

Federal Grants Controls Audit

Audit Plan Code: 22.21.A



Assurance | Insight | Objectivity

Final Report
November 2, 2022

The District's written policies and procedures for federal grant programs align with the EDGAR requirements outlined in the TEA's Internal Controls Questionnaire. Overall, documentation exists to support federal grant expenditures submitted to the state for reimbursement.

However, the District does not have an effective monitoring process to ensure entitlement (federal) funds are spent timely and in their entirety. As of October 5, 2022, the District had \$17.1 million (42%) unspent funds for seven (7) entitlement programs.



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Abbreviations

APM	Administrative Procedures Manual
CAP	Corrective Action Plan
CFR	Code of Federal Regulations
EDGAR	Education Department General Administrative Regulations
EPISD	El Paso Independent School District
ESSA	Every Student Succeeds Act
FY	Fiscal Year
ICQ	Internal Control Questionnaire
LEA	Local Education Agency
NCLB	No Child Left Behind Act
NOGA	Notice of Grant Award
PY	Program Year
QRG	Quick Reference Guides
SY	School Year
TEA	Texas Education Agency
USDE	U.S. Department of Education



Executive Summary

ASSURANCE • INSIGHT • OBJECTIVITY

We have completed the Federal Grants Controls Audit. The objectives of the audit were to determine if:

- The District's written policies and procedures for federal grant programs align with current EDGAR requirements,
- Documentation exists to support grant expenditures submitted to the state for reimbursement, and
- The District monitors entitlements to ensure funds are being spent timely, in their entirety, and if there is a follow-up process when targets are not met.

The scope of the audit was the District's federal grant policies and procedures and federal entitlement grant expenditures processed during FY 2021-2022.

The Audit Report section that follows includes detailed findings, observations, recommendations, background, and methodology.

We want to acknowledge and thank the Budget and External Funding Management Office and the Financial Services staff, who assisted in this audit, for their time.

What We Found

1. The EPISD's written policies and procedures for federal grant programs align with the Education Department General Administrative Regulations (EDGAR) requirements outlined in the Texas Education Agency's Correspondence Internal Controls Questionnaire (TEA's ICQ). The EDGAR, Title 34, Code of Federal Regulations (CFR), provides the general and fiscal guidelines for managing grant funds.
2. Overall, documentation exists to support grant expenditures, for the selected sample, submitted to the state for reimbursement. We tested three categories:
 - a. Expenditure Reporting to the TEA – There is documentation to support the total amounts reflected in the monthly financial reports (drawdowns) submitted to the TEA. However, we identified a finding related to the allocation of expenditures (\$1,466) to the incorrect grant in one of the drawdown requests sampled. See Finding 2 for details.
 - b. Supporting Documentation Existence – The supporting documentation maintained for a sample of 40 transactions funded with federal entitlement grants was considered sufficient.
 - c. Changes in Position – The payroll costs related to a sample of five (5) changes in positions funded with federal grants were recorded timely, for grant reporting, in the District's accounting system.
3. The procedures for monitoring entitlements (i) do not demonstrate the District is ensuring funds are being spent timely, in their entirety, and (ii) do not include a follow-up process when spending targets are not met. As of October 5, 2022, the District had \$17.1 million (42%) unspent funds for the seven (7) federal entitlement programs in our sample. The program end date for the entitlement programs was September 30, 2022. See Finding 1 for details.

We also identified the following observations:

- The “Approval” EDGAR requirement in the TEA’s ICQ requires the superintendent formally adopt the administrative procedures manual (APM). The APM was most recently signed (approved) on April 15, 2021, by the former Interim Superintendent.
- The EDGAR requirements per the TEA’s ICQ were not outlined in one single EPISD manual; they were in several manuals. In addition, the Fund Development and Partnerships Department’s Manual has not been finalized and approved.
- Supporting documentation for tutoring costs varied from a combination of three types of documents. The EPISD has not established districtwide expectations (minimum requirements) for the documentation that should be maintained to support tutoring costs.

