

Debt Management

Internal Audit Report

August 03, 2023



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EXECUTIVE SUMMARY

Why We Did This Audit

Our objective was to evaluate the effectiveness, efficiency, and internal controls of debt management process as well as compliance with applicable Florida Statutes, district policies and sound business practices.

This audit was included in the 2022-2023 Annual Audit Plan.

Observations and Conclusion

Audit Results at a Glance			
	Risk / Impact Rating		
Results and Observations	Significant	Moderate	Minor
IA - Internal Audit or M - Management	IA - 0	IA - 2	IA - 0
D - Deficiency or O - Opportunity	D - 0	O - 1 D - 1	O - 0

Our overall conclusion is that internal controls over debt management activities are effective; and district policies and Florida Statutes are generally being followed.

We commend the department for refinancing some of the District’s higher rate debt with lower rate debt and achieving present value savings in excess of \$10 million in year 2022. However, opportunities exist related to overall vendor payment process to ensure department practices are in alignment with district practices.

Results and Recommendations

During our audit we noted:

- The Treasury Department does not attach supporting documents (e.g. invoices) in SAP as is the standard practice for other district departments. This is a repeat finding from our 2017 audit.
- The Treasury Department processes vendor payments outside of the district’s accounts payable system.

We recommend the following:

- Adopt the District’s practice of scanning and attaching supporting documents in SAP to save paper and storage space, protect documents from loss or damage, enhance review processes, and accelerate retrieval of documentation.
- Use the accounts payable process for payments to department vendors so they are captured in vendor records.

This report has been discussed with management and they have prepared their response which follows.

DEFINITIONS:

Risk / Impact Ratings

Minor	Low risk with a financial impact of less than one percent and/or an isolated occurrence limited to local processes (low impact and low likelihood)
Moderate	Slight to moderate risk with a financial impact between one and five percent and/or a noticeable issue that may extend beyond local processes (low impact and high likelihood or high impact and low likelihood)
Significant	High risk with a financial impact greater than five percent and/or a significant issue that occurs in multiple processes and/ or noncompliance with Florida Statutes or School Board Policies (high impact and high likelihood)

We categorize risk/ impact as:

- *Minor*
- *Moderate*
- *Significant*

Observations Categories

Opportunity	A process that falls short of best practices or does not result in optimal productivity or efficient use of resources
Deficiency	A shortcoming in controls or processes that reduces the likelihood of achieving goals related to operations, reporting and compliance

We categorize our observations as opportunities or deficiencies.

Criteria for Observations Sourced to Management

- Internal audit was informed of the issue prior to starting detailed testing
- Management identified, evaluated, and communicated the issue to appropriate levels of the district
- Management has begun corrective action with clear, actionable plans and targeted completion dates

None of the observations in this report are sourced to management.

Debt Management Internal Audit Report

BACKGROUND:

The Treasury function is part of the Office of Management and Budget (OMB) in the Fiscal Services division of the School District of Orange County, Florida (the "District"). The Department is responsible for managing the District's debt in accordance with School Board Policies and state and federal laws.

As of June 30, 2023, the District's outstanding long-term debt consisted of:

Table 1 - Summary of Outstanding Debt

Debt	Outstanding
Lease-Purchase Agreements Payable (Certificates of Participation (COPs))	\$1,034,451,545
Total long-term debt	\$1,034,451,545

Source: 2023 Annual Financial Report

COMMENDATION:

We commend the Treasury Department for refinancing some of the District's higher rate debt with lower rate debt and achieving present value savings in excess of \$10 million in year 2022.

Table 2 - Summary of Defeased Debt Savings

New Series Debt	Refund COPs	Economic Savings
2021B	2015C	\$ 7,987,426
2021C	2015D (a portion of)	\$ 2,866,693
Total Savings:		\$ 10,854,119

Source: 2022 Annual Comprehensive Financial Report, Note 7 to Basic Financial Statements

OBJECTIVE, SCOPE AND METHODOLOGY:

Objective

To evaluate the effectiveness, efficiency, and internal controls of debt management process as well as compliance with applicable Florida Statutes, district policies and sound business practices.

The Treasury Department is responsible for managing the District's debt in accordance with district policies and state laws.

The District's outstanding long-term debt was \$1,034,451,545 as of June 30, 2023.

The District achieved present value savings in excess of \$10 million in year 2022.

