



An Audit Report on

Selected Facilities Funding Programs at the Texas Education Agency

August 2017
Report No. 17-046



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Overall Conclusion

The Texas Education Agency (Agency) did not have adequate controls over certain aspects of its administration of the Instructional Facilities Allotment (IFA) to ensure compliance with state law, administrative rules, and other Agency requirements. Specifically:

- The Agency's **process** did not always ensure that school districts met key statutory and Agency requirements to receive IFA assistance.
- During the most recent award cycle, the Agency did not always calculate IFA awards accurately, consistently, or in accordance with requirements.

There are two statutory requirements for **determining whether school districts' bonds are eligible for Existing Debt Allotment (EDA) assistance**. **The Agency's process ensured that bonds met the timing eligibility requirement in statute for EDA assistance**. Specifically, school districts made payments on the bonds during the final school year of the preceding state fiscal biennium, as required by Texas Education Code, Section 46.033(1). However, the **Agency's methodology and rules for determining whether school districts' bonds were eligible for EDA assistance may not fully align with the other eligibility requirement in statute**. Specifically, the Agency provided both EDA assistance and IFA assistance to school districts for debt service on the same bonds, which may be inconsistent with Texas Education Code, Section 46.033(2).

Auditors determined that the Agency's methodology for calculating IFA assistance and EDA assistance complied with statutory funding formulas.

Auditors communicated other, less significant issues to Agency management separately in writing.

Background Information

The Foundation School Program provides state assistance to school districts for the repayment of eligible debt primarily through two allotments: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA).

The IFA provides assistance to school districts to make debt service payments on eligible bonds and lease-purchase agreements. IFA assistance must be used for instructional facilities. For the 2014-2015 through 2016-2017 school years, the Agency provided approximately \$719 million in IFA assistance to school districts.

The EDA provides assistance to school districts to make debt service payments on eligible bonds. Districts do not need to apply for EDA assistance. For the 2014-2015 through 2016-2017 school years, the Agency provided approximately \$887 million in EDA assistance to school districts.

Source: The Agency.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The Agency Did Not Have Adequate Controls Over Its Review of IFA Applications and Its Calculation of New IFA Awards	High
2	The Agency’s Methodology and Rules for Determining Whether School Districts’ Bonds Were Eligible for EDA Assistance May Not Fully Align with Statutory Language	Medium
3	The Agency’s Methodology for Calculating IFA and EDA Assistance Complied with Statutory Funding Formulas	Low

^a A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited **entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.**

A chapter is rated High if the issues identified present risks or effects **that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.**

A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited **entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.**

A chapter is rated Low if the **audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.**

Summary of Management’s Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Agency agreed to implement the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Agency administers selected facilities funding programs in accordance with state law, administrative rules, Agency policies and procedures, and other applicable requirements.

The scope of **this audit covered the Agency’s activities related to the** IFA and EDA funding programs for the 2014-2015, 2015-2016, and 2016-2017 school years.

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Detailed Results

Chapter 1

The Agency Did Not Have Adequate Controls Over Its Review of IFA Applications and Its Calculation of New IFA Awards

Chapter 1
Rating:
High ¹

The Texas Education Agency (Agency) did not have adequate controls over certain aspects of its administration of the Instructional Facilities Allotment (IFA). As a result, auditors identified issues in the Agency's review of applications and calculation of new IFA awards. (See the text box for additional information on the IFA.)

Applications

The Agency's process for reviewing applications for new IFA awards did not always **ensure that the school districts'** bonds were eligible or that the school **districts'** applications met Agency requirements.

The 84th Legislature appropriated \$55.5 million for new IFA awards for fiscal year 2017. For that award cycle, the Agency received 238 applications from 156 school districts and approved awards for 115 applications. The Agency did not fund the remaining 123 applications because (1) the school districts' bonds were not eligible, (2) the amounts in the school districts' applications exceeded statutory award limitations, or (3) the school districts did not qualify for IFA assistance based on their property wealth (see Chapter 3 for additional information on how property wealth affects whether schools districts qualify).

