in-person trainings are on hold.

Status of External Audits and Reviews

The purpose of this section is to share with the Audit Committee each of the external audit and review engagements that have come to the attention of the Internal Audit Department since the last Audit Committee meeting. Management shares the status of external engagements with Internal Audit to ensure accurate and timely communication to the Audit Committee.

The following audits are in progress:

- Ohio Auditor of State (OAS):
 - Financial Audit; Period of 7/1/2019 – 6/30/2020
 - National Webcheck Agency Audit; Period of 7/1/2019 – 6/30/2020

- Ohio Department of Education (ODE):
 - Comprehensive Monitoring Continuous Improvement Plan, Project Cash Request, and Final Expenditure Report Review; Period of 7/1/2019 – 6/30/2020 s
 - Review of selected expenditures for the FY20 Consolidated ESA grants for compliance with federal regulations.

The following audits/reviews have been completed since the October 21, 2020 status report:

- Ohio Department of Education (ODE):
 - Head Start Monitoring; Period of 7/1/2019 – 6/30/2020
 - Result: Compliant
 - Reviewed programmatic and fiscal requirements for compliance

Ms. Roberts updated the Committee on the letter that was sent to Vera Brooks by the Community Action Agency regarding the Agency’s monitoring of the Head Start Program, stating the following:

“The Grantee conducted a fiscal monitoring of your program on November 4, 2020. We have reviewed your fiscal processes and procedures in accordance with the Head Start Program Performance Standards and other Federal regulations. Based on the review your program was in compliance and no further action is needed.”

Mid-Year Evaluation: Lauren Roberts, Director, Internal Audit

Audit Committee Chairperson, Mr. Heldman, reviewed the Mid-Year Evaluation memo from Ms. Roberts.

As stated in the memo, the following three goals are all “on-target:”

- Internal Audit Strategic Plan
- Planning, Engagement Execution and Reporting
- Internal Audit Development and Advancement

Chairman Heldman advised Audit Committee members to provide him with any comments regarding her Mid-Year review by December 22, 2020. The final page of the evaluation memo contains an evaluation form which will be completed by Audit Committee Chair, Tim Heldman, and the results communicated to Ms. Roberts as well as emailed directly to Paul McDole, Director of Human Resources.

CAFR and External Audit Updates

Kevin Ashley, Director of Financial Reporting and Transparency, updated the Committee on the District’s Comprehensive Annual Financial Report (CAFR) for Fiscal Year June 30, 2020.

The document is an analysis of the Cincinnati City School District’s (the District) financial performance and provides an overall review of the District’s financial activities/transactions for the fiscal year that ended June 30, 2020 and asks the question, “How did we do financially during 2020?”

The annual report consists of a series of financial statements and notes to those statements. The document contains a large number of funds used by the District to provide programs and activities.

Financial Highlights

Key financial highlights for 2020 are as follows:

- Net position of governmental activities decreased \$106,171,707 which represents a 48 percent decrease from 2019. Most of the decrease in net position relates to the change in net pension liability and other post employments benefits liability.
- General revenues accounted for \$557,409,932 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$134,082,346 or 19 percent of total revenues of \$691,492,278.
- The District had \$797,663,985 in expenses related to governmental activities; \$134,082,346 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$557,409,932 were also used to provide for these programs.

The Committee had extensive discussion about the document and Mr. Heldman expressed concern about the difficulty of it not being user friendly in order to determine the status of the District’s finances and what key points to review.

A copy of the CAFR report is available upon request, in the Board office.