What We Recommend

Internal Audit made eight (8) recommendations to address the findings and observations reported. Recommendations include the following:

1. The Office of Organizational Transformation and Equity, in collaboration with District leadership, should develop, document, and implement procedures to ensure program owners spend entitlement grants and monitor entitlement spending. Refer to Recommendation 1.1 for further details.
2. Once the procedures are finalized and documented, entitlement program stakeholders should be trained.
3. The Office of Organizational Transformation and Equity should consider using a system/tool to monitor entitlement funds and report spending progress.
4. The Budget and External Financial Management Office should revisit their follow-up process when they identify incorrect allocations. They should consider adding escalation steps to follow when campuses/departments do not respond to requests timely. Revisions to their follow-up process should be documented in the Budget and External Financial Management Office standard operating procedures.
5. The Chief Financial Officer should review the EPISD’s current Framework with the Superintendent. If the Superintendent agrees with the current review and approval process, we recommend she sign the Framework to formally adopt it.
6. The Office of Organizational Transformation and Equity should consider including or referencing all the federal written procedures required by EDGAR, per the TEA’s Internal Controls Questionnaire, in one of their manuals (e.g., the Fund Development and Partnerships Department’s Manual). This could facilitate reference from District staff or for future audits for compliance.
7. The Office of Organizational Transformation and Equity should update, finalize, and submit the Fund Development and Partnerships Department’s Manual for approval.

8. The Office of Organizational Transformation and Equity, the Budget and External Financial Management Office, Academics, and School Leadership should collaborate to establish minimum requirements for supporting documentation for tutoring costs to build consistency.

Management's Response

Management and leadership agreed with the audit findings. District management and leadership submitted a Corrective Action Plan (CAP) outlining nine (9) activities to be implemented. All recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report. Internal Audit will conduct follow-up reviews to validate CAP activities have been implemented.



Audit Report

ASSURANCE • INSIGHT • OBJECTIVITY

Objective and Scope

The objectives of the audit were to determine if:

- The District's written policies and procedures for federal grant programs align with current EDGAR requirements,
- Documentation exists to support grant expenditures submitted to the state for reimbursement, and
- The District monitors entitlements to ensure funds are being spent timely, in their entirety, and if there is a follow-up process when targets are not met.

The scope of the audit was the District's federal grant policies and procedures and federal entitlement grant expenditures processed during FY 2021-2022.

Results, Recommendations, and Management's Response

Based on the information gathered and the tests performed, we determined the following:

1. The EPISD's written policies and procedures for federal grant programs align with the Education Department General Administrative Regulations (EDGAR) requirements outlined in the Texas Education Agency's Correspondence Internal Controls Questionnaire (TEA's ICQ). The EDGAR, Title 34, Code of Federal Regulations (CFR), provides the general and fiscal guidelines for managing grant funds.
2. Overall, documentation exists to support grant expenditures, for the selected sample, submitted to the state for reimbursement. We tested three categories:
 - a. Expenditure Reporting to the TEA – There is documentation to support the total amounts reflected in the monthly financial reports (drawdowns) submitted to the TEA. However, we identified a finding related to the allocation of expenditures (\$1,466) to the incorrect grant in one of the drawdown requests sampled. For details, see Finding 2 below.
 - b. Supporting Documentation Existence – The supporting documentation maintained for a sample of 40 transactions funded with federal entitlement grants was considered sufficient.
 - c. Changes in Position – The payroll costs related to a sample of five (5) changes in positions funded with federal grants were recorded timely, for grant reporting, in the District's accounting system.
3. The procedures for monitoring entitlements (i) do not demonstrate the District is ensuring funds are being spent timely, in their entirety, and (ii) do not include a follow-up process when spending targets are not met. For details, see Finding 1 below.

Finding 1

The District does not have an effective monitoring process to ensure entitlement (federal) funds are spent timely and in their entirety. As of October 5, 2022, the District had \$17.1 million (42%) unspent funds for seven (7) entitlement programs

The procedures for monitoring entitlements and the entitlement spending progress (i) do not demonstrate the District is ensuring funds are being spent timely, in their entirety, and (ii) do not include a follow-up process when spending targets are not met.

- 1.1 The unspent funds for the seven (7) entitlement programs in our sample represent between 14% to 81% of the awarded amount (without indirect costs) per program. The program end date for the entitlement programs was September 30, 2022. See details in Table 1.
- 1.2 Currently, there is no specific documented plan to spend the remaining entitlement funds.

