



Internal Audit

Budget Process Audit

Budget Process Audit

Table of Contents

Executive Summary.....	3
Background.....	3
Scope.....	5
Objective.....	5
Methodology.....	5
Audit Observations and Recommendations	6
Conclusion	7

Date: February 15, 2023

To: Board of Trustees
Stephanie S. Elizalde, Ed.D., Superintendent

From: Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Subject: Budget Process Audit

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Budget Process Audit.

The audit focused on the District's controls surrounding budget processes, as well as compliance with applicable laws and District requirements. The audit included reviewing the overall budget development process, primarily for general operating funds, the budget amendment process, and compliance with budget reporting requirements.

Overall, the District has controls in place surrounding the budget process to ensure compliance with applicable laws and District requirements.

Background

Overview

The District's annual operating budget is prepared for the fiscal period of July through June. The planning phase begins with the District's goals set by the Board of Trustees (Board). Action plans are developed by chiefs for the District's campuses/departments. The Budget Services Department (Budget Services) provides a timeline for budget development that serves as the framework for major due dates.

Budget Services provides financial planning, budget analysis, and budget monitoring to facilitate financial decisions that support the educational goals of the District. Budget Services prepares the General Operating Fund (fund codes 180,199, sometimes 187) portion of the budget. The Food and Child Nutrition Services department prepares the budget for fund code 240 and the Treasury Department prepares the Debt Services portion of the budget (fund codes 528, 529, 550, 551). The Budget Services Department receives summary data from these departments for inclusion in the District's proposed budget. The Construction Services/Bond Office prepares its own budget which is not included in the District's annual adopted budget. Enrollment is an integral part of the budget process for which the Public Education Information Management System (PEIMS) area within the Information Technology Enterprise Applications Department is responsible for providing student enrollment and demographics information.

Revenue Budget

The fiscal year (FY) 2022-2023 adopted budget total revenue for the District is \$2,187,951,860 (approximately \$2.2 billion) which is comprised from local \$1,827,091,919 (83%), state \$172,098,259 (8%), and federal \$188,761,682 (9%) funding. Local funding for Texas public schools is generated primarily by a maintenance and operations (M&O) property tax levied on

local taxable values. The District's property tax rate consists of a M&O tax rate and an interest and sinking (I&S) tax rate. The M&O tax rate provides funding for the District's maintenance and operations. The I&S tax rate provides funds for payments on the District's debt that finances the District's facilities. According to the FY 2022-2023 adopted budget, the District's M&O tax rate is \$0.9936, and the I&S tax rate is \$0.242035.

Expenditure Budget

For the FY 2022-2023 adopted budget, 78.4 percent of the District's General Operating Fund (fund codes 180 and 199) is for payroll costs, including compensation and employee benefits. While payroll costs are the District's largest expenditure, there are other expenditures such as professional/contracted services, supplies/materials, and other operating costs.

Budget Development - General Operating Fund Budget

Budget Services uses the Budget Operating System (BOS) to develop the District's proposed budget. All campuses, central departments, and other District cost centers have a three-digit organization code that identifies their budget. The BOS system programming calculates a total budget amount for each District organization code based on information obtained during the planning process.

Both campuses and central departments have a staffing/payroll cost and a non-payroll cost component to their budgets. PEIMS data such as student enrollment and demographic information is input into BOS to determine staffing levels at the campuses based on state requirements. For administrative departments, prior year staffing levels are used to establish the payroll/personnel component of the budget.

Budget Services sends an email to District departments in February advising them the BOS system is open with their budget allocation which allows for the departments and campuses to review their staffing/payroll allocation and complete their controllable/discretionary line code allocations (General Operating non-position funds or Campus non-position funds) and submit to Budget Services. The proposed staffing allocations are reviewed in the spring during meetings attended by Human Capital Management (HCM), campus, and central leadership. Adjustment requests, such as new programs, are coordinated by chiefs and prioritized based on District needs.

The proposed budget is presented to the Board in May and June of the fiscal year to inform and obtain approval. Once adopted, it is uploaded into Oracle. Oracle is then used to track expenditures throughout the fiscal year.

Budget Evaluation/Monitoring

Budget performance is reviewed monthly by the chief financial officer, the executive director of Budget Services, the executive director of Accounting, and other team contributors. Monthly control reports are prepared that include measures such as budget-to-actual, budget-to-projected actuals, comparisons of revenue, expenditures, fund balance, and staffing levels.

Budget Amendments

Budget amendments are an essential part of the budgetary process and are utilized to allow flexibility to move funds from one account to another as the District may need to amend the adopted budget to reflect changes in operations that have occurred since the beginning of the school year.

There are two types of budget amendments:

- The first type of amendment, budget neutral, is one that would not change the District's fund balance. Examples include moving budgeted funds from one function code to another function code or moving budgeted funds between object codes within the same function code.
- The second type of amendment is one that does change the District's fund balance.

Amendments that move funds between function codes and amendments that impact the District's financial reserves/fund balance require Board approval.

