

City Colleges of Chicago Board of Trustees

FY2021 Audit Update

December 9, 2021



CITY COLLEGES'
of CHICAGO

FY2021 Financial Audit Results

Fiscal Year Ended June 30, 2021

Annual Comprehensive Financial Report (ACFR)

- The CCC FY2020 external audit was completed on November 29, 2021
 - The audit is required to be completed by December 15, 2021 per Illinois ICCB
 - CCC has received an unmodified (clean) opinion on City Colleges' June 30, 2021 financial statements
 - There have been no disagreements between RSM and management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements
 - There were six (6) audit findings related to Federal awards
 - Federal Single audit report is pending completion due to HEERF audit guidelines not issued by U.S. Dept. of Ed.
 - ICCB special reports pending completion due to credit hour certification delay by the State.

FY2021 Audited Results

Districtwide (\$ in millions)	FY21		
	Adopted	FY21 Final	Variance
Revenues			
Local Government	\$130.1	\$135.8	\$5.7
PPRT	11.6	20.3	8.7
State Government	52.2	50.6	(1.6)
Federal Government	2.2	1.6	(0.6)
>> Federal HEERF	6.7	32.3	25.6
Tuition	87.8	76.1	(11.7)
Auxiliary/Enterprise	6.5	5.0	(1.5)
Facilities Rental	0.7	1.2	0.5
Investment Income	1.5	0.3	(1.2)
Fundraising	4.3	0.6	(3.7)
Total Revenues	\$303.7	\$323.9	\$20.2
Expenses			
Salaries	\$195.2	\$193.0	(\$2.2)
Benefits	38.1	34.3	(3.8)
Benefits - OPEB	(5.0)	(10.7)	(5.7)
Contractual Services	12.4	10.2	(2.2)
Materials and Supplies	13.6	14.4	0.8
Travel and Conference	0.7	0.1	(0.6)
Fixed Charges (includes Debt Service)	23.8	23.4	(0.4)
Gas and Electricity	7.0	6.4	(0.6)
Other Utilities	1.4	0.9	(0.5)
Scholarships and Waivers	11.5	11.1	(0.4)
Bad Debt	4.0	(1.1)	(5.1)
Other Expenses	1.1	0.9	(0.2)
Net Appropriated Assets	0.0	34.3	34.3
Total Expenses	\$303.7	\$317.1	\$13.4
Net Operating Surplus	\$0.0	\$6.8	\$6.8

FY2021 Net Operating Surplus of \$6.8M

\$20.2M Revenue Favorability

- Local Government \$5.7 favorability includes \$4.1M City TIF surplus favorable to budget amount
- \$8.7M PPRT upside from State allocations
- \$25.6M additional Federal stimulus upside due to HEERF II passage
- **-\$11.7M** Tuition budget shortfall due to enrollment declines
- **-\$3.7M** Fundraising unfavorable due to more dollars going directly to students

\$20.9M Expense Favorability offset by Operating transfer to Capital Fund

- \$2.2M Salary savings due to strict management of vacancies and part-time budget pools due to lower enrollment
- \$9.5M Benefits savings due to lower health claim trends and most recent OPEB actuarial forecast
- \$2.2M Contractual Services savings generated due to predominantly remote learning operations during the pandemic
- \$7.0M All other expense savings due to remote operations, lower enrollment and lower receivable balances
- \$34.3M operating transfer to O&M capital funds



Change in Net Assets

Unrestricted Net Assets improved by **\$33M** to **-\$20M** at 6/30/2021, which falls short of the GFOA recommended minimum level of 5% of operating expenses, or \$15M.

