



Bond Sale Proceeds and Expenditures Audit

ASSURANCE • INSIGHT • OBJECTIVITY

Audit Plan Code: 19-01.01

The District's \$200 million bond was priced in accordance with the terms of the underwriter agreement and properly recorded in the District's general ledger.

However, there were some expenses not properly accounted for within the 2016 bond fund account for the scope period that may cause bond expenditures to be under or over-stated.



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Abbreviations

ARG	EPISD's Administrative Reference Guide
CAP	Corrective Action Plan
CBAC	Citizens' Bond Advisory Committee
EPISD	El Paso Independent School District
FASRG	Financial Accountability System Resource Guide
TEAMS	Total Education Administrative Management Solution



Executive Summary

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We have completed the Bond Sale Proceeds and Expenditures Audit. The objective of the audit was to determine if the \$200 million bond issued on January 4, 2017, was priced in accordance with the terms of the underwriter agreement, properly recorded, and accounted for in the District's general ledger. The scope covered the period from the bond issuance, January 4, 2017, to July 31, 2018.

The Executive Summary provides, on a summarized basis, the findings discussed throughout the body of the detailed Internal Audit Report that follows. The Internal Audit Report includes background information, detailed findings, an observation, recommendations, and an exhibit.

Summary of Results

1. Salaries and fringe benefits ("payroll expenses") have been allocated to the 2016 bond fund based on budgeted percentages and have not been adjusted to reflect actual payroll expenses. As a result, payroll expenses might be under or over-stated for the period of March 2017 to July 2018 (March 2017 is the first month where payroll expenses were allocated to the 2016 bond fund).
2. The frequency of the reconciliation and review process for investment pool accounts, such as the bond investment account holding the original \$200 million bond issuance, is not defined in the EPISD Treasury Management Administrative Reference Guide (ARG).
3. Audio visual equipment costing \$955.68 was inadvertently purchased using 2016 bond funds instead of local funds.

Management's Corrective Action Plan

District management and leadership submitted a Corrective Action Plan (CAP) outlining the activities to be implemented. All six (6) 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.

Conclusion

The District's \$200 million bond was priced in accordance with the terms of the underwriter agreement and properly recorded in the District's general ledger. However, there were some expenses not properly accounted for within the 2016 bond fund account for the scope period that may cause bond expenditures to be under or over-stated.

We found no evidence of bond funds used for any teacher or administrative salaries or other school operating expenses, other than EPISD employees whose responsibilities include 2016 bond related activities.

The allocation of budgeted (estimated) payroll expenses to the 2016 bond fund, without adjustment for actual time worked, is not consistent with the Texas Education Agency's Financial Accountability System Resource Guide (FASRG). It states "A school district may choose any reasonable allocation method for allocating salary costs... Applied consistently over time... This consistency

requirement does not mean that a school district should not adjust allocated amounts or percentages to reflect actual activities, but that the method itself should not change without justification.”

The \$668.7 million bond is a multi-year program with multiple components. Thus, it is essential that stakeholders are provided accurate financial records for proper oversight and accountability.

Recommendations have been made in this report to strengthen the controls over the proper accounting of bond related expenditures.



Internal Audit Report

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Background

On November 8, 2016, El Paso voters approved a \$668.7 million bond program for the modernization and right-sizing of the District. The Board of Trustees adopted the "Voter Compact" as a resolution to provide voters assurance of the Board's intent (i) with respect to the use of the proceeds of bonds and (ii) to establish the Citizens' Bond Advisory Committee (CBAC) to monitor the implementation of the 2016 Bond Projects.

Per the Voter Compact, the Board of Trustees pledged to the voters of the District for the bond monies to be used for "the construction, renovation, demolition, and equipment of school buildings and school facilities in the District, including technology improvements, safety and security improvements, school reconstruction, renovations to existing facilities and athletic facilities improvements; the purchase of necessary sites for school buildings; and the purchase of new school buses (collectively the "2016 bond projects")."

Per the CBAC Charter, among many other responsibilities, the committee is to "validate that no bond funds are used for any teacher or administrative salaries or other school operating expenses, other than administrative salaries whose primary purpose is to manage the district's [sic] bond program".