However, for the fiscal year 2017 award cycle, the Agency approved IFA applications for school districts whose bonds did not meet certain statutory requirements. Specifically:

- For 1 (5 percent) of 20 approved IFA applications tested, the purpose of the bond was the acquisition of school buses. Texas Education Code, Section 46.003, limits the IFA to bonds issued to construct, acquire,

The Instructional Facilities Allotment (IFA)

Established by the 75th Legislature in 1997, the IFA provides assistance to school districts for debt service payments on eligible bonds or lease-purchase agreements associated with the purchase, construction, renovation, or expansion of instructional facilities.

To receive IFA assistance, a school district must submit an application to the Agency. The Agency reviews the application, determines the amount of **the school district's debt service that is** eligible for IFA assistance, and determines the amount of the IFA award.

The IFA operates on award cycles that occur when new state appropriations are made. The Texas Education Code guarantees IFA assistance for the life of the bond or lease-purchase agreement that the Agency approves for assistance.

Sources: The Agency and the Texas Education Code.

¹ Chapter 1 is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

renovate, or improve an instructional facility. In this case, the school district had submitted one application for two separate bond series: one for school buses and the other for instructional facilities. However, the debt service schedule for the instructional facilities bond series indicated that the school district would not begin repayment of that bond series until fiscal year 2030, which made the school district ineligible to receive IFA assistance for that bond series for the fiscal year 2017 award cycle.

- For 2 (10 percent) of 20 approved IFA applications tested, the school districts issued the bonds prior to applying for IFA assistance. Texas Education Code, Section 46.003(h), requires school districts to apply for the IFA before issuing bonds.

For the fiscal year 2017 award cycle, the Agency also approved IFA applications that were incomplete or did not meet all Agency requirements. Specifically:

- For 9 (45 percent) of 20 approved IFA applications tested, the project descriptions in the school districts' applications were blank, described ineligible project costs (that the Agency did not identify as ineligible), or did not provide details regarding the major building features or components of the construction or renovation that would enable the Agency to verify whether assistance would be used for instructional facilities. In addition, for two other approved IFA applications tested, the total project costs described in the application were less than the principal amount of the associated bonds. As a result, the amount of debt service that the Agency determined was eligible for IFA assistance was not supported by those 11 school districts' applications. (See the text box for additional information on eligible debt service.)

Eligible Debt Service

During its review of applications for new IFA awards, the Agency determines the amount of a school district's debt service (the amount of money needed to pay the principal and interest of a bond) that is eligible for IFA assistance based on the project descriptions in the school district's application.

A school district may plan to issue a bond that will fund both projects that are eligible for IFA assistance (such as construction of a new instructional facility) and projects that are ineligible (such as the acquisition of school buses or construction of a non-instructional facility).

The Agency calculates the amount of eligible debt service using the ratio of eligible project costs to total project costs described in the application.

Sources: The Agency and the Texas Administrative Code.

- For 15 (75 percent) of 20 approved IFA applications tested, the school districts based the amount of debt service that was eligible for IFA assistance on anticipated debt service schedules, and they did not submit required amended debt service schedules based on the final debt service amounts. Those same school districts also did not submit their bonds'

final official statement as required.² Because the Agency uses bond data from the Municipal Advisory Council of Texas to determine the amount of eligible debt service, those errors did not affect the Agency's determination of eligible debt service. However, reviewing amended debt service schedules from school districts would help the Agency ensure that its determination of eligible debt service amounts is accurate.

The Agency used a checklist to document its review of and decision on whether a school district's bond was eligible for IFA assistance. However, for 15 (60 percent) of 25 applications tested (20 approved and 5 denied), staff did not always complete all checklist items or made errors when completing the checklist.

While auditors identified the issues discussed above, the Agency ensured that for all 20 approved IFA applications tested:

- As required by Texas Education Code, Section 46.003(e)(2), the bonds did not have a weighted average maturity of fewer than 8 years.
- The school districts complied with Agency requirements to sign the applications, obtain the required voter approvals, submit the applications prior to the due date, and submit the required Office of the Attorney General approval letters.

Award Calculation

The Agency did not always calculate new IFA awards consistently, accurately, or in accordance with requirements.

Auditors identified the following issues in the Agency's calculation of new IFA awards:

- The Agency did not have a consistent methodology to calculate awards for school districts that submitted multiple applications. Texas Education Code, Section 46.005, sets a limit on a school district's total awards. For school districts that submit multiple applications, that statutory limit affects the amount of the award for each application and could affect which applications are funded.

