

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

The Board of Trustees and Superintendent  
of Ferris Independent School District

We have performed the procedures enumerated below, which were agreed to by the management of Ferris Independent School District (the "District") on certain transactions and reconciliations occurring during the period September 1, 2022 through April 30, 2023. The District's management is responsible for ensuring compliance with federal, state, and local laws and regulations, contractual requirements, and adherence to policies as adopted by the Board of Trustees. The sufficiency of these procedures is solely the responsibility of management of the District. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

References to the Texas Education Agency's (TEA) Financial Accountability System Resource Guide (FASRG) are included in our report. The references to TEA's FASRG are specifically applicable to the following:

- Module 1: Financial Accounting and Reporting (FASRG Module 1 FAR)
- Module 1: Financial Accounting and Reporting Appendices (FASRG Module 1 FAR Appendices)
- Module 5: Purchasing (FASRG Module 5)

Our procedures, findings and recommendations are as follows:

1. Vendor Contracts

We obtained an understanding of the District's policies and procedures as they relate to the management of vendor contracts. The testing to be performed as per our engagement letter was to obtain a listing of all vendor contracts for the period September 1, 2022 through April 30, 2023 and verify whether contracts in which the amount expended was greater than \$2,000 were entered into or renewed in accordance with District policies.

The District does not maintain a comprehensive list of vendor contracts. We expanded the procedures performed in this area in an attempt to identify as many contracts as possible by performing data analytics using the General Operating Accounting check register obtained as part of our expenditure testing. Data analytics included summarizing the check register by vendor, identifying total amounts paid to each vendor, reviewing payment patterns to vendors, and searching for certain key words in payment descriptions that may be indicative of a contract. See related procedure 2. Additionally, the Business Office reached out to the District's departments and requested copies of any contracts for which they were aware. We were provided with a list containing eight (8) contracts. Because a comprehensive list of all contracts could not be provided, contracts may exist that were not identified and included in our review.

### *Findings and Recommendations*

The District has a purchasing manual for purchases and acquisitions (“FISD Procedures: Purchasing”) with a revision date of October 2021. We reviewed the FISD Purchasing manual and noted the following items for the District’s consideration. We believe incorporating the following items into the FISD Purchasing manual would improve the District’s management of contracts:

- Guidelines on where vendor contract files are to be maintained. Best practice is for all vendor contracts to be maintained in a centralized location. A log of all vendor contracts should be maintained to include at a minimum the vendor’s name, contract reference number, brief description of the purpose of the contract, procurement method used, department overseeing delivery of goods or services, date contract was approved, contract term (start and end date) and contract amount. The log should be kept up to date and reviewed periodically to ensure all contracts are current and to ensure the procurement process takes place for all contracts coming to an end if renewal is needed.
- A description of supporting documentation required to be maintained in a vendor contract file. Such documentation may include:
  - Solicitation for bids or proposals. If quotes, a list of vendors contacted from whom a quote was obtained.
  - Copies of all bids, proposals, and qualifications received from all vendors who participated. If only quotes are required, documented quotes are obtained.
  - Ranking sheet documenting bids or quotes received and documenting prices from lowest to highest. For qualifications-based procurement, a ranking sheet is used to evaluate qualifications. If lowest bid/quote or most qualified vendor is not selected, a brief memo documenting why that was the case.
  - Executed copy of the contract.
- A description outlining which personnel are responsible for maintaining and updating vendor contract files and the contract vendor log.

We reviewed two (2) contracts from the list of eight (8) contracts provided by the district. The following is a summary of observations noted:

- At least one contract, with a maximum amount of \$176,528 over the 2022 – 2023 school year, was not accompanied by evidence of board approval.
- At least one contract for HVAC cooling towers totaling \$1,730,821 was not signed. Although the contract was not signed, we were able to observe board approval of the said contract as well as approved purchase orders against the contract.

