

REPORT OF THE AUDIT COMMITTEE

The Audit Committee met on Tuesday, April 24, 2018 at 4:30 PM at the Cincinnati Public Schools Education Center in Conference Room 1-A.

Report on City of Cincinnati Approved Abatements

Donald J. Mooney, Attorney

Mr. Mooney informed the Committee about the City of Cincinnati's July 2, 1999 Agreement with the Cincinnati Board of Education. Pursuant to Ohio Revised Code Section 5709.82, commencing in the year 2000 and for nineteen years thereafter, the City agreed to provide annual compensation to the Board in the amount of \$5 million.

He reported that the goal is to determine how the City is managing abatements that are being granted to new developers/developments within the City.

Mr. Mooney also updated the group on the following **commercial** abatements (some may have expired; found properties that may not have been signed and payments never made; Treasurer billed for the 287 abatements), and **residential** abatements, which are the City's estimates of the abated values. (Per Mr. Mooney, in theory, CPS lost \$3.6 million in tax dollars. Brittany Marks, Director of Financial Reporting and Transparency, informed the Committee that the District does not have residential CRAs (Community Reinvestment Act).

Mr. Mooney informed the Committee that he was not able to verify if any of the 1,342 residential properties are paying the 25 percent.

He recommended that the Board have discussions about the Agreement with the City, as it comes up for renewal. He also reported that information is needed for TIF (Tax Increment Financing) properties, as they fall into a separate category. In lieu of paying real estate taxes, the money goes to a special fund that the City applies to making improvements in the neighborhood.

He informed the Committee that there are TIF projects valued by the City for more than \$260 million, which is potential for reduced real estate collections.

The spreadsheet is also a comparison of what the District has in its books as compared to what the City has in their books. A price calculation would require going through the Hamilton County Auditor's records, as they may value the improvements differently than what the City did when they created the abatements.

Treasurer Wagner informed the Committee that the City provided her with 14,000 parcels that she is reconciling and analyzing them in preparation for negotiations.

ACTION: Finance Committee Chair Messer informed the group that Vice Mayor Mann will be reporting back to him as to why the City is no longer under agreement to pay for crossing

guards and nurses. Mr. Messer would also like to know the process of how the City tracks the abatements, and when the 10-year abatements end.

Mrs. Wagner reported that she is working to review the TIFs.

ACTION: Finance Committee member Bates inquired about a timeline for renegotiation conversations to take place. Treasurer Wagner reported that internal meetings have taken place and a team identified to help determine what needs to be renegotiated. She will be bringing in outside help and determining who the contacts will be from the City. She will provide a progress report and a strategy to the Committee. Mrs. Wagner's report will include information about possibly starting a process with the City about management of abatements. She will present her update at the June 26, 2018 Audit Committee meeting.

ACTION: Finance Committee Chair Messer recommended that discussions about renegotiating the tax rate take place at an ACES meeting.

**Community Reinvestment Areas
Commercial Abatements:**

Total:	287
Current Abated Value:	\$676,856,530
	X .35
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Total Assessed Value:	\$236,899,786
District's Share:	X .063244
<hr/>	
	\$14,982,480 / yr.
Less 25% payment in lieu of taxes: \$3,745,623	
Difference (potential lost CPS revenue): \$11,236,857.00	

Residential Abatements:

Total Granted Since 2015:	1342
Current Abated Value:	\$164,407,130
	X .35
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Total Assessed Value:	\$57,542,496
District's Share:	X .063244
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Lost CPS Tax Dollars	\$3,639,218.00

(Does not include about 250 residential projects approved but not yet completed.)

Data and Access Security Internal Audit Report

Lauren Roberts, Internal Auditor

Ms. Roberts updated the Committee on her *Internal Audit Plan Engagement Number 4 – Data an Access Security*. The report included updates in the following areas:

Internal Audit Assessment & Recommendations

- Information Technology Management Procedures – Overall
- Access Security Procedures & Data Security Procedures
- Technology Standards & Purchasing Procedures
- Technology Governance & Project Approval Procedures
- Human Resources/Treasurer’s Office Training Session

The following sections have been extracted from the full Internal Audit Report:

The report summarizes the current status of the new procedures released by the Information and Technology Management (ITM) department. Internal Audit evaluated the overall understanding of the procedures by District employees to determine the need for additional training resources. In addition, evidence was obtained to determine what actions had been taken by management to implement and comply with each new procedure. Internal Audit noted significant progress towards the training of District employees as well as the implementation of the procedures.