² A final official statement is the document published by the issuer that provides complete and accurate material information to investors on a new issue of municipal securities, including the purposes of the issue; repayment provisions; and the financial, economic, and social characteristics of the issuing government.

As a result of the statutory limit, for some school districts that submitted multiple applications, the Agency did not fund all of those school districts' applications. The Agency applied the statutory limit based on the order in which it entered data from the applications into its spreadsheet, rather than on a more formal ordering methodology or on the school districts' preferences. The ordering methodology the Agency uses is important because it could affect school districts' future IFA assistance or the specific applications that could be funded. (See the text box for additional information on IFA awards.)

IFA Awards

After approving a school district's application, the Agency calculates the amount of the school district's IFA award. An IFA award is not an amount of funds provided directly to a school district. Instead, it is a limitation on the amount of annual eligible debt service used in the calculation of IFA assistance the school district will receive through the Foundation School Program each year for the life of the bond. Therefore, an IFA award amount affects the amount of state assistance provided to the school district until the bond matures. The IFA assistance calculation includes other factors, such as average daily attendance and property values in the school district.

Sources: The Agency, the Texas Education Code, and the Texas Administrative Code.

- The Agency did not calculate one school district's award accurately. That school district submitted multiple applications, and the Agency did not accurately consider the statutory limit for that school district. As a result, the Agency overawarded the school district by \$3.63 million, resulting in an overpayment of \$136,040 for the 2016-2017 school year; that error also could result in overpayments in future school years. In addition, another school district's award was not supported by that school district's application. Specifically, the Agency adjusted the ratio it used to determine the school district's eligible debt service for the 2016-2017 biennium; however, that adjustment was not supported by the school district's project costs.
- The Agency did not update its rules to align with its current practices for calculating awards. The Agency calculated the awards using the school districts' actual average daily attendance; however its rules require the Agency to use projected average daily attendance.

For the fiscal year 2017 award cycle, the Agency did not always calculate awards using the methodology in statute.

The Agency makes awards when new state appropriations are made, and appropriations were not made for fiscal year 2012 through fiscal year 2016. Because the Agency accepted applications during the time period between appropriations, during the fiscal year 2017 award cycle the Agency made awards for bonds the school districts issued prior to the 2016-2017 biennium.

When it determined the award amounts for the fiscal year 2017 award cycle, the Agency calculated the awards using eligible debt service amounts for the 2016-2017 biennium for all eligible bonds, which is the method prescribed by Title 19, Texas Administrative Code, Section 61.1032(e). However, Texas Education Code, Section 46.005(1), requires the Agency to use eligible debt service amounts in the biennium in which the bonds were issued. For the sample of 25 applications tested, 13 were for bonds issued prior to the 2016-2017 biennium. For 9 of those 13 bonds, the Agency's calculation methodology resulted in a higher award amount, with differences ranging from approximately \$52,000 to \$1.6 million.

Because appropriations had been made in each biennium prior to fiscal year 2012, in prior award cycles the Agency accepted applications for only a single biennium; therefore, the difference between the requirements in the Texas Administrative Code and the Texas Education Code did not affect those prior award cycles.

Amendment Applications

The Agency's process for reviewing amendment applications for IFA assistance ensured that refunding bonds substantially met statutory eligibility requirements. However, the Agency did not ensure that amendment applications met Agency requirements or that it processed amendments accurately and in a timely manner.

For 26 (96 percent) of 27 amendment applications tested, the refunding bonds met the eligibility requirements in Texas Education Code, Section 46.007 (see text box for additional information on refunding bonds and amendment applications). However, for the remaining amendment application tested, the application indicated that the refunding bond would not result in a present value savings. Texas Education Code, Section 46.007(4), specifies that refunding bonds are eligible for IFA assistance if they result in a present value savings.

The Agency also processed amendment applications for refunding bonds that were not complete or did not meet the Agency's amendment application requirements. Specifically:

Amendment Applications for IFA Assistance

When school districts are receiving IFA assistance for bonds that have undergone changes, including refunding the bonds **before the bonds' maturity dates**, the school districts are required to submit amendment applications.