On January 4, 2017, the District issued the first \$200 million bond tranche of the \$668.7 million bond (net of bond premium, underwriters discount, and issuance costs); leaving an unissued bond balance of \$468.7 million. The \$200 million bond has maturity dates ranging from 2027 to 2038 and 2042, with interest payments due semiannually on February 15 and August 15 of each year.

On February 2, 2017, the \$200 million bond was deposited into an investment pool account that generates interest income. Bond activity (proceeds, interest income, expenditures, etc.) is accounted for in the District's general ledger in fund 689 (the 2016 bond fund). Direct costs like construction, architecture services, technology software/equipment and buses are recorded to the 2016 bond fund based on actual costs. Indirect costs like payroll are allocated to the 2016 bond fund based on an estimated percentage of time spent by District employees on bond-related projects. This percentage is set at the beginning of the fiscal year.

The Bond Sale Proceeds and Expenditures Audit was approved by the Board of Trustees as part of the 2018-2019 Internal Audit Plan.

Objective and Scope

The objective of the audit was to determine if the \$200 million bond issued on January 4, 2017 was priced in accordance with the terms of the underwriter agreement, properly recorded, and accounted for in the District's general ledger.

The audit scope covered the period from the bond issuance, January 4, 2017, to July 31, 2018.

Methodology

To achieve our audit objective, we:

- Researched relevant federal/state laws and regulations, Board policies, and department manual/guidelines.
- Reviewed the Voter Compact, CBAC Charter, \$200 million bond underwriter agreement, and other related bond documents.
- Interviewed the District's Treasurer, Cost Accountant, and Financial Analyst to get an understanding of the bond issuance process and review of bond-related expenditures.
- Recalculated the bond issuance amounts based on the terms of the underwriter's agreement.
- Agreed bond amounts from underwriter's agreement, bank statements, and the District's general ledger.
- Confirmed ending bond investment balances directly with investment institution for a sample of months.
- Agreed a sample of bond interest income from general ledger detail to investment statements.
- Tested a sample of expense transactions from bond-related general ledger detail to determine if they were related to the bond in accordance with the Voter Compact.

Inherent Limitations

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 the federal, state, local policies, and guidelines.

Acknowledgement

We would like to acknowledge and thank the Deputy Superintendent, Finance and Operations and her staff for their cooperation and assistance during the audit.

Results

The District's \$200 million bond was priced in accordance with the terms of the underwriter agreement and properly recorded in the District's general ledger. However, there were some expenses not properly accounted for within the 2016 bond fund account for the scope period that may cause bond expenditures to be under or over-stated.

We found no evidence of bond funds used for any teacher or administrative salaries or other school operating expenses, other than EPISD employees whose responsibilities include 2016 bond related activities.

Finding 1

Salaries and fringe benefits (“payroll expenses”) have been allocated to the 2016 bond fund based on budgeted percentages and have not been adjusted to reflect actual payroll expenses. As a result, payroll expenses might be under or overstated for the period of March 2017 to July 2018 (March 2017 is the first month where payroll expenses were allocated to the 2016 bond fund).

According to the Texas Education Agency’s Financial Accountability System Resource Guide (FASRG) Method of Allocating Salaries, “A school district may choose any reasonable allocation method for allocating salary costs. However, the method used should be:

- Documented
- Applied consistently over time
- Reviewed periodically for changes in activities and/or assignments that may affect the allocation plan.”

1.1 Certifications forms prepared by Facilities and Construction and Finance and Operations were incomplete, prepared after the fact (i.e. October 2018), and/or did not certify a time frame. Typically, certification forms ask employees to certify the percentage of time they worked on a program/fund within a specific time frame.

- Certification forms were not provided for payroll expenses incurred from March 2017 to June 2017.
- The certification form for Facilities and Construction required employees certify the percentage of time spent working on projects funded by the bond for the July 2017 through February 2018 time frame.
- In the certification form for Finance and Operations employees certified a percentage of their payroll expenses will be recorded in the 2016 bond fund. It neither certifies the actual percentage of the employee’s time that has been spent working on bond related activities/projects nor does it include the time frame.