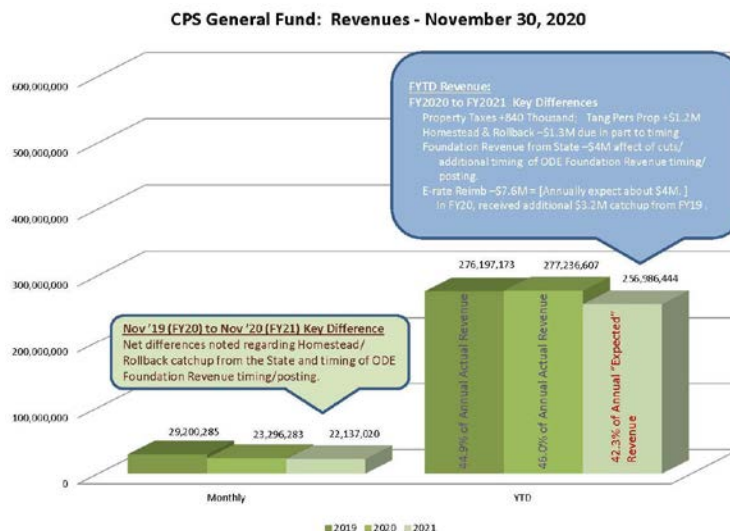
ACTION: Treasurer Wagner and Mr. Ashley will provide the Committee with a summary of the report and information on how to interpret the document at an Audit Committee meeting in Year 2021.

October and November Financial Updates

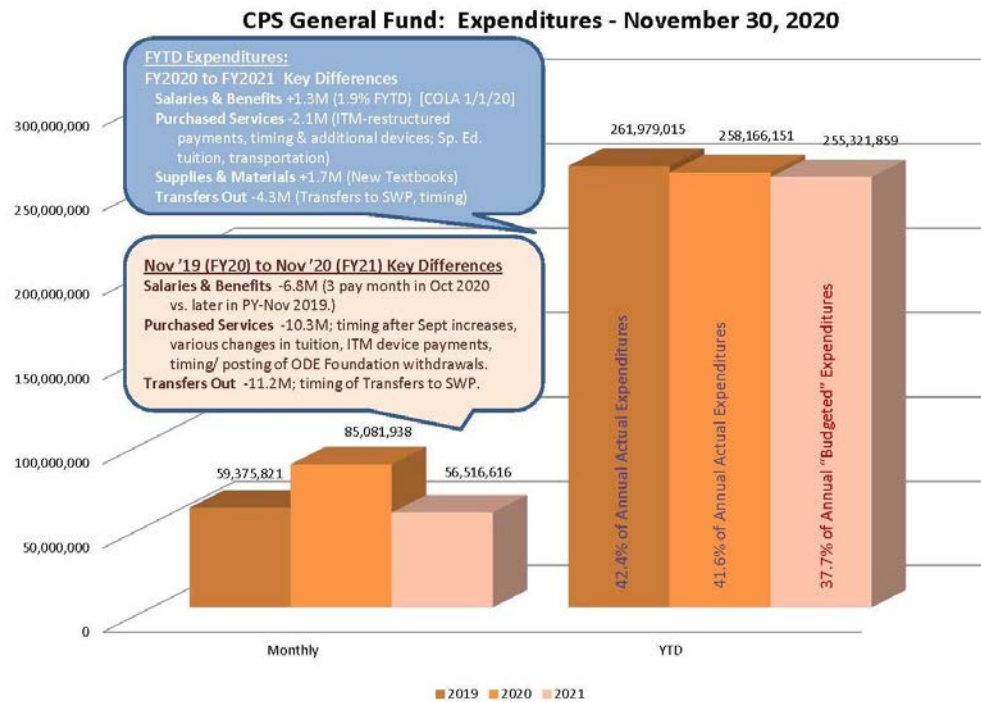
Kevin Ashley, Director of Financial Reporting, updated the Committee on the following November 2020 (FY21) Financial Reports.

The below slides summarize the financial activity of the General Fund, Federal and State Grant Funds and CPS Preschool Tuition Assistance and CPS Preschool Expansion.