The refunding of bonds before their maturity dates should result in a present value savings to school districts. That, in turn, could result in a reduction in the amount of IFA assistance the school districts receive. When the Agency approves an amendment application, it **updates the school district's eligible debt service amounts** based on the debt service schedule for the refunding bond and **the school district's eligible debt service ratio** from the original application.

Sources: The Texas Administrative Code and the Texas Education Code.

- For 5 (19 percent) of 27 amendment applications tested, the school districts did not provide the required letter from the Office of the Attorney General approving the refunding bonds, did not provide complete present value savings schedules, or did not sign the applications.
- For all 27 amendment applications tested, the school districts did not provide evidence that financial advisors had certified the present value savings schedules in the applications as Title 19, Texas Administrative Code, Section 61.1032(d)(9)(C)(iv), required.

The Agency also did not have adequate controls to ensure that it updated school district's eligible debt service amounts accurately or in accordance with Agency requirements. Specifically:

- For 5 (19 percent) of 27 amendment applications tested, the percentages (ratios) the Agency used to update the school districts' eligible debt service amounts did not match the percentages on the school districts' original applications as required by Title 19, Texas Administrative Code, Section 61.1032(i).
- For 3 (11 percent) of 27 amendment applications tested, the updated eligible debt service amounts that the Agency entered into the Foundation School Program (FSP) System were not supported by the school districts' applications. However, because those school districts' eligible debt service amounts exceeded their IFA awards, those errors did not affect the school districts' IFA assistance.

In addition, the Agency did not have an adequate process for tracking amendments and processing them in a timely manner. The Agency used bond data from the Municipal Advisory Council of Texas to identify bonds that had undergone changes. The Agency's rules require the Agency to suspend state assistance for bonds that have undergone changes (such as a refunding) until the Agency has received and processed an amendment application.

The Agency used a manual spreadsheet to track the amendment applications it received; however, the Agency did not have a process to identify and follow up on bonds for which school districts needed to submit an amendment application. In addition, auditors identified inconsistent data entry in the Agency's tracking spreadsheet that could impair the Agency's ability to identify which amendments it needs to review. Based on the data in that spreadsheet, the Agency had not processed 116 (45 percent) of the 258 amendment applications it received in fiscal years 2016 and 2017. Because the Agency suspends state assistance for bonds that have undergone

changes, not processing amendment applications in a timely manner could delay the payment of IFA assistance.

Policies and Procedures

The Agency did not have formal policies and procedures for its administration of the IFA.

In addition to the Agency's review of IFA applications, the Agency's administration of the IFA involves automated processes to import Municipal Advisory Council of Texas bond data, import other data (such as school district property values and average daily attendance data), update IFA assistance calculations, and make payments in the Agency's FSP System. Having formally documented policies and procedures to provide guidance on those processes would help to ensure that the Agency's administration of the IFA meets statutory and Agency requirements and is consistent, accurate, and complete.

Recommendations

The Agency should:

- Strengthen controls to ensure that its review of IFA applications and calculation of IFA awards (1) comply with statutory and Agency requirements and (2) are consistent, accurate, and complete.
- Update its rules for the IFA to align with current practices.
- Develop and implement formal policies and procedures for its administration of the IFA.

Management's Response

The Agency agrees with the recommendations regarding IFA applications and calculation of IFA awards. TEA will put controls in place to ensure that its review of IFA applications and calculation of IFA awards:

- 1. comply with statutory and Agency requirements and*
- 2. are consistent, accurate, and complete*

Regarding rules for the IFA, the Agency will update its rules to align with current practices.

The Agency has developed and is currently updating formal policies and procedures for its administration of the IFA.

Person Responsible: Director of State Funding

Completion date: August 31, 2018

The Agency’s Methodology and Rules for Determining Whether School Districts’ Bonds Were Eligible for EDA Assistance May Not Fully Align with Statutory Language

Chapter 2
Rating:
Medium ³

There are two statutory requirements for determining whether school districts’ bonds are eligible for Existing Debt Allotment (EDA) assistance. While the Agency ensured that bonds met one of those requirements, its methodology may not fully align with the other requirement. (See the text box for additional information on the EDA.)

The Agency’s process ensured that bonds met the timing requirement for EDA assistance.

For all 25 bonds tested, the school districts made payments on the bonds for which they received EDA assistance during the final school year of the preceding state fiscal biennium, as required by Texas Education Code, Section 46.033(1).