## 2. Expenditure Cash Disbursements – Internal Controls Review and Testing

We reviewed the District's policies and procedures as they relate to expenditures and cash disbursements. A walkthrough of the expenditure cash disbursements cycle was performed to obtain an understanding of processes, procedures, and internal controls. Using auditor judgement, we haphazardly selected a sample of 40 cash disbursements from September 1, 2022 through April 30, 2023 focusing on those disbursements in excess of \$10,000. Our objective was to determine whether policies and procedures were followed and obtain an understanding of possible purchases in excess of \$50,000 either individually or in the aggregate during a 12-month period.

### *Findings and Recommendations*

We reviewed the District's purchasing manual, which became effective October 2021, and noted the following items we believe should be included to improve the District's procedures as they relate to cash disbursements and expenditures:

- The District's purchasing manual identifies procedures on how to report usage of the District's credit cards; however, the manual does not address the procedures, such as obtaining a PO prior to purchase, identification of those employees authorized to have a District card and their appropriate approved limits. Additionally, there appears to be 33 active employees who have been assigned a District credit card with spending limits of \$5,000 and \$10,000 for the superintendent.

We reviewed the District's written accounts payable procedures included within the purchasing manual and performed inquiries of the District's Business Manager as part of obtaining an understanding of the District's processes and procedures. We tested 40 transactions for compliance with the purchasing manual, written accounts payable procedures and our understanding based on inquiries. The following items were noted:

- The District allows for payment of expenditures up to 20% over an approved purchase order amount to be processed without any further approval. Expenditures exceeding 20% of an approved purchase order amount do not require the approval of the Business Manager and only require the appropriate campus or department to initiate the excess payment amount with codes for excess cost. We recommend the District consider lowering the threshold for requiring such approval as such overages may have a significant cumulative effect on expenditures occurring over the District's fiscal year. We also recommend requesting the Business Manager's approval to ensure they are involved in this process.
- Based on inquiries with management, we noted individuals requisitioning goods purchased or overseeing services acquired mark invoices "OK to Pay" as acknowledgement and confirmation that goods were received, or services were completed. The purchasing manual accounts payable procedures do not indicate that an "OK to Pay" is required. The "OK to Pay" approval was not consistent in all transactions tested. We noted 16 instances where invoices were not marked, signed, initialed, or emailed to mark invoices "OK to Pay" approving the payment. In some cases, invoices were simply signed or initialed without marking "OK to Pay", in other cases emails were sent in lieu of signing and marking "OK to Pay".

We recommend the "OK to Pay" control be formalized and included in the District's written Purchasing manual accounts payable procedures (see Exhibit 1). We also recommend the use of a stamp indicating the required information for payment approval to be used district-wide to provide consistency in the approval process throughout the District.