Net Assets \$ in millions	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017**
Unrestricted	(\$20)	(\$53)	(\$82)	(\$79)	(\$114)
Restricted (Audit, Liability, Protection, Settlement and Agency Fund*)	4	2	0.4	2	1
Net Investments in Capital Assets	510	535	622	654	705
Total Net Assets	\$494	\$484	\$540	\$577	\$592

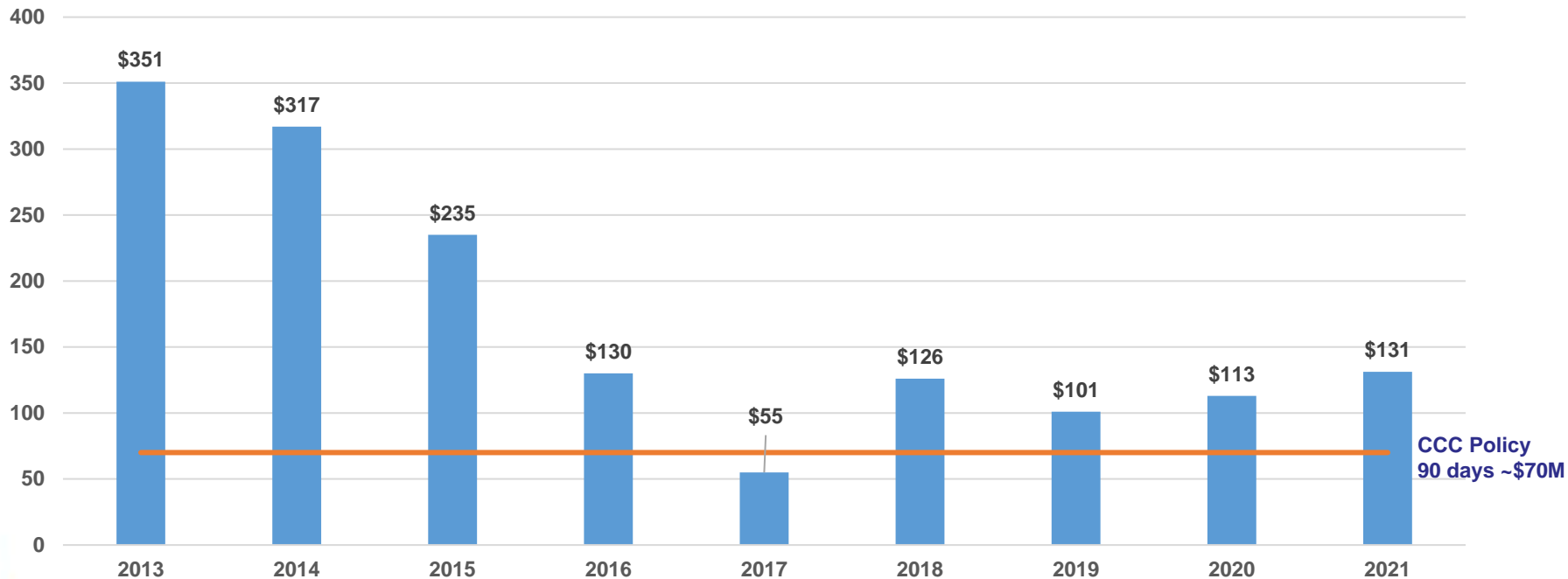
*Net position has been restated for Agency funds due to the implementation of GASB# 84 as of June 30, 2020.

** Includes Other Post-employment Benefits (OPEB) restatement of \$76M.

- Net Assets Balance increase of \$10M in FY21 is largely due to the following:
 - Change in **Unrestricted Assets** \$33M
 - Operating gain of \$41M
 - Other Non-Operating Funds loss of **-\$8M**
 - Change in Restricted Specific Purpose \$2M
 - Change in **Capital Assets** **-\$25M** due to the following:
 - Depreciation & capital related activity **-\$30M**
 - Debt Principal payments of \$5M

City Colleges Is Focused on Stabilizing its Cash Position

CCC's Operating Cash Balances
(\$ in millions)



- CCC's goal is to establish financial growth stabilization and provide a positive outlook on the financial position of the District.
- Since arriving in May 2017, Chancellor Salgado has worked to improve CCC's cash position, including reductions in force of non-student facing, non-bargained for employees, and the sale of CCC's downtown headquarters that closed on September 30, 2019.
- In FY21, the federal stimulus funds allowed CCC to preserve its cash reserves.