The Agency should seek guidance regarding the other bond eligibility requirement for the EDA.

As discussed in Chapter 1, when the Agency approves an application for a new IFA award, it may determine that a portion of the school district’s bonded debt service is ineligible for the IFA because that portion is not for instructional facilities. For example, a school district could issue a bond that funds both construction of instructional facilities and the acquisition of school buses.

Under the Agency’s methodology and rules, the school district described above can receive IFA assistance for the eligible portion of the bond’s debt service and EDA assistance for the remaining, ineligible portion of that bond’s debt service. When calculating EDA assistance, the Agency subtracts the portion of a bond’s debt service covered by the IFA from the total debt service eligible for the EDA; therefore, the Agency does not fund the same portion of the bond with both the IFA and the EDA.

The Existing Debt Allotment (EDA)

Established by the 76th Legislature in 1999, the EDA provides assistance to school districts for debt service payments on eligible bonded debt. School districts are not required to apply for EDA assistance and there are no award cycles.

A school district’s bond is automatically eligible for EDA assistance if the school district made a payment on that bond in the final year of the preceding biennium.

Sources: The Agency and Texas Education Code.

³ Chapter 2 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Table 2 shows a hypothetical example of the Agency’s methodology.

Table 2

Hypothetical Example of the Agency’s Methodology for Awarding IFA and EDA Assistance on a Single Bond Issuance with \$105,000,000 in Debt Service Covering Multiple Projects			
	Debt Service Funded by the IFA	Debt Service Funded by the EDA	Total Debt Service
Project 1, Part 1: Instructional Facilities (eligible for IFA assistance)	\$90,000,000	\$ 0	\$90,000,000
Project 1, Part 2: Noninstructional Facilities (ineligible for IFA assistance)	0	10,000,000	10,000,000
Project 2: Noninstructional Facilities (ineligible for IFA assistance)	0	5,000,000	5,000,000
Total Debt Service	\$90,000,000	\$15,000,000	\$105,000,000

Source: Auditors developed this example based on the Agency’s process.

However, Texas Education Code, Section 46.033, states the following:

Bonds, including bonds issued under Section 45.006, are eligible to be paid with state and local funds under this subchapter [Assistance with Payment of Existing Debt] if:

- (1) the district made payments on the bonds during the final school year of the preceding state fiscal biennium or taxes levied to pay the principal of and interest on the bonds were included in the district’s audited debt service collections for that school year; and
- (2) the district does not receive state assistance under Subchapter A [Instructional Facilities Allotment] for payment of the principal and interest on the bonds.

Therefore, providing both IFA assistance for the eligible portion of a bond’s debt service and EDA assistance for the remaining, ineligible portion of that bond’s debt service may not fully align with the latter section of that statute, which specifies that bonds are not eligible for EDA assistance if a school district receives IFA assistance for those same bonds.

The Agency asserted that it implemented its EDA methodology when the Legislature established the EDA. For the 2014-2015 through 2016-2017 school years, auditors estimated that the Agency provided approximately \$168 million in EDA assistance for bonds for which school districts also received IFA assistance. Specifically, for those bonds, the EDA funded the portion of the debt service that the IFA did not fund.

The Agency should update its rules for the EDA to align with statute and its current processes.

Title 19, Texas Administrative Code, Section 61.1035(a), states that a school district must have made a payment on the bond on or before August 31, 2007, for a bond to be eligible for EDA assistance. However, the Agency did not update that rule when the Legislature amended the Texas Education Code in 2009 to instead require that the school district make a payment on the bond in the final year of the previous biennium.

In addition, Title 19, Texas Administrative Code, Sections 61.1035(b), (f), and (g), contain language referring to “EDA correction form packets” that school districts are required to submit when their EDA-supported bonds have undergone changes. However, the Agency no longer uses those forms and instead relies on an automated process that imports bond data from the Municipal Advisory Council of Texas.

The Agency should develop formal policies and procedures for its administration of the EDA.

The Agency’s administration of the EDA involves automated processes to import Municipal Advisory Council of Texas bond data, import other data (such as school district property values and average daily attendance data), update EDA assistance calculations, and make payments in the Agency’s FSP System. Having formally documented policies and procedures to provide guidance on those processes would help to ensure that the Agency’s administration of the EDA is consistent and complete.