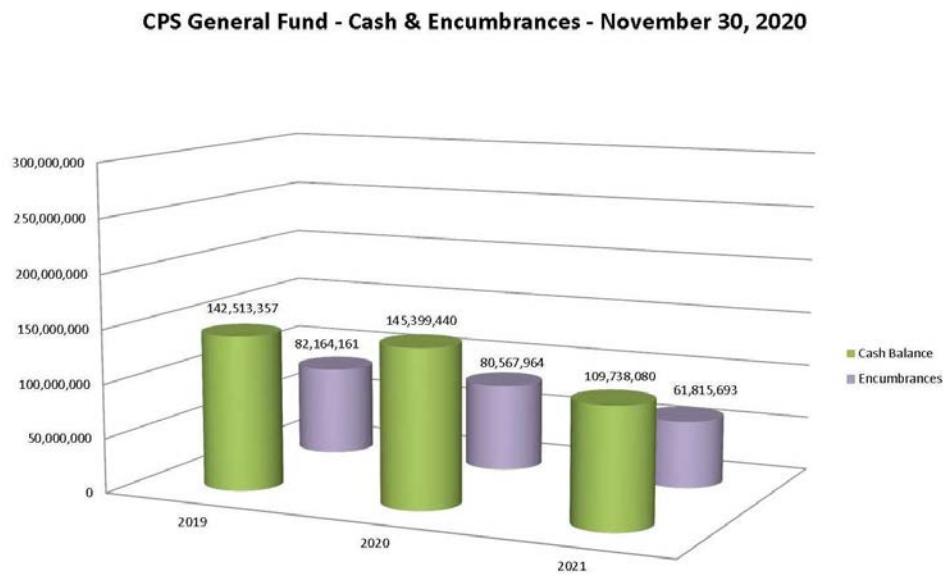
Revenue – Fiscal- year-to-date revenues are down over last year. Increases relate to property taxes. Decreases relate to Foundation Revenue from the State including cuts and additional timing of ODE Foundation Revenue delayed timing/posting. Also, Homestead and Rollback and E-rate reimbursements are lower than at this point last year.



Expenditures – Fiscal-year-to-date expenditures are down slightly over last year. Increases relate to higher Salary and Benefits expenses, mainly attributed to the District’s Cost of Living Increase as of 1/1/20 and the related effect on FY21 for the full year and higher Supplies and Materials expense, including new textbook purchases. Decreases relate to Transfers Out to the School Wide Pool and timing issues as well as lower Purchased Services expenses for items related to ITM expenditures (and timing), tuition expenses and transportation.



Cash Balance and Encumbrances – Balances as of the end of November are lower based on the above factors and the fact that cash balances at the beginning of the fiscal year were lower than at the same point last year.



Cash Balance decrease results from decreased Cash Balance at 7/1/20 vs. 7/1/19, and:
Decreased FYTD Revenues for Homestead & Rollback down due in part to timing, Foundation Revenue from State due to cuts/additional timing of ODE Foundation Revenue timing/posting & less E-rate Reimbursement for FY21, & Decreased FYTD Expenditures primarily related to Transfers Out to SWP.

State and Federal Grants – As noted previously, additional funds related to the CARES Act, Fund 507, increased Title I funding and Student Wellness and Success Funds being received later last year at a lower amount FYTD. FY21 expenditures are higher, due in part, to additional Student Wellness and Success Funds and new CARES Act Funds.

State & Federal Grants

November 2020 (FY21)

	State	Federal	Combined FY21 Nov 2020	PRIOR FY20 Nov 2019
Beg Cash, July 1	\$11,162,779	\$14,424,711	\$25,587,490	\$7,425,983
FYTD Receipts	11,103,170	15,781,984	26,885,154	19,497,476
FYTD Expenditures	8,618,094	33,477,418	42,095,512	25,783,860
Current Encumbrances	5,020,545	7,465,347	12,485,892	6,152,916
Current Ending Cash	\$8,627,310	(\$10,736,070)	(\$2,108,760)	(\$5,013,317)

Note: FY21 Beginning Balance includes additional funds related to CARES Act funds allocated to Fund 507; increased Title I Funds (Federal) and Student Wellness & Success Funds (State) received later in the Prior Year. FY21 Receipts related to Reimbursements are currently delayed. FY21 Expenditures and Encumbrances are higher, due in part, to Student Wellness & Success Funds & CARES Act Funds.