Capital Plan Expenditures

(\$ in thousands)

College	FY2021 Budget	FY2021 Actual	Notable Items
Information Technology	\$12,164	\$7,340	Infrastructure Upgrades/ OIT purchases
Elevators & Escalators	12,430	1,439	Elevators modernizations and upgrades
Campus Security	1,815	371	Pandemic safety measures & security upgrades
Building Structure & Site Improvements	1,510	1,300	HW roof replacement, other roof repairs, and street repaving
Mechanical Systems	640	0	
Electrical Systems	200	41	Exterior lighting replacement
Equipment	0	13	Facility maintenance equipment
Academic & Programmatic Enhancements	0	5,876	DA MTEC payments, KKC Tutoring Lab
Environmental & Compliance	200	80	Water quality testing & enhancements
Total	\$28,959	\$16,331	

(\$ in thousands)

Category	FY2022 Budget
Information Technology	\$17,404
Elevators & Escalators	5,938
Campus Security	680
Building Structure & Site Improvements	6,260
Mechanical Systems	3,595
Electrical Systems	335
Equipment	205
Academic & Programmatic Enhancements	6,052
Environmental & Compliance	250
Total	\$40,726

- FY2021 capital budget plan was a one-year plan of \$28.9M due the economic uncertainties with the pandemic
 - Actual FY2021 spend was under budget as only critical deferred maintenance projects were executed
 - Critical deferred maintenance spend includes CCC's local match for projects backed by \$12.6M in State capital funding
- FY2022 capital budget of \$40.7M includes deferred maintenance projects, select renovations and any local match requirements for State capital funding resources

FY2022-Q1 Financial Update

FY2022 – Forecast as of September 30, 2021

Districtwide (\$ in millions)	FY22 Adopted Budget	FY22 Forecast	Variance
Revenues			
Local Government	\$135.4	\$136.4	\$1.0
PPRT	11.6	11.6	0.0
State Government	54.0	54.0	0.0
Federal Government	2.2	2.2	0.0
>> Federal HEERF	24.5	24.5	0.0
Tuition	77.6	73.9	(3.7)
Auxiliary/Enterprise	8.5	8.5	0.0
Facilities Rental	1.0	1.5	0.5
Investment Income	0.8	0.8	0.0
Fundraising	4.3	4.3	0.0
Total Revenues	\$320.0	\$317.8	(\$2.2)
Expenses			
Salaries	\$205.1	\$204.6	(\$0.5)
Benefits	36.7	36.7	0.0
Benefits - OPEB	(1.8)	(1.8)	0.0
Contractual Services	16.5	16.5	0.0
Materials and Supplies	14.4	14.4	0.0
Travel and Conference	0.9	0.6	(0.3)
Fixed Charges (includes Debt Service)	24.0	24.0	0.0
Gas and Electricity	7.1	7.1	0.0
Other Utilities	1.4	1.4	0.0
Scholarships and Waivers	11.6	10.8	(0.8)
Bad Debt	3.1	1.6	(1.5)
Other Expenses	1.1	1.1	0.0
Total Expenses	\$320.0	\$316.8	(\$3.1)
Surplus/(Deficit)	\$0.0	\$0.9	\$0.9

FY2022 Preliminary Surplus of \$0.9M

\$2.2M Revenue Budget Shortfall

- Local Government Revenue is favorable to budget by \$1M due to New Property additions and expired TIF districts.
- FY22 Tuition revenue is trending **\$3.7M (5%)** below budget due to enrollment declines