Recommendations

The Agency should:

- Seek guidance regarding whether its methodology for determining bond eligibility for EDA assistance aligns with statutory requirements.
- Update its rules for the EDA to align with statute and its current practices.
- Develop and implement formal policies and procedures for its administration of the EDA.

Management’s Response

The Agency's interpretation and implementation of the requirements under the Texas Education Code, §46.033 and methodology used for determining bond eligibility for EDA assistance aligns with statutory requirements,

legislative intent and appropriations, and long-standing practice. The Agency's practice has remained the same since the inception of the program. The following additional facts help explain the context for our interpretation of the law.

- *After a TEA legal review, the Agency adopted Texas Administrative Code, §61.1035(a) through the Administrative Procedures Act in 1999 outlining our methodology for calculating debt service that is eligible for EDA assistance, which included a public input process. As a result of this rule making process, there was an opportunity for stakeholders, including the Legislature, school districts and their administrators, to provide feedback on TEA's interpretation.*
- *The Agency's methodology has been used to derive appropriations in the General Appropriation Act, which is passed by the Legislature and signed into law by the Governor, since the inception of the program.*
- *The Agency's methodology has been confirmed in publications issued by the Legislative Budget Board on school facilities funding.*

Given these facts, the Agency will provide the audit to the Legislative Budget Board for guidance.

Regarding rules for the EDA, the Agency will update its rules to align with current practices.

The Agency has developed and is currently updating formal policies and procedures for its administration of the EDA.

Person Responsible: Director of State Funding

Completion date: August 31, 2018

The Agency's Methodology for Calculating IFA and EDA Assistance Complied with Statutory Funding Formulas

Chapter 3
Rating:
Low ⁴

The Agency calculated IFA and EDA assistance in accordance with the funding formulas in the Texas Education Code.

The Agency's methodology for calculating IFA and EDA assistance followed the funding formulas in the Texas Education Code. In addition, based on auditors' analysis of the population of school districts receiving IFA and EDA assistance for the 2014-2015 through 2016-17 school years, the Agency consistently calculated the amount of IFA and EDA assistance. (See the text box for additional information on the statutory funding formulas.)

The Agency's process ensured that the inputs used in the statutory funding formulas were properly supported. For all 25 school districts tested, the school district property values the Agency used in its calculations of IFA and EDA assistance were supported by data from the Office of the Comptroller of Public Accounts. In addition, the amount of local tax collections (which the Agency used to verify that school districts contributed their required local share) were supported by the school districts' annual financial reports for both the IFA and the EDA. For the EDA, the amount of debt service used in that calculation was supported by bond data from the Municipal Advisory Council of Texas.

Statutory Funding Formulas

The IFA and the EDA are funded through a combination of state assistance and local interest and sinking fund tax collections. Both allotments provide equalized funding for local taxes levied by school districts for the repayment of eligible debt. In addition, both allotments provide state assistance through a guaranteed yield of \$35 per penny of local tax effort per student in average daily attendance.

The amount of state assistance and the required local share are determined by the funding formulas in Texas Education Code, Sections 46.003 (IFA) and 46.032 (EDA). For school districts whose property wealth (school district property value per student in average daily attendance) exceeds \$350,000, the allotments are comprised **solely of the school districts' local share** and there is no state share.

Factors in those formulas are the school **districts' eligible debt service, average daily attendance, and property values**. In addition, school districts must levy sufficient taxes to meet their required local share.

For the IFA, the amount of assistance may not exceed the IFA award limit prescribed in Texas Education Code, Section 46.005. For the EDA, a school **district's local tax rate** applicable to the payment of eligible bonds may not exceed the limits prescribed in Texas Education Code, Section 46.034.

Sources: The Agency and the Texas Education Code.

The Agency had controls over key IFA and EDA processes in its FSP System.

The Agency appropriately segregated duties in the FSP System for key automated processes for calculating and paying state assistance. Specifically, auditors tested and identified no errors in the processes for importing school district property value, average daily attendance, and local tax collection

⁴ Chapter 3 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

data into the FSP System; calculating IFA and EDA assistance; and making payments of IFA and EDA assistance. In addition, the Agency's process for importing bond data from the Municipal Advisory Council of Texas ensured the completeness of the data imported.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Texas Education Agency (Agency) administers selected facilities funding programs in accordance with state law, administrative rules, Agency policies and procedures, and other applicable requirements.

