PROGRAM 2 – DEBT RETIREMENT PROGRAM
DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

I. PROGRAM OBJECTIVES

AS 14.11.100 authorizes payments for reimbursement of principal and interest on bonds and other outstanding indebtedness for the construction of education facilities. Payments are based on annual appropriations from the Legislature and are made to a municipality that has a school district.

II. PROGRAM PROCEDURES

Based on the annual appropriation for debt service, the Department determines the level of funding available for reimbursement to school districts for their payments of outstanding bonds or cash payments from local revenue for approved projects. If sufficient funds are not available to meet the entitlement, the Department will distribute these funds on a pro rata basis.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

Projects authorized to utilize an allocation provided under AS 14.11.100(a) and 4 AAC 31 must meet the requirements of the portions of AS 14.11.100(j) to be in compliance. All approved projects must be constructed in accordance with the procedures outlined in AS 14.11.100 and 4 AAC 31.023.

A. TYPES OF SERVICES ALLOWED OR UNALLOWED -

1. **Compliance Requirement**: Bond debt service expenditures may only be reimbursed by the Department if related bond proceeds were used for the construction or rehabilitation of education facilities subject to prior approval by the Department.

   Cash expenditures on projects approved by the Department may only be reimbursed if the source of funding is locally generated revenue.

   Items ineligible for reimbursement include:
   - Grant fund expenditures may not be reimbursed under AS 14.11.100;
   - Debt incurred for the purpose of meeting the participating share requirements as per AS 14.11.008 is not eligible for reimbursement; and
   - Revenues from bond sales used to reduce indebtedness incurred under this program are not eligible for reimbursement.

   Suggested Audit Procedures:

   a) Determine whether controls are in place to ensure that only cash payments and debt service expenditures for bonds issued in connection with the construction or rehabilitation of education facilities as approved by the Department are submitted for reimbursement under this program; and

b) If bond sale proceeds were used to reduce remaining debt at the conclusion of the project, analyze expenditures and sources of funding to ensure that Department funds were not used to reimburse that portion.

2. **Compliance Requirement**: Capital project funds generated through local bonds reimbursed under AS 14.11 can be expended only for the purpose stipulated in the enabling legislation and as specified in the project agreement.

   Suggested Audit Procedure: Test a sample of project expenditures to determine whether they are necessary and reasonable for the performance and administration of the project, and are authorized or not prohibited under the project agreement and other applicable guidelines and regulations.

B. ELIGIBILITY -

Compliance Requirement: All city and borough school districts within the State of Alaska are eligible for this program, although allocations under AS 14.11.100 may target specific districts based on student populations.

Suggested Audit Procedure: Because project eligibility is determined at the Department level, the auditor is not expected to test for eligibility.

C. MATCHING, LEVEL OF EFFORT AND/OR EARMARKING REQUIREMENTS -

Compliance Requirement: Under provisions of AS 14.11.100, local municipalities must pay a percentage of the cost of outstanding bonds or cash payments from local revenue for school construction under this program.

Suggested Audit Procedures:

a) Review and evaluate policies and procedures for verifying compliance with this provision; and

b) Test financial and related records to confirm that the approved percentage is being paid from locally generated revenue.

D. REPORTING REQUIREMENTS -

1. **Compliance Requirement:**

   a) Under 4 AAC 31.060(e), a municipality or school district must submit to the Department a request for an allocation for debt retirement under AS 14.11.100 (the amount of funds needed to meet anticipated debt service payments) on the form required by the Department. The request should be received not later than October 15 of the fiscal year preceding the fiscal year in which reimbursement will be sought.

b) Under 4 AAC 31.060(d), for all projects in an active status, Annual Project Summary-Debt Retirement-Schedule 3, Form 05-08-015, must be completed and submitted to the Department by October 15 of each year. The summary should include all activity on the project from its inception to the preceding June 30.

c) Under 4 AAC 06.121(5)(D), for projects subject to AS 14.11.100(a)(1)-(5), a Schedule of Payments Made for Principal and Interest on Bonds-Schedule 1, on Form 05-94-035, must be completed and submitted to the Department by October 15 of each year.

Suggested Audit Procedures:
a) Evaluate internal controls for preparing reports;
b) Trace reported data to the supporting documentation; and
c) Review reports for completeness and timeliness of submission;

2. Compliance Requirement:
District must report the debt retirement program revenues and expenditures in a debt service fund.

Suggested Audit Procedures: Review financial reporting to determine correct reporting of debt retirement funds.

E. SPECIAL TESTS AND PROVISIONS -

1. Compliance Requirement: This program reimburses current debt service costs that are financed by bond indebtedness. Under AS 14.11.100(i), reimbursements will be made only after bonds are sold and debt incurred. Reimbursements for cash payments to vendors will be made only after those amounts are paid to the vendor. Additionally, reimbursements for both debt service costs and cash payments will not be made for contract costs paid after a contract has been released.

Suggested Audit Procedure:
a) Compare bond sale and contract release dates to related reimbursements to determine compliance with AS 14.11.100(i);
b) In instances of cash payment reimbursements, compare dates of vendor payments and contract release to related reimbursements to determine compliance with AS 14.11.100(i); and
c) Review a sample of reimbursements for completeness and timeliness of submission to the Department.

2. Compliance Requirement: The plan for the use of the facility is approved by the Department. The approved facility must meet the criteria in 4 AAC 31.061-.062.

Suggested Audit Procedures: By observation and/or discussion, determine that the facility is being used in a manner consistent with Department approval and 4 AAC 31.061-.062.

3. **Compliance Requirement**: According to 4 AAC 31.080, construction under this program must be performed under a written contract awarded on the basis of competitive sealed bids not to exclude approved alternative construction delivery methods or limited force-account construction. The award will be made to the lowest responsible bidder with no preference to local bidders.

   Suggested Audit Procedure: Review procurement documents to determine compliance with the provisions of 4 AAC 31.080.