\$3.1M Expense Favorability

- FY22 Salaries are tracking favorable to budget by \$500k.
- Scholarships & Waivers are \$800k favorable to budget due to enrollment declines.
- Bad Debt is expected to yield \$1.5M in savings compared to the FY22 budget.
- Other expenditure categories are tracking at budgeted levels

CCC Credit Rating Update

CCC Credit Rating Update - Standard & Poor's (S&P) and Fitch

Rating Description	Rating/Outlook	Rating Agency
Highest Grade Credit	AAA+ AAA AAA-	
Very High Grade Credit	AA+ AA AA-	
High Grade Credit	A+/Stable A A-	Fitch (Oct-21)
Good Grade Credit	BBB/Stable BBB+ BBB-	S&P (Jul-21)
Speculative Grade Credit	BB+ BB	

During 2021, S&P and Fitch credit rating agencies reaffirmed CCC's rating but revised the outlook to "Stable" from "Negative" with CCC's strengthened financial position.

FY2021 Financial Audit Findings

FY2021 Audit Findings

FY2021 Audit

Financial Statements

- No (0) material weaknesses, (0) significant deficiency or (0) control deficiency reported in Financial Audit in FY2021

Federal Awards

- Six (6) A-133 Audit Findings on Report of Federal Awards including Material Weakness over Internal Controls over major programs

FY2020 Audit

Financial Statements

- No (0) material weaknesses, (0) significant deficiency or (0) control deficiency reported in Financial Audit in FY2020

Federal Awards

- No (0) material weaknesses or (0) significant deficiency reported in Financial Awards in FY2020
- Six (6) A-133 Audit Findings on Report of Federal Awards

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>Finding 2021-001 Higher Education Emergency Relief Fund and Governor’s Emergency Education Fund Internal Controls</p>	<p>City Colleges did not have sufficient documentation that internal controls were in place and operating effectively relative to the following areas:</p> <ul style="list-style-type: none"> • Awarding MSI student awards. • Non-Pell/MAP eligible students. • Supporting evidence that students were approved to be awarded funding. • HEERF Annual and Student Reporting • Awarding of GEER student awards <p>2 CFR Section 200.303 requires entities receiving Federal awards establish and maintain internal controls deigned to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the proper reviews over determination of student awards and timely and accurate posting of reports.</p> <p>There were no questioned costs with respect to this finding,</p>	<p>Effective immediately, all review and approvals will be documented by either ink signature, electronic signature or email.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships & Aretha Tharps, District Director, Student Financial</p> <p>Anticipated completion date: Completed</p>

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>Finding 2021-002 Higher Education Emergency Relief Fund Reporting</p> <p>15</p>	<p>City Colleges did not publicly post required reports accurately or on a timely basis:</p> <ul style="list-style-type: none"> • HEERF I, II and III Student Portion • HEERF I MSI Portion. • HEERF Annual Report <p>According to an electronic announcement (EA) by the Department of Education (ED) on May 6, 2020, ED required institutions that received a HEERF 18004(a)(1) Student Portion Aid award to publicly post certain information on their website no later than 30 days after award, and update that information every 45 days thereafter by posting a new report. On August 31, 2020, ED revised the EA with 85 FR 53802, which decreased the frequency of subsequent reporting from every 45 days to every calendar year. Additionally, in May 2021 ED clarified guidance to state that expenses for the student portion should be reported quarterly and not on a cumulative basis. As such, institutions had until June 30, 2021 to post retroactive reports if they had not already done so.</p> <p>2 CFR Section 200.303 requires entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the timely and accurate posting of reports.</p> <p>There were no questioned costs with respect to this finding,</p>	<p>The Department of Ed has given the institution authorization to amend prior quarterly reports effective immediately and annual report when reopened in spring 2022</p> <p>Effective immediately, processing will be delayed at quarter end to allow additional time to accumulate required data, review reports and post to website.</p> <p>Additionally, staff has been hired to monitor Department of Education announcements and compliance with report filing and accuracy.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships & Aretha Tharps, District Director, Student Financial</p> <p>Anticipated completion date: March 2022</p>