1.2 Time and effort logs kept by Facilities and Construction were incomplete and inconsistent.

- Facilities and Construction budgeted payroll expenses have been allocated to the Bond since March 2017. However, employees did not begin completing time and effort logs to account for their time spent on bond related activities until March 2018.
- In reviewing the logs, we found instances where the number of hours employees allocated to bond related activities varied for the same day in two different logs.

1.3 There is a risk that additional payroll expenses have not been allocated to the 2016 bond fund.

- Payroll expenses for 12 employees are allocated to 2016 bond funds according to TEAMS records as of October 29, 2018 (ranging from 20% to 100% of their salaries). Total payroll expenses for the 12 employees equal \$1,349,968 with \$502,909 currently allocated to 2016 bond funds for the period of March 2017 to July 2018.
- There are an additional three (3) employees whose payroll expenses have not been allocated to the bond but were identified by management as having worked on bond-related activities.
- According to the Texas Education Agency's Financial Accountability System Resource Guide (FASRG) Method of Allocating Salaries, "A school district should review its allocation plans periodically to verify their continued validity. Two primary issues should be considered:
 - The methodology may become invalid because the nature of a specific position may have changed or because the activities performed by the staff member have changed.
 - An allocation method may continue to be valid, but the amounts or percentages used in the allocation may change.
 In both cases, a school district should amend its allocation plan. The school district should also determine if previously recorded expenditures should be adjusted to more accurately reflect what occurred. "

Finding 2

The frequency of the reconciliation and review process for investment pool accounts, such as the bond investment account holding the original \$200 million bond issuance, is not defined in the EPISD Treasury Management Administrative Reference Guide (ARG). The Treasury Management ARG 3.7 Bank Reconciliations states, "Investment pools accounts are reconciled by Treasury Management, and reviewed by the Finance Department."

Currently, the reconciliation for the bond investment account holding the original \$200 million bond issuance is reviewed annually by Financial Services. Not conducting monthly investment account reviews, increases the risk of human/system/bank errors or fraud going undetected.

Finding 3

Audio visual equipment costing \$955.68 was inadvertently purchased using 2016 bond funds instead of local funds.

Observation

While conducting this audit an observation was made that was outside of our original scope and objective. The observation does not violate local, state, or federal guidelines, and as such, was not included as findings in the Bond Sale Proceeds and Expenditures Audit Report. However, we felt the item noted or observed was worthy of informing you as the data owner/expert, in order for you to make the determination as to whether it should be addressed.

Observation 1

During our expenditure testwork, we found supporting documentation that was not easily identifiable as being related to the 2016 bond at first glance (i.e. warehouse requisitions, purchase orders, and invoices). In order to determine the expenditure relationship to the 2016 bond, we followed-up with specific departments, Procurement Services, and/or consulted the minutes from Board of Trustees meetings.

Recommendations and Management's Response

A Corrective Action Plan (CAP) outlining the activities to be implemented and signed by District management and leadership was submitted to Internal Audit. All six (6) recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report.

We recommend the Deputy Superintendent, Finance and Operations establish a process to allocate actual payroll expenses to the 2016 bond funds for employees working on the bond. The process established should be documented in the department's standard operating procedures, applied consistently over time, and monitored periodically.

1.1 The payroll expense allocation can be based on employees' time and effort logs and/or periodic certification forms attesting to a percentage of time spent working on the bond. Both should attest to actual activities in the past and not the future.

1.2 Time and effort logs should be reviewed for completeness and accuracy on a periodic basis (at least quarterly) by the respective budget authority (employee's supervisor).

1.3 Time and effort logs and/or certifications should be retained according to the District's retention schedule and be available for review purposes.

1.4 The payroll expense allocated to the bond (based on time and effort logs and/or certifications) should be adjusted via a journal entry to properly record employee's actual time spent working on the bond on a periodic basis (at least quarterly).

1.5 The District should perform an assessment of its payroll expense allocation to the 2016 bond fund periodically (at least annually) to verify its continued validity. We recommend the following be performed:

1.5.1 Review and update (if necessary) allocation percentages, depending on historical information, such as time and effort logs and/or certifications, and future expected needs.