Scope

The scope of this audit covered the Agency's activities related to the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) funding programs for the 2014-2015, 2015-2016, and 2016-2017 school years.

Methodology

The audit methodology included reviewing statutes and Agency requirements, conducting interviews with Agency staff, collecting and reviewing documentation, and performing selected tests and other procedures.

Data Reliability and Completeness

Auditors used the Agency's IFA and EDA data from the Foundation School Program (FSP) System. To determine the reliability of that data, auditors reviewed the accuracy and completeness of the data by (1) reviewing data query language and report totals, (2) performing a high-level review of data fields and contents for appropriateness, (3) tracing data to source documentation, and (4) testing general and application controls. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

To determine the reliability of the IFA application data and IFA amendment application tracking data that the Agency maintained in manual spreadsheets, auditors did the following:

- For the spreadsheet containing IFA application data, auditors recalculated information in the spreadsheet and compared the data to source documentation. Auditors determined that spreadsheet was sufficiently reliable for the purposes of this audit.

- The spreadsheet containing IFA amendment application tracking data was the only source of evidence available for testing. Auditors concluded that spreadsheet was of undetermined reliability.

Sampling Methodology

Auditors selected a nonstatistical sample of funded IFA applications primarily through random selection. Auditors used professional judgment to select a sample of unfunded IFA applications for testing. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project those test results to the population.

Auditors selected a nonstatistical sample of IFA amendment applications primarily through random selection designed to be representative of the population. Test results may be projected to the population, but the accuracy of the projection cannot be measured.

Auditors selected nonstatistical samples of school districts that received IFA and EDA assistance primarily through random selection designed to be representative of the population. Test results may be projected to the population, but the accuracy of the projection cannot be measured.

Information collected and reviewed included the following:

- Agency IFA application instructions and guidelines.
- IFA and EDA data and reports from the FSP System.
- Agency documentation, such as IFA application spreadsheets, IFA application files, review checklists, and school district annual financial reports.
- District property value data from the Office of the Comptroller of Public Accounts.
- Bond documents from the Municipal Advisory Council of Texas.
- User access lists and change management logs for the FSP System.

Procedures and tests conducted included the following:

- Interviewed Agency staff to identify the Agency's processes related to administering the IFA and the EDA.
- Tested a sample of IFA applications for new awards and a sample of IFA amendment applications to determine whether the Agency's review of applications complied with statutory and Agency requirements.

- Tested data from the FSP System and source documentation to determine whether the Agency calculated IFA and EDA assistance, determined IFA and EDA eligibility, and calculated new IFA awards in accordance with statutory and Agency requirements.
- Performed selected information technology general and application controls.

Criteria used included the following:

- Agency IFA application instructions and guidelines.
- Texas Education Code, Chapter 46.
- Title 19, Texas Administrative Code, Chapter 61.
- Title 1, Texas Administrative Code, Chapter 202.
- The General Appropriations Act (84th Legislature).
- Department of Information Resources' *Security Control Standards Catalog*.

Project Information

Audit fieldwork was conducted from January 2017 through June 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Sonya Tao, CFE (Project Manager)
- Bill Morris, CPA (Assistant Project Manager)
- Frances Mikus Barker, MSA, CFE
- Katherine M. Curtsinger
- Taylor L. Huff
- Katrina Koroma
- Ann E. Karnes, CPA (Quality Control Reviewer)

- Cesar Saldivar, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 3 provides a description of the issue ratings presented in this report.

Table 3

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Background Information on IFA and EDA Assistance

Table 4 summarizes Instructional Facilities Allotment (IFA) assistance and Existing Debt Allotment (EDA) assistance that the Texas Education Agency (Agency) provided to school districts through the Foundation School Program for school years 2014-2015 through 2016-2017.