Table 1 – School Year 2021-2022 Entitlement Spending

Entitlement Program	*Awarded Amount (with Indirect Costs) (a)	Budgeted Amount (without Indirect Costs) (b)	**Expenditures + Encumbrances (c)	Unspent Funds (d)=(b)-(c)	% Unspent Funds (e)=(d)/(b)
Title I, Part A - Improving Basic Programs	\$ 31,364,347	\$30,177,758	\$19,368,739	\$10,809,019	36%
Title II, Part A - Supporting Effective Instruction	4,116,054	3,960,865	1,169,315	2,791,550	70%
Title IV, Part A, Subpart 1	3,019,120	2,904,899	1,836,251	1,068,648	37%
Title III, Part A - ELA	2,898,628	2,788,966	531,888	2,257,078	81%
Title I, Part C - Migrant	248,057	238,672	113,794	124,878	52%
Title I, Part D, Subpart 2-Delinquent Programs	179,611	172,816	149,344	23,472	14%
Title I, 1003 School Improvement Grant	136,449	131,287	109,616	21,671	17%
Total	\$41,962,266	\$40,375,263	\$23,278,947	\$17,096,316	42%

*Based on award amounts in amended NOGAs (June 2022), which includes carryover funds from the SY2020-2021, totaling \$10.6 million

**Totals as of October 5, 2022

- 1.3 The Director of External Funds and Fund Development (appointed to this position on September 8, 2021) provided the following responses when discussing the high percentages of unspent funds.
 - a. The Special Revenue Report distributed by Financial Services is used to show the utilization of funds and grant spending rates. This report does not reflect if the program fund utilization is on target based on their unique program timelines and goals for using the funds. The calculations for target spending rates in the reports are standardized; however, each program may have a different target spending rate depending on the design of the program.
 - Per the Executive Director of Financial Services, the Special Revenue Report provides the financial status of the grants/programs. The report was not designed to provide the programmatic status.
 - b. S/he does not know whether the unspent funds for the SY2021-2022 will carry over to 2022-2023. It is anticipated the District will receive a notice

from the TEA in November or December 2022 with the amount or percentage eligible for carryover.

- c. Traditionally, the District carries over funds from year to year. However, the carryover amount was higher in SY 2021-2022. S/he said that most school districts did not use their program year (PY) 2020 funds and that this was a unique situation. There was a priority to spend PY 2020 funds during the fiscal year 2021-2022. EPISD was managing three PYs (2020, 2021, and 2022) during the fiscal year 2021-2022.

- 1.4 We conducted a spending analysis for the seven (7) entitlement programs for the four school years prior to 2021-2022 to determine whether there was a trend, per program, of unspent funds at the end of the program. The results are listed below in Table 2.

Table 2 – Four-Year Entitlement Spending Analysis

Entitlement Program	Percentage of Program Funds Unspent per School Year			
	2017-2018	2018-2019	2019-2020	2020-2021
Title I, Part A - Improving Basic Programs	1%	12%	0%	27%
Title II, Part A - Supporting Effective Instruction	15%	21%	21%	53%
Title IV, Part A, Subpart 1	35%	47%	19%	62%
Title III, Part A - ELA	26%	29%	1%	64%
Title I, Part C - Migrant	N/A	33%	1%	14%
Title I, Part D, Subpart 2- Delinquent Programs	10%	7%	0%	11%
Title I, 1003 School Improvement Grant	5%	19%	43%	14%

Recommendations and Management's Response

- 1.1 We recommend the Office of Organizational Transformation and Equity, in collaboration with District leadership, develop, document, and implement procedures to ensure program owners spend entitlement grants and monitor entitlement spending. The following should be included as part of the procedures:
 - a. Define compliance requirements for entitlement spending.
 - b. Define how the entitlement programs' spending will be monitored.
 - c. Define the roles and responsibilities of entitlement program stakeholders (i.e., program/budget owners, External Funding specialists, principals, assistant superintendents, etc.).
 - d. Establish a spending timeline for entitlement program stakeholders to follow.
 - e. Define the process to facilitate program owners in achieving the spending goals for their initiatives, programs, campuses, or departments.
 - f. Define a process for program owners to follow when they do not meet the spending targets for their initiatives, programs, campuses, or departments. For example, developing contingency plans to spend the funds within their initiatives/programs or to shift funds to other programs as needed and as allowed.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number one (1).

Person(s) Responsible: Director of External Funds and Fund Development

Implementation Date: 05/31/2023

- 1.2 Once the procedures are finalized and documented, entitlement program stakeholders should be trained.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number two (2).

Person(s) Responsible: Director of External Funds and Fund Development

Implementation Date: 05/31/2023

- 1.3 We also recommend the Office of Organizational Transformation and Equity use a system/tool to monitor entitlement funds and report spending progress. The system could provide information such as:
- a. Entitlement program fund allocations and expenditures for the District as a whole and by initiative, program, campus, or department.
 - b. Entitlement spending rates for the District as a whole and by individual initiative, program, campus, or department.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number three (3).