1.5.2 Review population of employees with bond responsibilities and determine whether any employees need to be added or removed.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activities one (1) through eight (8).

Persons Responsible: Deputy Superintendent for Finance and Operations, Cost Accountant, and Director of Facilities and Construction

Implementation Date: January 31, 2019

We recommend performing an analysis to determine the under or over-statement of allocated payroll expenses in the 2016 bond fund for the scope period of March 2017 to July 2018. A determination should also be made whether to adjust the payroll expense previously recorded to the 2016 bond fund.

The analysis should comprise of the 12 employees included and three (3) employees not included in the budgeted payroll expense allocation percentages in TEAMS. The analysis should also include any employee who has worked on the bond, but has not been identified

through this audit, if any. Since time and effort logs and certifications were incomplete and inconsistent, the analysis would be dependent on any other historical records available (if any).

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

Persons Responsible: Deputy Superintendent for Finance and Operations, Cost Accountant, and Director of Facilities and Construction.

Implementation Date: January 31, 2019

3

We recommend the EPISD Treasury Management Administrative Reference Guide (ARG) be updated to clearly define the frequency of the reconciliation and review process for investment pool accounts.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 10.

Person Responsible: Treasurer

Implementation Date: January 31, 2019

4

We recommend the \$955.68 audio visual equipment expenditure, inadvertently purchased (via a warehouse requisition) using 2016 bond funds, be reclassified to the appropriate fund.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 11.

Person Responsible: Cost Accountant

Implementation Date: December 31, 2018

5

We recommend non-standard purchases, like warehouse requisitions, be reviewed on a periodic basis by the Cost Accountant to determine if they are related to the bond. A follow-up should be performed if the items purchased do not appear to be related to the bond.

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 12.

Person Responsible: Cost Accountant

Implementation Date: January 31, 2019

6

We recommend the supporting documentation of expenditures made using 2016 bond funds be clearly identified as belonging to the 2016 bond to assist in the oversight and accountability of bond expenditures (i.e. warehouse requisitions, purchase orders, and invoices).

Management and Leadership Response: Agreed with recommendation and incorporated into the CAP as activity 13.

Persons Responsible: Cost Accountant and Executive Director of Financial Services

Implementation Date: January 31, 2019

Exhibit A – Criteria

Criteria No.	Criteria Source	Criteria Details	Finding No.
1.	Texas Education Agency Financial System Resource Guide - 1.6.4 Salary and Fringe Benefits Allocations	<ul style="list-style-type: none"> Personnel costs constitute the majority of a school district's budgeted expenditures. Consequently, allocating personnel costs to the appropriate cost centers is important to a school district in preparing a budget and in coding expenditures. Allocation of personnel costs enables a school district to: <ul style="list-style-type: none"> Provide accurate information by cost center and/or program Adequately evaluate the economy and efficiency of a cost center and/or program Maintain budgetary control 	1
2.	Texas Education Agency Financial System Resource Guide - 1.6.4.1 Allocation of Salaries	<ul style="list-style-type: none"> Methods of Allocating Salaries – A school district may choose any reasonable allocation method for allocating salary costs. However, the method used should be: <ul style="list-style-type: none"> Documented Applied consistently over time Reviewed periodically for changes in activities and/or assignments that may affect the allocation plan. An allocation plan should be documented to ensure a historical record of the methodology and to address any questions that may occur. Generally, the same allocation plan should be applied consistently over time. For example, a school district should establish a methodology at the beginning of the school year and apply it consistently throughout the school year unless a change occurs during the year to invalidate the original method. <u>This consistency requirement does not mean that a school district should not adjust allocated amounts or percentages to reflect actual activities</u>, but that the method itself should not change without justification. A school district should review its allocation plans periodically to verify their continued validity. Two primary issues should be considered: <ul style="list-style-type: none"> The methodology may become invalid because the nature of a specific position may have changed or because the activities performed by the staff member have changed. An allocation method may continue to be valid, but the amounts or percentages used in the allocation may change. In both cases, a school district should amend its 	1

