

# **William S. Hart UHS District**

## **Administrative Regulation**

Business and Noninstructional Operations

Debt Issuance and Management

AR 3470(a)

Internal Control Procedures

Adapted from the December 2015 Task Force on Bond Accountability Report (Appendix A – Best Practices in Bond Accountability)

Part 1 – Control Environment

To ensure the District has established a control environment that provides a reasonable assurance to achieve its objectives with respect to the issuance of bonds and the use of bond proceeds, the Superintendent or designee shall do the following:

1. Designate a compliance officer or establish a compliance team to verify internal controls and bond requirements. The designated compliance officer should be a staff person that, with respect to their regular duties, is not responsible for processing invoice payments.
2. Ensure the compliance officer and/or compliance team member have participated in training on internal control and bond administration requirements.
3. Establish an inventory of outstanding bonds and obtain or prepare a list of bond requirements, including covenants in the following bond documents: (a) Indentures, (b) Loans or Lease Agreements, (c) Tax Certificates and Continuing Disclosure Agreements.
4. Establish written procedures for bond administration processes and bond requirements that support the District's internal control system.
5. Adopt a debt policy with objectives and specification for bond administration and integrate into the District's organizational policies, procedures, and long-term plans.
6. Establish an audit committee to review compliance with testing of bond requirements.

Part 2 – Risk Assessment

To ensure the District identifies the objectives of the bond program and analyzes the relevant risks to establish a reasonable assurance that internal control systems are managing risks, the Superintendent or designee shall do the following:

1. Define the objectives of the bond administration program relating to: (a) Operations (related performance measures are effectiveness and efficiency), (b) Reporting (related performance measures are accuracy and precision), (c) Compliance.
2. Include objectives of bond administration program in a debt policy and integrate risk assessment for all stages of the debt lifecycle into the District's decision-making and planning process.
3. Establish performance measurements to monitor how successfully the District achieves its objectives for the bond administration program.
4. Establish risk tolerance relative to each of the objectives of the bond administration program.
5. Identify and analyze risks (including potential fraud and misuse) related to the objectives and conditional elements of the bond administration program.

### Part 3 – Control Activities

To ensure the District's bond program objectives are achieved and risk appropriately managed, the Superintendent or designee shall do the following:

#### General

1. At a minimum, apply the same system of internal control activities to bond funds as to all other funds.
2. Review and update inventory of outstanding bonds and related bond requirements.
3. Review and update bond administration procedures.
4. Review and update debt policy for changes to legal requirements, new debt and revised objectives, strategies, and procedures.
5. Confirm compliance with policies, covenants, and bond administration procedures that support the District's internal control system (all control activities).

#### Legal and Financial Requirements

1. Confirm legal requirements of debt sales (new issues and refunding transactions) are met through the following actions:

- a. Maintain copies of approvals, authorizations, and controlling bond documents (official bond transcripts) in a safe and secure but accessible location.
  - b. Monitor/track bond authorizations to debt issuances and refunding transactions.
  - c. Ensure bond documents and amendments are appropriately approved pursuant to the District's administrative or legal policies and procedures.
  - d. Confirm bond projects and related expenditures are consistent with approvals, authorizations, and controlling bond documents.
2. Confirm compliance with financial covenants and other restrictions through the following actions:
- a. Confirm funds and accounts are established in the District's accounting system to record the receipt of proceeds and account for bonds payable.
  - b. Confirm funds and accounts established by the trustee and deposits of bond proceeds reconcile with controlling bond documents.
  - c. Monitor trustee funds and accounts and perform periodic reconciliations of trustee statements with District records for bond expenditures, including costs of issuance for new issues or refunding transactions.
  - d. Confirm expenditures for bond proceeds are processed pursuant to appropriate segregation of duties and practicable checks and balances (three-way matching), or alternatively, by appropriate compensating controls.
  - e. Confirm deposit of funds with trustee for debt service and maintenance of reserve funds or other accounts, including the rebate account and monitor cash flow activity on a periodic basis. Confirm any excess funds at the trustee are applied pursuant to the terms of the indenture or other controlling bond document.
  - f. Confirm trustee is performing compliance activities for financial covenants required by indenture, loan or lease agreements, or other bond documents.
  - g. Confirm compliance with debt policy provisions regarding financial performance measurements for conditional elements of the bond administration program.

## Other

1. Confirm compliance with the District's records retention policy and procedures.
2. Confirm compliance with tax certificate covenants (i.e. post-issuance tax compliance requirements for bonds).
  - a. Maintain copies of filings with the IRS for each bond issuance (e.g. Information Return Form 8038-G and arbitrage rebate reports).
  - b. Confirm due dates for arbitrage rebate and yield restriction filing requirements.
  - c. Monitor compliance with expenditure spend-down targets, use of proceeds, private use, and disposition of bond-financed facilities.
3. Confirm compliance with continuing disclosure agreement covenants, i.e. post-issuance disclosure requirements.
  - a. Confirm annual filing of the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Marketplace Access (EMMA) website due dates for annual reports and other financial reports applicable to each outstanding bond issuance.
  - b. Update information in the District's annual report required by the continuing disclosure agreement (CDA) for the bond issue and file with EMMA no later than the required due date. If using a dissemination agent to file the report with EMMA, the compliance officer should locate the filing on EMMA and confirm the annual report has been filed prior to the due date.
  - c. Monitor outstanding debt for events that are listed in the CDA as a material or listed event and file or arrange to file a notice of material event on EMMA for an occurrence within 10 business days of the event.

## Part 4 – Information and Communications

To ensure the District has the information needed to determine whether it is achieving its objectives and managing risks that may hinder its progress, the Superintendent or designee shall do the following:

1. Establish a process to alert personnel to changes in policies and procedures for internal controls and bond requirements.

2. Establish an official structure of communication within the District based on roles and responsibilities in the bond administration program.
3. Confirm that staff with internal control and/or bond administration responsibilities, including compliance, received or are scheduled to receive periodic training.

Part 5 – Monitoring

To ensure the District maintains a system of internal controls over time, the Superintendent or designee shall do the following:

1. Perform periodic review of bond activities and report results to the Board annually.
2. Complete Internal Control Checklist at least annually, and immediately report findings to management.

Date  
Issued:

WILLIAM S. HART UNION HIGH SCHOOL DISTRICT  
Santa Clarita, California