- We noted the Accounts Payable Specialist and Payroll Specialist have access to printing Board President and Secretary signatures on checks using a unique password assigned to each. At each board meeting, the board will approve the list of all checks issued in the prior month with their signatures, through a consent agenda item. We recommend a check register be printed and presented to the Superintendent for approval. We recommend the Superintendent sign and date the check register to be used as authorization for the Accounts Payable Specialist and Payroll Specialist to print checks with the Board President and Secretary signatures. These approved check registers should be maintained on file as evidence of this approval.
- The District has a procedure indicating that all invoices processed for payment must be accompanied by a purchase order that is approved and signed by the Superintendent and Business Manager. In our testing we noted nineteen (19) instances where the purchase order is dated on or after the vendor invoice date. This is indicative that purchase orders are issued after the fact versus used as a true control and furthermore, these instances encumber the District with unapproved goods and/or services.
- As part of our inquiries of the District's Business Manager we noted that all goods or services purchased through a purchase order must be received in Skyward before the Accounts Payable Specialist can process payment to the vendor. There were 28 instances where the District was unable to provide evidence of the receiving process occurring in Skyward, consequently we could not validate that the receiving occurred prior to processing payment on expenditure. Furthermore, there were three (3) additional instances where a signed vendor packing slip by department personnel was provided as evidence of receiving in Skyward, but not the actual Skyward receiver.
- The District's Purchasing manual indicates that when a requisition is for professional services, the requisition must follow Contract Management Procedures. Per inquiry of the Business Manager, she was not aware of the "Contract Management Procedures" other than those noted on the District's State & Federal Grants manual, but nowhere is it documented that those are the procedures to be utilized. In our testing, we noted two (2) instances where the District was provided professional services and no indication of request for qualifications process was followed as required in section 6 of the District's Purchasing manual.
- Texas Education Code EDUC 44.031 indicates that in instances where purchases to a single vendor in the aggregate for each 12-month period totaling \$50,000 or more; the District shall follow a competitive bidding method that provides the best value for the District. The District's Purchasing manual also indicates that purchases to a single vendor in the aggregate of \$50,000 or more; the requisition must follow the Competitive Procurement Procedures. Per inquiry of the Business Manager, she was not aware that the Competitive Procurement Procedures were documented. In our testing, we noted seven (7) instances where the District purchased from vendors that exceeded \$50,000 in the aggregate. The District could not provide support that the bidding process occurred, that quotes were obtained, or that board approval was obtained prior to processing payment to vendors, as required by the District's Purchasing Manual. Furthermore, there was one (1) additional instance where a State of Texas Department of Information Resources Contract for Products and Related Services with Dell Marketing was provided in lieu of the bidding process but failed to obtain a quote and board approval.
- The District's Purchasing manual requires all purchases of \$3,500 or more utilizing federal funds to obtain at least two (2) or more quotes for the purchase. Furthermore, the District's Purchasing manual requires all purchases of \$25,000 or more of non-federal grants funds to obtain at least three (3) or more quotes for the purchase. In our testing, we noted three (3) instances where federal funds were used for purchase in excess of \$3,500 and no quotes were provided, five (5) instances of purchases with non-federal fund in excess of \$25,000 with no quotes provided, and five (5) instances where a quote was provided corresponding to the vendor the purchase was made from but no additional quotes were provided to confirm adherence to the procedure.

### 3. Payroll – Internal Control Review and Testing

In order to obtain an understanding of the processes, procedures, and internal controls in place, we performed a walkthrough including interviewing both the Human Resources Director and Payroll Specialist. We judgmentally selected four pay periods and randomly selected 10 payroll transactions from each pay period for a total sample of 40 payroll transactions.

Of the 40 employees selected in our sample, 18 employees were in professional positions subject to employment contracts and 22 were at-will employees not subject to employment contracts.

#### *Findings and Recommendations*

It was noted the District has not adopted official policies establishing the individuals and procedures involved in employee onboarding, employee termination, any applicable reassignments or transfers, and changes in pay rates or pay scales. Additionally, while some documentation was noted to be included in personnel files as a matter of custom, there is no policy in place which identifies what documentation is required to be obtained and maintained within each employee's personnel file.

We requested employment contracts for the 18 employees selected in our sample who were subject to a contract and noted the following:

- For two (2) employees, employment contracts were not provided.
- For one (1) employee, a contract was provided that was missing the superintendent's signature.
- All contracts reflected the term, the school year, and type of position, but did not include any indication of which exact position, which grade level, which campus, which coaching position(s) or which coaching level(s).

We requested letters of reasonable assurance for the 22 employees selected in our sample who were not subject to an employment contract and noted the following:

- Fourteen (14) instances where timesheets (timeclock capture) were not provided. As a result, we were unable to verify the hours processed by the Payroll Specialist were correct.
- One (1) instance where there was no approval of overtime paid to employee.

The District's salary structure considers employees' years of service. We requested the service record forms for all employees selected in our sample and noted the following:

- Four (4) instances were noted where approved pay increases (ranging between 5% to 6%) were higher than those recommended on the approved pay plan (normally 3%). In all cases noted, these pay increases were to administrators. The approvals for those increases occurred via email from the Deputy Superintendent or a handwritten note with the Superintendent's signature sent directly to the Payroll Specialist with instructions to update the Skyward payroll module.
- One (1) instance where the Deputy Superintendent approved a pay increase to the Superintendent via an email sent to the Payroll Specialist. The District was not able to provide support that the increase had been approved by the board or that a contract amendment had been signed approving the increase. Similar to the bullet above, the increase approved for the superintendent was higher (approximately 5%) than the standard 3% approved on the pay plan schedule.