Leveling

During the budget development process in spring, the District estimates the number of students that each campus may have. The District then uses the staffing formulas to determine how many teachers and what type of teachers (such as bilingual or special ed) are needed on each campus. Beginning in mid-September of each year, the District reviews the actual student enrollment for each campus and adjusts the staffing formulas accordingly to better serve students across the District.

Scope

The audit period included activity from the current FY and FY 2021-2022.

Objective

The objective of the audit was to review the District's controls surrounding budget processes, as well as compliance with applicable laws and District requirements.

Methodology

OIA interviewed key personnel; reviewed processes, controls, and supporting documents related to campus staffing formulas, non-position campus staffing formulas, budget amendments, and budget reporting compliance; and performed the following:

1. Campus Staffing Formulas - To determine if campus staffing formulas comply with Texas Education Agency (TEA) staffing guidelines, auditors selected a sample of three campuses (one elementary, one middle, and one high school) and performed the following using the blue sheets from the adopted budget:
 - a. Verified the General Operating Student/Teacher Ratio in the proposed budget column complied with the TEA guideline stating that the District must employ a certain number of teachers per number of students.
No observations were noted.
 - b. To verify the BOS campus staffing computations followed campus staffing formulas, auditors obtained the campus staffing formulas along with the total staff goal results (Total Staff) for each selected campus. Using the campus staffing formulas, auditors re-computed the sections in the campus staffing formulas worksheet.
No observations were noted.

- c. To verify the BOS General Operating Student/Teacher Ratio computation followed the campus staffing formulas, auditors divided the PEIMS Estimated Enrollment count on the proposed budget by the re-computed number of Total Staff in audit procedure 1b to re-compute the General Operating Student/Teacher Ratio.
No observations were noted.
2. Non-Position Campus Formulas – To verify the Non-Payroll Cost by Function amount on the adopted budget followed the non-position campus formulas, auditors obtained the Non-Position Campus Formulas for the three campuses selected in audit procedure one above and the corresponding allocation amounts (Non-Payroll Cost by Function) and re-computed the dollar amounts for all the line items in the Non-Position Campus formulas worksheet and verified they matched the amounts on the adopted budget.
No observations were noted.
3. Budget Amendments - To determine if proposed budget amendments were properly supported and approved, auditors obtained three months of amendments submitted to the Board (October 2021, December 2021, and March 2022). From each of the months, auditors then selected one amendment transaction and obtained the detailed supporting documentation from Oracle.
No observations were noted.
4. Budget Reporting Compliance - To determine if budget reporting performed by Budget Services is in compliance with Texas Education Code (TEC), Chapter 44, Fiscal Management, auditors obtained a copy of the proposed budget FY 2022-2023 and tested for the following attributes:
- Evidence of the proposed budget was completed on or before date set of the State Board of Education, Sec. 44.002
 - Evidence that a meeting was held for adoption of the tax rate, Sec. 44.004 (a)
 - Evidence of the publication of notice, Sec 44.004 (c)
 - Evidence of the posted summary of the proposed budget, Sec. 44.0041 (a) and (b)
 - Evidence of filing of the adopted budget with the State Board of Education, Sec. 44.005
 - Evidence of the posting of the adopted budget, Sec. 44.0051 (a) and (b)
 - Evidence of executive director of Budget Service's review of the adopted budget, Sec. 44.010
- No observations were noted.

Primary criteria used for this audit were:

- 1) TEC, Chapter 44, Fiscal Management, as of report date
- 2) Dallas ISD 2022-2023 Adopted Budget, Adopted June 23, 2022, on District website
- 3) District Policy CE(LEGAL)-P, Annual Operating Budget, issued November 9, 2021
- 4) District Policy CE(LOCAL)-X, Annual Operating Budget, issued February 9, 2018
- 5) TEC, Chapter 25 Admission, Transfer, and Attendance, Subchapter D Student/Teacher Ratios, Section 25.112 Class Size, as of report date

Audit Observations and Recommendations

No observations with recommendations were identified for the Budget Process Audit.

Conclusion

The audit focused on the District's controls surrounding budget processes, as well as compliance with applicable laws and District requirements. The audit included reviewing the overall budget development process primarily for general operating funds, the budget amendment process, and compliance with budget reporting requirements.

OIA would like to thank Budget Services for their cooperation and assistance with this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

Robert Rubel

Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Cc: Pamela Lear, Ed.D., Deputy Superintendent, Chief of Staff and Racial Equity Officer
Dwayne Thompson, Deputy Superintendent, Business Services, Financial Services
Tamika Alford-Stephens, Ed.D., Chief Financial Officer, Financial Services
Robert Abel, Chief Human Capital Officer, Human Capital Management
Richard Straggas, Executive Director II, Budget Services Department, Financial Services

Acknowledgments:

Eva Narten, CPA, CIA, CISA, Deputy Chief, Internal Audit
Ben Miraglia, CPA, CIA, Audit Manager
Andy Lee, CA, CFE Auditor II