Management Responses to Audit Findings

Financial Statement Review

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>2021-003 Short-Term Programs (repeat finding)</p>	<p>Two out of sixteen students tested, City Colleges improperly disbursed Pell Grants.</p> <p>34 CFR Section 668.8(e) states that students enrolled in short-term programs are not eligible to received Pell or SEOG Grant funds.</p> <p>The total questioned cost for the findings are \$9,518.</p>	<p>City Colleges will return the Pell Grant & SEOG grant of the students who received the Title IV Aid in error. The funds were returned November 12, 2021.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships</p> <p>Anticipated completion date: Completed</p>

Management Responses to Audit Findings

Financial Statement Review

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>2021-004 Short-Term Program Placement Rate (repeat finding)</p>	<p>The College cannot demonstrate compliance with the gainful employment placement rate calculation of 70% for the short-term program at a post-secondary vocational institution.</p> <p>34 CFR Section 668.8(f) and (g) requires the college to have documentation supporting its placement rates for each student showing that the student obtained gainful employment.</p> <p>There were no questioned costs with respect to this finding.</p>	<p>CCC currently has two short term programs:</p> <ul style="list-style-type: none"> • Computer Numerical Machining (Daley College, Wright College) • Cosmetology Teacher Training 500 HR BC (Truman College) <p>CCC will no longer have short-term programs moving forward. Computer Numerical Machining will be discontinued, and Cosmetology Teacher Training 500 HR Program is no longer an FA Approved program (as of September 27, 2021) per the Recertification Application completed by Truman College.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships</p> <p>Anticipated completion date: December 31, 2021</p>

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>Finding 2021-005 Return of Title IV Funds – Enrollment Reporting (repeat finding)</p>	<p>Four out of sixty students tested withdrew from City Colleges for which status changes were not properly reported to the National Student Loan Data System (NSLDS) within the 60 day requirement. One out of sixty students tested withdrew from City Colleges for which status changes were never reported to the National Student Loan Data System (NSLDS).</p> <p>CFR section 685.309 and 690.83(b)(2) requires City Colleges to notify the NSLDS within 30 days of a change in student status or include the change in status in a response to an enrollment reporting roster within 60 days of the student’s date of determination of withdrawal.</p> <p>There were no questioned costs related to testing of enrollment reporting.</p>	<p>The enrollment reporting functions are housed in the college’s registrar office and separate from financial aid. An enrollment file is generated at the district level and uploaded quarterly.</p> <p>The Registrar’s Office & Financial Aid Office have convened to update its enrollment reporting procedures and create a reconciliation process to ensure all students are reported to NSLDS.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships & Laura Clark – District Director, Academic Systems & OIT</p> <p>Anticipated completion date: March 2022</p>

Management Responses to Audit Findings

Financial Statement Review

<u>Finding</u>	<u>Detail</u>	<u>Management Response</u>	<u>Responsible Party/ Due Date</u>
<p>2021-006 Direct Loan Quality Assurance System (repeat finding)</p>	<p>During the prior year audit, it was determined that City Colleges did not have a formally documented direct loan quality assurance process. During the current fiscal year, City Colleges documented a formal direct loan quality assurance process, however, the process was not documented for the entire fiscal year. The documentation was completed in August 2020.</p> <p>34 CFR Section 685.300(b) (9) require schools to implement and document a quality assurance process to ensure that the College is complying with program requirements and meeting program objectives.</p> <p>There were no questioned costs with respect to this finding.</p>	<p>Direct Loan Quality Assurance was implemented on August 2020 which is Federal Aid Year. Process wasn't at the start of the Fiscal Year or the month of July. All FA Manuals and policies will go through a bi-annual review to ensure timely updates.</p>	<p>Richard Hayes – Associate Vice Chancellor-Financial Aid & Scholarships</p> <p>Anticipated completion date: Completed</p>