Person(s) Responsible: Director of External Funds and Fund Development

Implementation Date: 06/30/2023

Finding 2

Expenditures totaling \$1,466 were allocated incorrectly to a grant

One of the seven federal grant expenditure drawdown requests reviewed included expenditures, totaling \$1,466, incurred before the grant's initial start date. The grant's Notice of Grant Award (NOGA) did not expressly permit pre-award costs. The Encumbrances/Obligations and Liquidations section under the TEA General Provisions and Assurances states: "All encumbrances/obligations shall occur on or between the beginning and ending dates of the Subaward unless pre-award costs are expressly permitted for the individual Grant program."

- 2.1 The Title I School Improvement Grant program year began on November 10, 2021. However, expenditures totaling \$1,466 from September and October 2021, outside the allowable grant period, were allocated to the program. The District received full reimbursement for said total from the TEA on December 17, 2021.
- 2.2 Financial Services confirmed the expenditures should not be applied to the Title I School Improvement Grant program year 2022.
- 2.3 External Funding identified the incorrect allocation in November 2021. External Funding sent emails to the campus requesting a reclassification form for the incorrect allocation; however, the campus did not submit the form. The Director of External Funds and Fund Development submitted a request to Financial Services to reclassify the expenditures in July 2022.

Internal Audit confirmed Financial Services posted a journal entry in Frontline to reclass the expenditures originally allocated to the wrong program. The drawdown request submitted to the TEA on August 2, 2022, for the month of June 2022, includes the reclassification.

Recommendation and Management's Response

2.1 The Budget and External Financial Management Office should revisit their follow-up process when they identify incorrect allocations. They should consider adding escalation steps to follow when campuses/departments do not respond to requests timely. Escalating unresponsive requests could reduce the time spent between the time the error is identified and when it is corrected. Revisions to their follow-up process should be documented in the Budget and External Financial Management Office standard operating procedures.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity numbers four (4) and five (5).

Person(s) Responsible: Executive Director of Budget and External Financial Management

Implementation Date: 05/31/2023

Observations, Recommendations, and Management's Response

While conducting this audit, we made observations that do not violate local, state, or federal guidelines and, as such, were not included as findings in the Audit Report. However, we felt the observations were worthy of informing you as the data owner/expert to determine how they should be addressed.

Observation 1 The current EPISD's Administrative Reference Guide Framework ("Framework") was approved by the former Interim Superintendent on April 15, 2021. The "Approval" EDGAR requirement, which is part of the Control Activities section of the TEA's Internal Controls Questionnaire (TEA's ICQ), requires the Superintendent formally adopt the administrative procedures manual (APM).

The Framework states:

- a. "This Administrative Reference Guide Framework, along with manuals, handbooks and Quick Reference Guides ("QRG"), is, collectively, considered to be the Administrative Procedures Manual, or APM, as required by TEA, in order to provide reasonable assurance that the El Paso Independent School District ("EPISD") will comply with all federal, state, and local fiscal and grant requirements and internal controls."
- b. "The superintendent is responsible for the formal written adoption and implementation of these District administrative procedures."

Recommendation and Management's Response

We recommend the Chief Financial Officer review the EPISD's current Framework with the Superintendent. If the Superintendent agrees with the current review and approval process, we recommend she sign the Framework to formally adopt it.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number six (6).

Person(s) Responsible: Chief Financial Officer, Business Services

Implementation Date: 05/31/2023

Observation 2

The EDGAR requirements per the TEA's Correspondence Internal Controls Questionnaire were not outlined in one single EPISD manual; they were in several manuals.

The Fund Development and Partnerships Department's Manual included information that pertains to the EDGAR requirements. However, the manual has not been finalized and approved.

Recommendation and Management's Response

We recommend the Office of Organizational Transformation and Equity consider including or referencing all the federal written procedures required by EDGAR, per the TEA's Internal Controls Questionnaire, in one of their manuals (e.g., the Fund Development and Partnerships Department's Manual). This could facilitate reference from District staff or for future audits for compliance.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number seven (7).

Person(s) Responsible: Executive Director of Strategic Planning and Design

Implementation Date: 06/30/2023

We also recommend the Office of Organizational Transformation and Equity update, finalize, and submit the Fund Development and Partnerships Department's Manual for approval.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number eight (8).