- We noted an email from the Deputy Superintendent to the Payroll Specialist dated April 21, 2022 approving a pay increase to certain District administrators at higher levels than the standard 3% increase. On August 22, 2022, the Superintendent sent a handwritten note to the Payroll Specialist approving additional pay increases to certain administrators. It appears this additional increase was to reallocate a \$8,000 pay increase that was originally approved for an Administrator in the April 21, 2022 email but who subsequently left the District.

With respect to Payroll Procedures and Payroll Processing, it was noted the District has not adopted official policies designating individuals and establishing procedures involved in the payroll process, including the process for establishing, approving, and updating pay rates and stipends.

The District documents approved employee salaries, pay rates and stipends using the HR Action Memorandums, which are completed by the Human Resources Department and signed by both the Human Resource Department and the Payroll Department either electronically (Droplet) on Skyward or in paper before entered into the payroll system. The Payroll Department also completes a Personal Data Form every year to document the base monthly rates and any supplemental pay or stipends to support rates in Skyward. In our sample of 40 employees selected, the following observations were noted:

- There were four (4) instances where a lack of HR Action Memorandums resulted in the payroll department overpaying or underpaying employees.
- There were twelve (12) instances where an HR Action Memorandum was missing or missing department approval signatures.
- The Personal Data Form was not filled out completely or data documented on the form was not consistent on substantially all of the samples selected.
- There were twenty-eight (28) instances where stipends paid (ranging from \$500 to \$5,000 per year) lacked approval as the stipend lists were never approved by the board, nor did the stipend list have any documentation that it had been reviewed or approved by the Superintendent or any other administrator.
- There was one (1) instance where there was no documentation or approval for a travel stipend increase (from \$50 to \$75 per month), continuance of a COVID stipend requiring board approval for any extensions, and additional pay for extra duty requiring board approval.
- There were two (2) instances where “Exempt” administrators were paid the “BUS TAX” which was a health insurance supplement stipend at non-exempt rates, without any approval or documentation as to the change.
- There were three (3) instances where additional pay rates for dual assignments (bus drivers) for the district were provided to payroll in a spreadsheet that had no documentation of approval, effective date, or any expiration date of the rates.
- There were five (5) instances where the extra duty pay rates used in droplet (payroll module) did not have documented support of who had approved the rates, when the rates were applicable and any expiration date of the rates.

### Payroll Tax Deposit Remittance

We were engaged to determine whether payroll tax deposits and reports were submitted timely. We obtained a listing of respective pay dates within this period and a summary report from the EFTPS website for all payroll tax deposits made within this period. Utilizing IRS Publication 15 (Employer's Tax Guide), we determined which deposit schedule was applicable to the District.

Based on IRS Publication 15, it was determined the District was subject to the Semiweekly Deposit Schedule:

- Applicable to employers with total taxes on Form 941, line 12 during the lookback period (essentially the preceding year), of more than \$50,000.
- Payroll paid on Wednesday, Thursday and/or Friday: payroll tax deposit is required by the following Wednesday.
- Payroll paid on Saturday, Sunday, Monday and/or Tuesday: payroll tax deposit is required by the following Friday.

### *Findings and Recommendations*

There were no findings noted to report. Copies of the respective payroll earnings registers were provided, which agreed without exception to the EFTPS payments made. All payroll taxes applicable to the pay periods of October 2022 and December 2022 were made on or before the required payment dates.

#### 4. Bank Reconciliations

We obtained an understanding of the bank reconciliation processes and procedures. We requested bank reconciliations for all of the District's accounts for the months of November 2022 and March 2023 to determine whether they had been prepared timely and were properly reviewed and approved.

