

BUSINESS AND NONINSTRUCTIONAL OPERATIONS

SUBJECT: Debt Issuance And Management

**APPENDIX A
INTERNAL CONTROL PROCEDURES
Internal Control Checklist for Bond Requirements**

Part 1. Control Environment:

Task/Deliverable	Completed? (<input type="checkbox"/> = Yes)	Comments/Remarks
1. Do you have a Compliance Officer? ¹ (Identify a Compliance Officer or establish a compliance team to verify internal controls and bond requirements.)		[Name & Title]
2. Compliance Officer and compliance team members 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 controlling bond documents: ² a. Indenture, Fiscal Agent Agreement or Resolution b. Loan or Lease Agreement c. Tax Certificate d. Continuing Disclosure Agreement		<i>(Refer to Part 3. Control Activities of this checklist for examples of bond requirements)</i>
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 specifications for bond administration and integrate into the District’s organizational policies, procedures and long-term plans. <i>(Refer to Part 2. Risk Assessment of this checklist for additional information)</i>		Debt policy and procedures are maintained in the District’s policy and procedures manual.

¹ The District may utilize a compliance team that represents a cross-section of bond administration roles and responsibilities throughout its program operations and organizational structure. If a compliance team is utilized, a single point of contact should be identified to coordinate compliance activities.

² A thorough review and understanding of covenants or provisions in controlling bond documents is necessary to prepare a list of bond requirements for compliance purposes. If necessary, the District should seek advice or assistance from bond counsel and/or financial advisor regarding the development its list of bond requirements. Lists of post-issuance requirements for the specific purpose of compliance with federal tax law regarding arbitrage rebate, yield restriction and private use and legal or regulatory requirements for continuing disclosure are available from the Internal Revenue Service or organizations such as the National Association of Bond Lawyers (“NABL”) and the Government Finance Officers Association (“GFOA”).

Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
Part 2. Risk Assessment:		
1. Clearly define the objectives ³ of the bond administration program related to: a. Operations (Effectiveness and Efficiency) b. Reporting (Accuracy and Precision) c. Compliance		Objectives are clearly measurable and easily understood at all levels of the District. Objectives relate to activities within all stages of the debt lifecycle.
2. Include objectives of the 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.		The District’s objectives in its strategic plan include elements of bond administration and define strategies the District uses to manage risk.
3. Establish performance measurements ⁴ to monitor how successful the District achieves its objectives for the bond administration program.		Performance measurements for the bond administration program are defined and included in a strategic plan.
4. Establish risk tolerance relative to each of the objectives of the bond administration program. Risk tolerance is equal to the variation of performance or condition that the District has determined to be within its risk appetite.		A debt policy defines the level of risk that is deemed reasonable for the District to accept in the achievement of its objectives (risk appetite) and identifies the conditional elements of the bond administration program that are monitored within the District’s internal control system.
5. Identify and analyze risks (including potential fraud and misuse) related to the objectives and conditional elements of the bond administration program. <i>(Refer to the Task Force Guidelines in Part 3 – Control Activities for additional information on appropriate responses an agency may deploy to manage risks)</i>		Risk analysis estimates the significance of each risk, assesses the likelihood of occurrence and forms the basis for the types of control activities that are used to prevent and detect risks, including remedies that management may use to immediately respond to risk events.
Part 3. Control Activities:		
1. The District applies the same system of internal control activities to bond funds as it does to all other governmental funds. <i>(See below for examples of control activities for bond requirements)</i>		Based on bond requirements and risk assessment findings, control activities provide a reasonable assurance of internal control for bond funds applicable to all stages of the debt lifecycle.

³ Objectives of the bond administration program may reflect District responsibilities specified in controlling bond documents as well as specifications required by laws, regulations or the District’s policies and procedures.

⁴ Performance measurements relate to elements of bond administration objectives and are used to evaluate variances of performance (levels of risk) for each element on a conditional basis, i.e. Is the objective achieved in a manner that is effective, efficient, accurate, precise or in compliance?

Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
2. Review and update inventory of outstanding bonds and related bond requirements.		Review official bond transcripts.
3. Review and update bond administration procedures.		
4. Review and update debt policy for changes to laws, legal requirements, new debt and revised objectives, strategies and procedures.		The debt policy is reviewed on a periodic basis for approval by the Board.
5. Confirm compliance with policies, covenants and bond administration procedures that support the District’s internal control system (all control activities).		All control activities sufficiently evaluate risk factors of fraud and misuse of bond proceeds.
Control Activities for Legal and Financial Requirements		
6. Confirm legal requirements of debt sales (new issues and refunding transactions) are met.		
<ul style="list-style-type: none"> • Receive copies of approvals, authorizations and controlling bond documents (official bond transcripts) and maintain in a safe, secure but accessible location. 		
<ul style="list-style-type: none"> • Monitor/track bond authorizations to debt issuances and refunding transactions. 		Update inventory of outstanding bonds.
<ul style="list-style-type: none"> • Bond documents and amendments are appropriately approved pursuant to the District’s administrative or legal policies and procedures. 		
<ul style="list-style-type: none"> • Confirm bond projects and related expenditures are consistent with approvals, authorizations and controlling bond documents. 		Conduct site visits to confirm work is performed (as reflected in progress estimates submitted by contractors)
7. Confirm compliance with financial covenants and other restrictions.		
<ul style="list-style-type: none"> • Confirm funds and accounts are established in the District’s accounting system to record the receipt of proceeds and account for bonds payable. 		Applies to new issues and refunding transactions at the time of closing.
<ul style="list-style-type: none"> • Confirm funds and accounts established at Paying Agent or County and deposit of bond proceeds reconcile with controlling bond documents. 		
<ul style="list-style-type: none"> • Monitor funds and accounts at Paying Agent and perform periodic reconciliations of Paying Agent /County statements with District records for bond expenditures, including Costs of Issuance for new issues or refunding transactions. 		Officer certificates or requisitions match Paying Agent /County records and statement activity.

Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
<ul style="list-style-type: none"> Confirm expenditures for bond proceeds are processed pursuant to appropriate separation of duties and practicable checks and balances (Three-Way Matching). 		Officer certificates or requisition have required District authorizations supported by audit trail documents that support the reconciliation of expenditures with capital budget and District records.
<ul style="list-style-type: none"> Confirm deposit of funds with Paying Agent/County for debt service, 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 Paying Agent/County are applied pursuant to the terms of the indenture or other controlling bond document.
<ul style="list-style-type: none"> Confirm Paying Agent is performing compliance activities for financial covenants required by indenture, loan or lease agreements or other agreements. 		Paying Agent is correctly following indenture procedures including the maintenance of funds and accounts, insurance and credit rating filings, monitoring and adherence to debt coverage ratios and additional bonds tests, distribution of notices and corporate actions and mandatory or optional redemption instructions.
<ul style="list-style-type: none"> Confirm compliance with debt policy provisions regarding financial performance measurements for conditional elements of the bond administration program. <i>(For examples of conditional elements refer to the GFOA model debt policy at www.gfoa.org/debt-management-policy)</i> 		Conditional elements of a debt policy are consistent with the District’s objectives and strategies in the strategic plan or other long-term planning report.
Control Activities for Legal and Financial Requirements:		
8. Confirm compliance with District oversight requirements for bond administration activities.		
9. Confirm compliance with staffing plans for the bond administration program.		
10. Confirm compliance with District records retention policy and procedures.		Records retention for bond related material is maintained pursuant to federal treasury regulations and tax law requirements. <i>(Refer to Other Control Activities in this checklist below)</i>
Other Control Activities:		
11. Confirm compliance with tax certificate covenants, i.e., post-issuance tax compliance requirements for tax-exempt bonds. (For detailed information on tax compliance for tax-exempt bonds refer to the IRS Compliance Guide at www.irs.gov/pub/irs-pdf/p4079.pdf)		Pursuant to IRS guidelines, in order to comply with post-issuance federal tax rules, issuers ensure that the rules are met both at the time the bonds are issued and throughout the term of the bonds.

Task/Deliverable	Completed? (☐= Yes)	Comments/Remarks
<ul style="list-style-type: none"> Do you have an arbitrage rebate consultant? (Consult with arbitrage rebate consultant and/or bond/tax counsel, as necessary to ensure compliance with post-issuance tax requirements for tax-exempt bonds.) 		Implement procedures that will enable adequate safeguards against post-issuance violations that result in loss of the tax-exempt status of bonds.
<ul style="list-style-type: none"> Maintain copies of filings with the Internal Revenue Service for each bond issuance, i.e. Information Return Form 8038-G and arbitrage rebate reports. 		8038-G is included in official bond transcripts.
<ul style="list-style-type: none"> Confirm due dates for arbitrage rebate and yield restriction filing requirements with the Internal Revenue Service. 		First installment due on fifth Bond Year of bond issuance plus 60 days. Tax Certificate provides the Bond Year to determining due date for tax filings.
<ul style="list-style-type: none"> Monitor compliance with expenditure spend-down targets, use of proceeds, private use and disposition of bond-financed facilities. 		Maintain a separate list of compliance requirements for tax compliance and continuing disclosure, i.e. post-issuance requirements for tax-exempt bonds. Request a compliance checklist from consultant or tax counsel or refer to the checklist developed by NABL and the GFOA at www.gfoa.org/debt-management-policy
<ul style="list-style-type: none"> Monitor compliance with records retention requirements for bond related records, pursuant to federal treasury regulations and tax laws. 		
<p>12. Confirm compliance with continuing disclosure agreement covenants, i.e. post-issuance disclosure requirements for tax-exempt bonds.</p>		
<ul style="list-style-type: none"> Confirm annual EMMA filing due date for the annual report and other financial reports applicable to each outstanding bond issuance. 		Continuing disclosure agreement for bond issue specifies filing due date.
<ul style="list-style-type: none"> Update information in the District’s annual report required by the continuing disclosure agreement for the bond issue and file with EMMA no later than the required due date. If the District utilizes a dissemination agent to file the annual 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 and verify correct CUSIPS were used in the filing. 		Maintain a separate list of compliance requirements for tax compliance and continuing disclosure, i.e. post-issuance requirements for tax-exempt bonds. Request a compliance checklist from consultant or bond/disclosure counsel or refer to the checklist developed by NABL and the GFOA at www.gfoa.org/debt-management-policy
<ul style="list-style-type: none"> Monitor outstanding debt for events that are listed in the continuing disclosure as a material or listed event and file or arrange to file a notice of material event on EMMA for an occurrence within 10 calendar days of the event. 		Consult with bond/disclosure counsel as necessary to ensure compliance with post-issuance disclosure requirements for tax-exempt bonds.

Task/Deliverable	Completed? (<input type="checkbox"/> = Yes)	Comments/Remarks
Part 4. Information and Communications:		
1. Establish 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.		Job descriptions include roles and responsibilities for essential bond administration functions. <i>(Refer to Control Activities for Non-Financial Requirements, Item 9.)</i>
3. Confirm staff with internal control and/or bond administration responsibilities, including compliance, received or are scheduled to receive periodic training.		
Part 5. Monitoring:		
1. Incorporate bond activities and fraud risk assessment tests in the annual performance audit.		
2. Complete Internal Control Checklist and immediately report findings to management.		