Criteria No.	Criteria Source	Criteria Details	Finding No.
	Texas Education Agency Financial System Resource Guide - 1.6.4.1 Allocation of Salaries (Continued)	<p>allocation plan. <u>The school district should also determine if previously recorded expenditures should be adjusted to more accurately reflect what occurred.</u></p> <ul style="list-style-type: none"> • <u>Non-instructional salaries - The most common method for allocating non-instructional salaries may be allocating salaries based on the time spent on a specific job.</u> A school district may require daily time records or exception reports that can be used to determine actual time spent on a job. Alternatively, a school district may rely on an analysis of historical records or on time information derived during selected test periods. 	1 (Continued)
3.	Texas Education Agency Financial System Resource Guide - 1.6.4.2 Fringe Benefits	<ul style="list-style-type: none"> • Fringe benefit expenditures should be coded in the same manner as the salary expenditures to which they apply. Generally, fringe benefits should be allocated to match the distribution of a staff member's total salary distribution. 	1
4.	EPISD Treasury Management Administrative Reference Guide	<p>3.7 Bank Reconciliations</p> <ul style="list-style-type: none"> • The Finance Department reconciles all major bank accounts. Campus checking accounts are reconciled at the campus, and reviewed by campus accounting. Investment pools accounts are reconciled by Treasury Management, and reviewed by the Finance Department. All bank reconciliations are done monthly. 	2
5.	Bond 2016 Voter Compact	<p>BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE EL PASO INDEPENDENT SCHOOL DISTRICT:</p> <p><u>SECTION 1:</u> The Board covenants and pledges to the voters of the District that the District will issue the Bonds, if approved by the voters, in one or more series, in accordance with applicable requirements of law, for the construction, renovation, demolition, and equipment of school buildings and school facilities in the District, including technology improvements, safety and security improvements, school reconstruction, renovations to existing facilities and athletic facilities improvements; the purchase of necessary sites for school buildings; and the purchase of new school buses (collectively, the "2016 Bond Projects"). The 2016 Bond Projects shall include:</p> <ul style="list-style-type: none"> (i) turf replacement for all traditional high schools; (ii) track and tennis courts improvements for various high schools; (iii) athletic court/field lighting for school facilities; (iv) playgrounds, shading, court renovations (outdoor learning environment) for various elementary schools; (v) perimeter security (fencing/lighting/sensors) for various school facilities; 	3

Criteria No.	Criteria Source	Criteria Details	Finding No.
	Bond 2016 Voter Compact (Continued)	<ul style="list-style-type: none"> (vi) technology improvements, including student and teacher computers, Wi-Fi and network infrastructure; (vii) regular and special needs buses; (viii) improvements to existing school facilities and/or construction of a new school to allow for the rebuilding, renovation and/or consolidation of Hughey Elementary and Ross Middle School; (ix) major renovations and improvements to Crockett Elementary School; (x) either major renovations and improvements to Bassett Middle School or construction of a new Northeast Middle School as a replacement to Bassett Middle School, such option to be finally determined by the Board; (xi) major renovations and improvements to Austin High School, El Paso High School (including fine arts addition), Address High School, Coronado High School, Irvin High School, Burges High School, and Jefferson High School (including the Silva Magnet High School for Health Care Professions); (xii) improvements to existing school facilities and/or construction of a new school to allow for the consolidation of Bradley Elementary School and Fannin Elementary School; (xiii) improvements to existing school facilities and/or construction of a new school to allow for the consolidation of Henderson Middle School and Clardy Elementary School; (xiv) improvements to existing school facilities and/or construction of a new school to allow for the consolidation of Lincoln Middle School, Bond Elementary School and Roberts Elementary School; (xv) improvements to existing school facilities and/or construction of a new school to (xvi) allow for the consolidation of MacArthur Middle School and Bonham Elementary School; (xvii) improvements to existing school facilities and/or construction of a new school to allow for the consolidation of Morehead Middle School and Johnson Elementary School; (xviii) improvements to existing school facilities and/or construction of a new school to (xix) allow for the consolidation of Terrace Hills Middle School and Collins Elementary School; and (xx) improvements to existing school facilities and/or construction of a new school to allow for the consolidation of Dowell Elementary School, Schuster Elementary School and Crosby Elementary School. 	3 (Continued)



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