Table 4

Summary of IFA and EDA State and Local Assistance School Years 2014-2015 through 2016-2017						
School Year	Total State Assistance	Total Local Share	Total Allotment (Total Entitlement)	Number of School Districts That Received State Assistance	Number of School Districts That Received Only Local Share	Number of School Districts That Received an Allotment (Entitlement)
IFA						
2014-2015	\$257,019,860	\$ 488,872,982	\$ 745,892,842	335	107	442
2015-2016	234,866,301	499,626,886	734,493,187	323	114	437
2016-2017	226,979,453	630,584,747	857,564,200	316	141	457
Totals	\$718,865,614	\$1,619,084,615	\$2,337,950,229			
EDA						
2014-2015	\$316,705,246	\$2,910,948,614	\$3,227,653,860	367	392	759
2015-2016	324,857,907	3,095,426,222	3,420,284,129	368	427	795
2016-2017	245,555,917	3,134,454,471	3,380,010,388	340	438	778
Totals	\$887,119,070	\$9,140,829,307	\$10,027,948,377			

Source: Agency information as of March 2017.

Table 5 lists the top 10 school districts that received IFA assistance for school years 2014-2015 through 2016-2017.

Table 5

Top 10 School Districts That Received IFA Assistance School Years 2014-2015 through 2016-2017	
School District	Total IFA State Assistance Received
School Year 2014-2015	
Pharr-San Juan-Alamo Independent School District	\$17,248,065
Laredo Independent School District	13,089,656
Brownsville Independent School District	11,033,209
La Joya Independent School District	10,747,420
San Antonio Independent School District	9,419,511
Donna Independent School District	7,202,985
Mesquite Independent School District	6,987,394
Rio Grande City Consolidated Independent School District	6,516,941
Mission Consolidated Independent School District	6,148,196
Killeen Independent School District	5,773,607
Total	\$94,166,984
School Year 2015-2016	
Pharr-San Juan-Alamo Independent School District	\$15,676,019
La Joya Independent School District	15,443,069
Laredo Independent School District	12,688,002
San Antonio Independent School District	8,793,542
Mission Consolidated Independent School District	7,407,093
Mesquite Independent School District	6,598,970
Donna Independent School District	6,398,120
Killeen Independent School District	6,161,233
Rio Grande City Consolidated Independent School District	5,633,352
Socorro Independent School District	5,181,778
Total	\$89,981,178
School Year 2016-2017	
Laredo Independent School District	\$12,792,327
La Joya Independent School District	12,091,458
Pharr-San Juan-Alamo Independent School District	11,041,446
Socorro Independent School District	9,336,299
Mesquite Independent School District	7,779,630
Ysleta Independent School District	7,128,733
Clint Independent School District	6,806,855
San Antonio Independent School District	6,344,281
Grand Prairie Independent School District	6,261,800
Harlandale Independent School District	6,176,933
Total	\$85,759,762

Source: Agency information as of March 2017.

Table 6 lists the top 10 school districts that received EDA assistance for school years 2014-2015 through 2016-2017.

Table 6

Top 10 School Districts That Received EDA Assistance School Years 2014-2015 through 2016-2017	
School District	Total EDA State Assistance Received
School Year 2014-2015	
Pasadena Independent School District	\$ 16,492,559
Socorro Independent School District	15,096,149
Mesquite Independent School District	14,049,584
Grand Prairie Independent School District	13,458,190
Spring Independent School District	12,086,291
Garland Independent School District	11,332,982
Ysleta Independent School District	8,364,446
Harlandale Independent School District	7,262,093
Alvin Independent School District	7,132,598
Irving Independent School District	7,125,672
Total	\$112,400,564
School Year 2015-2016	
Pasadena Independent School District	\$ 17,518,139
Mesquite Independent School District	15,905,002
Socorro Independent School District	15,098,801
Grand Prairie Independent School District	13,564,378
Garland Independent School District	12,033,138
Spring Independent School District	8,652,544
Harlandale Independent School District	8,593,851
Ysleta Independent School District	8,336,826
Alvin Independent School District	7,684,975
Laredo Independent School District	7,187,603
Total	\$114,575,257
School Year 2016-2017	
Mesquite Independent School District	\$14,215,744
Pasadena Independent School District	13,622,830
Garland Independent School District	10,279,787
Grand Prairie Independent School District	9,986,715
Socorro Independent School District	9,662,449
Ysleta Independent School District	8,409,300
Alvin Independent School District	7,290,503
Laredo Independent School District	7,249,152
Harlandale Independent School District	6,834,637
El Paso Independent School District	5,657,026
Total	\$93,208,143

Source: Agency information as of March 2017.

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