Person(s) Responsible: Director of External Funds and Fund Development

Implementation Date: 06/30/2023

Observation 3

The EPISD has not established districtwide expectations (minimum requirements) for the documentation that should be maintained to support tutoring costs. Supporting documentation for tutoring costs varied from a combination of three types of documents (employee sign-in sheets, student logs, and a summary of work performed per student).

Recommendation and Management's Response

We recommend the Office of Organizational Transformation and Equity, the Budget and External Financial Management Office, Academics, and School Leadership collaborate to establish minimum requirements for supporting documentation for tutoring costs to build consistency.

Management and Leadership Response: Concurred with the recommendation and incorporated it into the CAP as activity number nine (9).

Person(s) Responsible: Executive Director of Strategic Planning and Design

Implementation Date: 06/30/2023



Appendix A: Background and Methodology

ASSURANCE • INSIGHT • OBJECTIVITY

Background

The El Paso Independent School District (EPISD) receives federal grant program funds from the Every Student Succeeds Act (ESSA) of 2015. The ESSA federal K-12 education law is designed to close achievement gaps, increase equity, improve the quality of instruction, and increase outcomes for all students. The ESSA is the reauthorization by Congress of the No Child Left Behind Act (NCLB) of 2002. The ESSA includes provisions to help ensure success for schools and students.

For the school year 2021-2022, the District received the following seven (7) ESSA entitlement (federal) grants totaling approximately \$41.96 million.

Entitlement	*Awarded Amount
Title I, Part A – Improving Basic Programs Operated by Local Education Agencies (LEAs)	\$ 31,364,347
Title II, Part A – Supporting Effective Instruction	4,116,054
Title IV, Part A – Student Support and Academic Enrichment	3,019,120
Title III, Part A – English Language Acquisition, Language Enhancement, and Academic Achievement Act	2,898,628
Title I, Part C – Education of Migratory Children	248,057
Title I, Part D Subpart 2 – Prevention and Intervention Programs for Children and Youth Who are Neglected, Delinquent, or At-Risk	179,611
Title I, Section 1003 – School Improvement	136,449
Total	\$ 41,962,266

*Based on award amounts in amended NOGAs (June 2022), which includes carryover funds from the SY2020-2021, totaling \$10.6 million

The District must ensure the federally-funded grant programs are implemented in accordance with all grant procedures and federal and state regulations. The Education Department General Administrative Regulations (EDGAR), Title 34, Code of Federal Regulations (CFR), provides the general and fiscal guidelines for managing grant funds. These guidelines provide specific information about the grant's purpose, eligibility, program description, statutory requirements, critical dates, and allowable/unallowable costs. Per CFR 2, 200, entities are required to use documented procurement procedures consistent with those required under a federal award or subaward. Entities must develop, implement, and maintain written procedures to address EDGAR regulations.

The Federal Grants Controls Audit was approved by the Board of Trustees as part of the 2021-2022 Internal Audit Plan.

Methodology

To achieve our audit objective(s), we:

1. Researched relevant state and federal laws and regulations, Board policies, and the department manual/guidelines.
2. Performed walkthroughs and interviewed Budget and External Financial Management Office and Financial Services staff to understand the department's administrative functions, operations, processes, and controls for managing federal grants.

3. Sent an internal control questionnaire to Budget and External Financial Management Office staff to further understand the federal grants process.
4. Performed a risk assessment based on our understanding of the policies, procedures, and controls for managing federal grants.
5. Obtained the EPISD federal grant-related policies and procedures from applicable departments and compared them to the TEA's Correspondence Internal Controls Questionnaire.
6. Selected a sample of monthly financial reports (drawdowns) submitted to the TEA, based on sampling guidance, and performed the following:
 - a. Downloaded the general ledger expense transactions for the months selected.
 - b. Compared payroll and non-payroll expenditures to drawdown requests to confirm the total amounts agreed.
7. Selected a sample of 40 transactions from the general ledger to determine whether documentation existed to support the transaction.
8. Selected a sample of five (5) changes in federally-funded positions to determine whether the salary expenses were reported timely in the monthly drawdowns.
9. Obtained monthly Special Revenue Reports from Financial Services for FY22 year-to-date to analyze spending progress for the sample selected.

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that procedures and internal controls are followed and adhered to in accordance with federal, state, and local policies, and guidelines.



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Internal Audit

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