Background & Context

The ITM department developed new procedures to establish standards and guidelines for the Cincinnati Public Schools IT environment. The procedures (*Attachment 1*) were released to District employees at the beginning of the 2017-18 school year. There are approximately 5,500 employees with network accounts. The following procedures were designed to promote the confidentiality, integrity and availability of District computing resources.

- Access Security Procedures
- Data Security Procedures
- Technology Standards and Purchasing Procedures
- Technology Governance and Project Approval Procedures

The procedures address the following Board of Education policies:

- Board Policy 2416 – Student Privacy and Parental Access to Information
- Board Policy 6320 – Purchasing of Goods and Services
- Board Policy 7540 – Computer Technology and Networks
- Board Policy 7540.03 – Student Network and Internet Acceptable Use Policy
- Board Policy 7540.04 – Employee Network and Internet Acceptable Use Policy
- Board Policy 8330 – Student Records

Audit Objectives

The objective of the Internal Audit engagement is to partner with the ITM department to determine the employees’ overall understanding of the new procedures. The results of this engagement will be utilized by ITM to update the procedures and/or training materials to address any areas in need of improvement.

The second objective of the engagement is for Internal Audit and ITM to facilitate a training course specifically for the Human Resources and Treasurer’s departments. The purpose of the course is to educate the departments that regularly utilize personally identifiable information (PII) on the procedures for safely documenting, transmitting and storing such information. Based on the results of this training course, additional courses may be offered to the other departments and schools.

Network Security Assessment – Next Steps

The Internal Auditor and the ITM department will partner in the execution of a network security assessment.* A third party vendor will be selected through a request for proposal (RFP). By taking unified approach in selecting a third party to perform this assessment, the District can fulfill requirements from both an IT perspective as well as an Internal Audit perspective.

The initial scope of the project includes the following components:

- a. Security profile/assessment
 - Posture & Policy Assessment
 - Technical Testing engagements
- b. Remediation recommendations
 - Risk exposure reduction & Platform improvements
 - Policy & Ethical
 - Audit & Management
- c. Remediation implementation/consulting
 - Technical
 - Policy writing
 - Compliance & User Training
- d. 'Post' Security Profile & Assessment
 - Repeat testing
 - Remediation validation

This engagement will be included in the Internal Audit Plan for Fiscal Year 2019.

A copy of the Data and Access Security Report and attachments are available in the Board office.

ACTION: During the discussion, Finance Committee member Bates inquired about policies being in place to support possible issues such as security breaches and email phishing. Treasurer Wagner reported that policies are in place for phishing and steps in the discipline policies for sharing of passwords.

Sarah Trimble-Oliver, Chief Information Officer, will review the policies to determine if they need to be strengthened. She will update the Policy Committee at their June 21, 2018 Committee meeting.

Charter Funding Follow Up Internal Audit Report

Connie Solano, Director of Performance and Accountability

Sue Hemphill, Administrative Assistant, Research Evaluation and Testing

Ms. Roberts updated the Committee on the below Charter Funding report. The following sections have been copied from the Internal Audit Report:

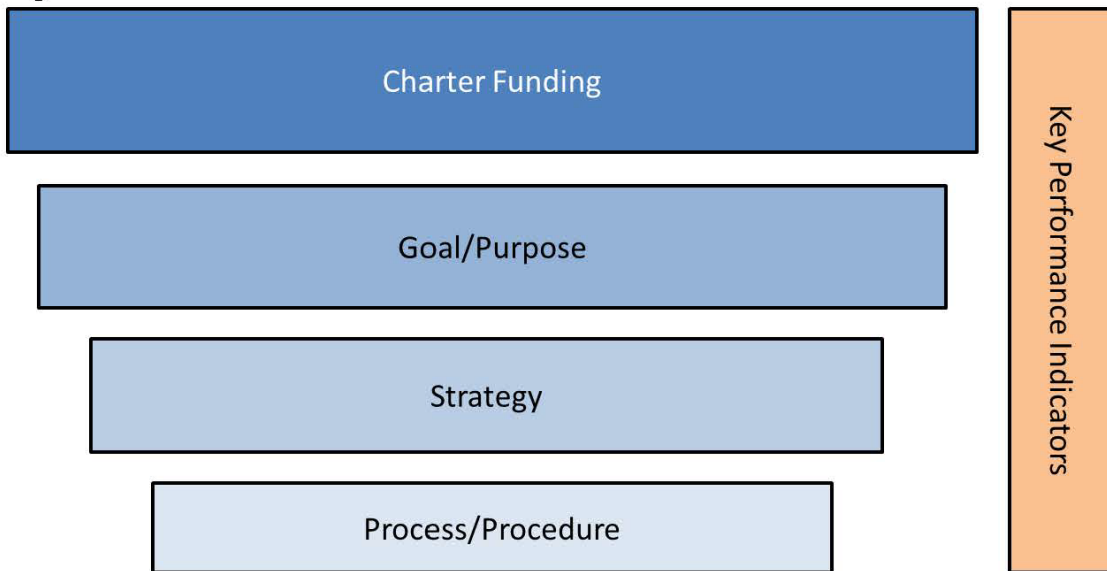
Executive Summary

The purpose of this report is to provide Cincinnati Public School District's management, Audit Committee and Board of Education with the status of the recommendations made in the Charter Funding Internal Audit Report released March 28, 2017. This report will recap the audit recommendations and summarize management's actions towards implementing

them. The report also includes management’s response regarding their future plans to address and implement the Internal Audit recommendations that have not yet been executed.

Figure 1 provides a depiction of the aspects critical to the success of the charter funding process. The “charter funding process” refers to the District’s reconciliation and review of charter student information with the Ohio Department of Education’s Ohio District Data Exchange (ODDEX) system, known as the School Options Enrollment System (SOES). It is important for management to address all aspects, from the overall goals to the detailed procedures. Internal Audit recommends management compose a team and develop a project plan with defined deadlines to ensure the overall success of this project. Internal Audit acknowledges the complexity of this work and the need for cross-departmental collaboration. Through robust efforts, Internal Audit is confident in management’s ability to design, document, execute and monitor a successful charter funding process.

Figure 1:



Background & Context

The most significant deduction to Cincinnati Public Schools’ (referred herein to as “CPS” or “the District”) state funding is the transfer of funds to community schools, more commonly known as charter schools. The Ohio Department of Education’s (ODE) District Foundation Settlement Report¹ summarizes the funding transfer for charter school tuition which is approximately \$50 million for 7,000 students annually.

Internal Audit performed an audit engagement over Charter School Funding during fiscal year 2017 and documented the following categories of recommendations:

- Redesign and implementation of new internal processes
- Lobbying efforts
- Student records

Audit Objectives

The fiscal year 2018 Charter School Funding engagement will include follow up procedures relating to the above recommendations from the fiscal year 2017 Internal Audit Report.”

A copy of the Internal Audit Plan Engagement No.7 Charter Funding Follow Up Report is available in the Board office.

Internal Auditor Annual Evaluation

Lauren Roberts, Internal Auditor

Ms. Roberts provided the Committee with a summary of her 2017-2018 Annual Evaluation. The Evaluation assessed the progress of her goals and appraisal of the following categories:

- Communication
- Customer Focus
- Job Knowledge
- Problem Solving
- Productivity
- Quality
- Results Focus
- Teamwork
- Valuing Diversity:
- Progress of her goals

ACTION: The Audit Committee will provide their feedback by submitting the form to Treasurer Wagner or via email to Paul McDole, Human Resource Director, by May 4, 2018.

The meeting adjourned at 6:09 PM

Audit Committee

Brian Ross, Chair
Jennifer Couser
Jim Crosset, CLM
Christine Fisher
David Foote, CPA
Thomas D. Heldman, CPA
Daniel E. Holthaus, CPA
Carol Lawrence
Jeffrey L. Orschell
Clarice Warner
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