Scope

The scope of this audit included debt transactions for the fiscal year ended June 30, 2023.

Methodology

We conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors and included such procedures as deemed necessary to provide reasonable assurance regarding the audit objective. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We are required to note any material deficiencies in accordance with Florida Statutes, School Board Policy and sound business practices. No material deficiencies were noted in this audit. We also offer suggestions to improve controls or operational efficiency and effectiveness.

Details of our audit methodology included:

- Interviewed key personnel and gathered information on the department’s guidelines, applicable Florida Statutes, and School Board Policies related to debt management to gain an understanding of the process as a whole,
- Obtained and reviewed bond documents, bid procedures, evaluation scoring documents, and contracts related to debt management such as underwriters, financial advisors, and bond counsel,
- Selected 17 of 28 invoices to test invoice amount matches with the contracts/agreements, and,
- Tested savings for refunded debt to determine whether saving amounts were following the Debt Management Guidelines.

Our scope included debt transactions for the fiscal year ended June 30, 2023

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing.

No material deficiencies were noted in this audit.

Our procedures included reviewing bond documents, bid procedures, evaluation scoring documents, and contracts related to debt management.

RESULTS & RECOMMENDATIONS:

Overall Conclusion:

Our overall conclusion is that internal controls over debt management activities are effective; and School Board Policies, Florida Statutes, and Debt Management Guidelines are generally being followed. However, opportunities exist related to overall vendor payment process to ensure best practices are followed in alignment with the School District.

1) Treasury Department's supporting documents (e.g. invoices) are not attached in SAP. *Moderate Risk, Opportunity (repeat finding)*

Best Practice:

In 2014 the district adopted a practice of scanning and attaching supporting documentation in the SAP system. This practice saves paper, storage space and protects the documents from loss or damage. It also enhances the review process and accelerates document retrieval.

Audit Result:

As to this district practice of scanning supporting documents, the Treasury Department is an outlier. Virtually every other district department follows this practice.

The Treasury Department does not scan invoices and supporting documents in SAP, and maintains paper copies of supporting documentation related to its transactions at the department office location. Paper files can be time-consuming to organize, difficult to share with others, and at risk of being damaged or lost. This does not ensure best practices are followed in a manner consistent with other district departments.

This practice was also noted in our 2017 audit.

Recommendation:

We recommend the department adopt the District's practice of scanning and attaching supporting documents in SAP to save paper and storage space, protect documents from loss or damage, enhance review processes, and accelerate retrieval of documentation.

Our overall conclusion is that internal controls over debt management activities are effective, and district policies, Florida Statutes are generally being followed.

Treasury should adopt the district's document scanning and retention practices.

2) The Treasury department does not use accounts payable processes to pay vendor invoices. *Moderate Risk, Deficiency*

Best Practice:

Following established accounts payable processes ensures vendor payment records are complete and accurate.

Audit Result:

The Treasury Department pays vendors for services directly via wire transfers, causing them to not appear in any vendor payment records in SAP. These are known, routine services, that do not require exceptional processing or payment by wire.

Recommendation:

We recommend the department follow the district's accounts payable processes for vendor payments.

We wish to thank the Office of Management and Budget - Treasury Department for their cooperation and assistance with this audit.

Vendors are paid via wire transfer, circumventing accounts payable processes.



Department / School Name	Office of Management and Budget
Administrator / Department Head	Judith Padres
Cabinet Official / Area Superintendent	Doreen Concolino

Audit Result / Recommendation	Management Response Acknowledgement/ Agreement of Condition	Responsible Person (Name & Title) And Target Completion Date	Management's Action Plan
<i>We recommend the department adopt the practice of scanning and attaching supporting documentation for Treasury Department entries in SAP.</i>	The department believes that this recommendation is not attainable given the volume of documentation used during the course of the different treasury functions.	Steven Compton, Director Treasury Services (06/2024)	In recognizing the importance of having documents accessible to multiple departments during the process of closing fiscal years, effort will be given to scan year-end audit related documents.
<i>We recommend the department follow accounts payable processes for vendor payments.</i>	The department was using wires as a payment method for vendors that were related to the district's debt service program. The department was under the impression that this method was acceptable based on a 2016 internal memo issued to the	Steven Compton, Director Treasury Services (01/2024)	The department acknowledges this recommendation and will start issuing payments through the accounts payable direct pay process to capture vendor information.



	Procurement Department.		
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