CPS Tuition Assistance Summary – This schedule reflects the number of students and days enrolled for students eligible for tuition assistance. The rate used to make these computations is subject to revision at this point. In comparison to last year, the number of students and days enrolled for eligible students is lower as a result of the current environment.

CPS Tuition Assistance Summary

Draft-12/17/20

	Income	FT	HT	Total	Days	* Tuition Assist \$
NOV	<200 %	495	33	528	7,149	\$306,059.38
	200-250	39	3	42	558	\$21,783.79
	Sub-Total	534	36	570	7,707	* \$327,843.17
FY21	FYTD:			570	29,701	* \$1,263,402.60
FY20	FYTD:			821	48,381	\$2,094,317.26

Note: The data in the chart above represents only the CPS preschool students who participate in the Preschool Expansion Tuition Assistance program. CPS currently has enrolled 1,317 preschool students.

* - Subject to revision.

CPS Preschool Expansion – This schedule summarizes the revenues and expenditures allocated to the preschool program for CPS. Revenues are up slightly from last year while expenditures are down, primarily related to tuition assistance computations and the timing of payments to United Way.

CPS Preschool Expansion

Draft-12/17/20

	* Budget FY21	NOV FYTD FY21	NOV FYTD FY20
Revenues:	\$ 15,592,128	\$ 7,406,425	\$7,385,305
Expenses:			
CPS Tuition Assistance	5,100,000	* 1,263,403	2,094,317
Payments to United Way	8,887,311	3,256,058	1,586,155
Workforce Development	166,959	42,578	26,662
Expansion Budget	0	0	98,921
Special Education Support	689,276	295,082	251,598
Administrative Support	155,000	67,938	58,330
Other Professional Services	76,080	6,200	0
Supplies and Materials	122,460	19,233	0
Buildings-Capital Outlay	<u>528,287</u>	<u>170,471</u>	<u>0</u>
Total	<u>\$15,725,373</u>	<u>\$5,120,963</u>	<u>\$4,115,983</u>
Net Income	(\$133,245)	\$2,285,462	\$3,269,322

* - Subject to revision.

Certificates of Participation (COPS) 2018 Issue – Debt Proceeds – Spend Down

This is being provided as a monitoring tool related to the September, 2021 deadline for spending down the remaining debt proceeds. The outstanding encumbrances are down to \$195,149.41 and an additional \$20,109.95 is uncommitted at this point.