### *Findings and Recommendations*

Bank reconciliations are important in any organization as they provide a basis for complete financial accounting of cash transactions and provide a means for identifying errors or fraud timely. In obtaining an understanding of the processes and procedures related to the bank reconciliation process and in reviewing bank reconciliations, we noted the following deficiencies in internal control that should be improved:

- The District does not have written procedures in place regarding the preparation of bank reconciliations. Written procedures should be adopted to include a timeframe in which bank reconciliations should be performed (best practice is monthly no later than the 10<sup>th</sup> day of the following month), assignment of individuals to prepare bank reconciliations ensuring segregation of duties, and a documented review and approval process. Additionally, we noted bank reconciliations are prepared in excel and maintained in PDF format. We recommend the printed bank reconciliations to include the preparer's signature and date as well as the approval date of the approver, and all supporting documentation is maintained.
- Reconciliations for all District cash accounts were prepared in excel and provided in PDF. For the District's November 2022 CSB General Operating Fund, CSB General Payroll Fund, CSB Construction and CSB Workers Comp Fund accounts, no support or listing of outstanding checks was provided to review aging and amounts of individual outstanding checks.

- The November 2022 CSB Payroll Fund account had multiple reconciling adjustments totaling \$21,785. Of that total, \$10,570 was related to reconciling adjustments from the prior fiscal year (2021-2022) and \$11,215 related to multiple reconciling items for the months of September 2022 through November 2022. Although they were subsequently cleared through correcting adjustments in February 2022, no supporting documentation was provided substantiating the reconciling items.

## 5. Bond Payments

We reviewed all bond payments due in February 2002 for outstanding debt to determine whether payments were remitted in a timely manner.

### *Findings and Recommendations*

The District's Debt/Bond Book prepared by the District's financial advisor for fiscal year 2022 could not be provided to verify debt service payment amounts, including principal and interest, for 5 bonds. In lieu of the Debt/Bond Book, we were provided with the District's 2021 Combined Debt Requirement Schedule that is utilized by the Business Manager to track due dates of debt payments and amounts. As part of our procedures, we were able to agree the interest only payments which became due February 2023 to the Schedule and to the bank statement. We noted payments were made timely.

## 6. Benford's Analysis

We obtained the District's cash disbursement register, including all non-payroll cash disbursements, to perform a Benford's Law analysis to identify any unusual or suspicious disbursements. Our sample consisted of 36 expenditure transactions selected from the cash disbursements register covering the period from September 1, 2022 through April 30, 2023. We requested a copy of the cancelled check and supporting invoices to verify the selected transactions were properly approved and were made for a reasonable purpose.

### *Findings and Recommendations*

We were provided support for all transaction selected and noted the following:

1. Eight (8) instances where the purchase order is dated on or after the vendor invoice date.
2. Two (2) instances where employee reimbursements were missing signatures from employee or approver or both.
3. Nine (9) instances where either the supporting documentation (i.e., invoice), the purchase order, or both were not provided for us to review.
4. One (1) instance where the purchases detailed out on the purchase order disagreed with the vendor invoice, yet the vendor payment was still processed without a purchase order modification.

We recommend the District take steps to ensure all purchasing and disbursement policies are being adhered to. Additionally, we recommend the District to also ensure that all documentation supporting expenditure transactions, including invoices, expense reimbursement requests, and purchase orders, be properly maintained and reflect appropriate approvals.

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This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of and the Board of Trustees of Ferris Independent School District and is not intended to be and should not be used by anyone other than those specified parties.

*Burton, McCumber, & Longoria LLP*

September 25, 2023  
Brownsville, Texas

Excerpts from TEA FASRG Module 5: Purchasing

### **3.54.1 The Receiving Function**

Some districts may have decentralized receiving, although it is not recommended. If receiving is decentralized, the district should ensure that only authorized individuals trained in receiving procedures are receiving goods at the various campuses or departments. Policies and procedures must be in place regarding such receipt of goods, and monitoring should be performed to ensure that standardized policies and procedures are implemented and adhered to by those receiving goods and services. These include checking the quantity and quality of merchandise and procedures to ensure that required inventory records are maintained.