2018 Certificates of Participation (COPS) Debt Issuance
Spend Down of Proceeds - Status

Spend Down Deadline = 09/27/21

As of November 30, 2020			Through Nov 30, 2020	As of Nov 30, 2020	Total Expenditures Plus O/S Enc	Unencumbered/ Remaining Balance	
Fund-SCC	Building Improvement Project	Object Description	All Years Total Expenditures	Current Outstanding Encumbrances			
003-1321C	Mercy	Other Prof Tech Services	\$352,449.78	\$349,984.28	\$0.00	\$2,465.50	
		Buildings	10,955,432.49	10,838,028.52	118,149.59	(745.62)	
		Equipment	1,156,154.65	1,156,154.65	0.00	0.00	
			<u>12,464,036.92</u>	<u>12,344,167.45</u>	<u>118,149.59</u>	<u>12,462,317.04</u>	<u>1,719.88</u>
003-1322C	CANS	Other Prof Tech Services	172,578.49	158,812.07	12,022.88	1,743.54	
		Buildings	4,504,631.68	4,457,693.59	42,574.93	4,363.16	
		Improvements (Non Bldg)	108,687.47	96,404.10	0.00	12,283.37	
		Equipment	32,258.36	32,258.36	0.00	0.00	
	<u>4,818,156.00</u>	<u>4,745,168.12</u>	<u>54,597.81</u>	<u>4,799,765.93</u>	<u>18,390.07</u>		
003-1323C	Carthage/LEAP	Other Prof Tech Services	34,250.00	34,250.00	0.00	0.00	
		Buildings	1,985,750.00	1,965,048.12	20,701.88 *	0.00	
			<u>2,020,000.00</u>	<u>1,999,298.12</u>	<u>20,701.88</u>	<u>2,020,000.00</u>	<u>0.00</u>
003-1324C	North Fairmount	Other Prof Tech Services	34,250.00	32,549.87	1,700.13	0.00	
		Buildings	1,985,750.00	1,985,750.00	0.00 *	0.00	
			<u>2,020,000.00</u>	<u>2,018,299.87</u>	<u>1,700.13</u>	<u>2,020,000.00</u>	<u>0.00</u>
	Totals		\$21,322,192.92	\$21,106,933.56	\$195,149.41	\$21,302,082.97	\$20,109.95

Footnote:

* - Contracts related to these Improvement projects exceed available COPS Proceed Funds and the remaining contract expenses are encumbered in the General Fund.

Best Practices in Budget Development and Suggested FY2022 District Budget Priorities

Mr. Heldman recommended using a standard financial statement that includes the following variables.

- Assets
- Liabilities
- Revenues
- Expenses
- Gains
- Losses
- Investments by owners
- Distributions to owners; and
- Comprehensive income

Committee member Holthaus reported that the Audit Committee is in an advisory role and [Board Policy 6835 – Audit Committee Charter](#) prevents the Committee from taking responsibility for financial audits. The policy states that their role is to review financial statements. He also agreed that additional information about how to read the CAFR would benefit the Committee.

Chairperson Heldman expressed the need for the Audit Committee to be in a position where they can attest to the District's finances if asked.

The Committee also agreed with receiving a high level overview of the finances in a regular financial format that they are accustomed to seeing in the private sector.

ACTION: Treasurer Wagner will present the finances to the Committee in their preferred format, at the next Audit Committee meeting in year 2021.

Other Business or District Updates

Finance Committee members Melanie Bates and Eve Bolton updated the Committee on the Superintendent's Community Health/Safety Planning Report that she presented at the Board's December 16, 2020, Regular Business Meeting. The report will assist the Administration in determining when to send students back into the classroom.

The broadcast and report from the meeting can be viewed on the following link located on the CPS website: <https://www.cps-k12.org/about-cps/board-of-education/cps-boe-meeting-broadcasts>

Their update included information on the lack of staff, staff illness, student enrollment protocols for COVID-19, and reduction of quarantine time.

Audit Committee member Clarice Warner inquired about the number of seniors that may not be in school.

Ms. Bolton reported that the Administration is tracking students who are close to graduating. Treasurer Wagner reported that approximately over 92 seniors are projected to graduate.

ACTION: Audit Committee member Jim Crosset requested to hear more details about the transportation follow-up audit contained in the audit status report.

ACTION: Ms. Roberts will work with Transportation Director Loren Johnson in preparing a transportation presentation at a future Audit Committee meeting.

The meeting Adjourned at 6:09 PM.

Audit Committee

Tim Heldman, Chair
Daniel E. Holthaus, Vice-Chair
Chatika Britton
Jennifer Couser, *absent*
Jim Crosset
Christine Fisher, *absent*
David Foote
Elizabeth Gutridge
Carol Mitchell-Lawrence
Clarice Warner
Eve Bolton (Finance Committee, Chair)
Melanie Bates (Finance Committee)
Ben Lindy (Finance Committee), *absent*

Staff Liaisons

Jennifer Wagner, CFO/Treasurer
Lauren Roberts, CPA, CFE, Director of Internal Audit