



**El Paso Children’s Museum –  
Accounts Payable Audit Report  
A2020-05**

Issued by the  
Internal Audit Office  
November 20, 2020

**City of El Paso**  
**Internal Audit Office**  
**El Paso Children’s Museum – Accounts Payable Audit A2020-05**

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***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded the El Paso Children’s Museum – Accounts Payable Audit. Based on the results of the audit, two findings were identified. Both of these findings are considered significant in nature.

Listed below is a summary of the findings identified in this report:

1. During the course of the audit, we determined that the El Paso Children’s Museum (EPC) Budget and Donor Contribution Reports are not being provided to the Museum and Cultural Affairs Department (MCAD) per the requirements of the Children’s Museum Agreements. The required reports are as follows:
  - A five (5) year Museum Operating Budget prior to the commencement of construction.
  - An annual budget adopted by EPC prior to the beginning of each fiscal year.
  - Quarterly Donor Contribution Reports.
  - Quarterly updates to City Council on the status of the design, development, budget, and construction until the Museum is open to the public.

In addition, we also identified the following requirements specific to EPC’s Operating Stipend. MCAD should:

- Document how the Operating Stipend is calculated and used for.
  - Establish a list of operating expenses paid from the Operating Stipend.
  - Document how often EPC is required to submit invoices for payment.
2. During the period of September 1, 2018 to August 31, 2020, a sample of 10 invoices processed by the Museum and Cultural Affairs Department (MCAD) and the Capital Improvement Department (CID) were selected for review. The objective of our review was to ensure compliance with the Children’s Museum Agreements and with the applicable *City of El Paso’s Accounts Payable Policy* dated September 2018 and September 2019. Our review identified the following:
    - Four (4) out of 10 (40%) invoices processed by MCAD had no evidence that the mathematical accuracy of quantities and dollars spent was confirmed.

For a detailed explanation of the findings, please refer to the body of this Audit Report.

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***BACKGROUND***

On November 6, 2012, the voters of El Paso approved the Quality of Life Bond, which included funding for new and improved amenities around El Paso. One of the projects which funding was included for was a new Children’s Museum to be located within the City. On March 6, 2018, El Paso City Council approved the Memorandum of Understanding (MOU) by and between the City and the El Paso Children’s Museum (EPC), a Texas nonprofit corporation, to continue to negotiate the El Paso Children’s Museum. On June 11, 2018, the City agreed to provide additional funds from the issuance of Certificates of Obligation to further support the Museum.

The City and EPC entered into an Agreement to cooperate and provide a first class state of the art Children’s Museum in the downtown area of the City valued at approximately \$60 million. EPC will aid, assist, and act for and on behalf of the City in the performance of the City’s governmental functions, including, but not limited to providing the means to acquire, develop, construct, operate, and maintain the Museum.

The City will provide Development Contributions to pay for acquiring, designing, constructing the Museum to include professional services and acquiring exhibits. The Development Contribution should never exceed thirty nine million two hundred and fifty thousand dollars (\$39,250,000). The Development Contribution consists of:

- Nineteen million two hundred and fifty thousand dollars (\$19,250,000) in proceeds from the voted Quality of Life Bonds.
- Twenty million dollars (\$20,000,000) in proceeds from Certificates of Obligation.

Over ten (10) years following the issuance of the Museum’s Certificate of Occupancy, EPC agrees to secure a minimum of twenty million dollars (\$20,000,000) in contributions received from donors. The Donor Contributions will be used for Museum exhibit design, purchase, construction, repair, replacement, maintenance, restoration, installation, and Museum operational expenses, including salaries and programs.

***AUDIT OBJECTIVES***

The objectives of the El Paso Children’s Museum – Accounts Payable Audit were to determine if:

- Accounts payable transactions are processed in a timely manner and in accordance with the:
  - Funding, Operating, and Lease Agreements between the City and EPC
  - *City of El Paso Accounts Payable Policy*
  - Texas Prompt Payment Act
- Appropriate documentation is in place to support accounts payable transactions.
- Accounts payable transactions are properly reviewed and approved for payment by authorized personnel.
- The City has implemented adequate controls to limit exposure of unauthorized accounts payable transactions.
- EPC is operating within budgetary limits.
- EPC and the City are complying with the terms and conditions of the Funding, Operating, and Lease Agreements to include budget, reporting and oversight.

***AUDIT SCOPE***

Accounts payable transactions processed, monitored, and reconciled by the Museum and Cultural Affairs Department (MCAD) and the Capital Improvement Department (CID) for Fiscal Years 2019 and 2020.

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***AUDIT METHODOLOGY***

To achieve our audit objectives, we:

- Obtained and understanding of the Museum and Cultural Affairs Department (MCAD) and Capital Improvement Department (CID) procedures for paying the El Paso Children’s Museum (EPC) invoices,
- Interviewed MCAD and CID Accounts Payable personnel,
- Conducted a review of a sample of EPC invoices processed by MCAD and CID for FY19 & FY20,
- Conducted an analysis of MCAD’s and CID’s reconciliation processes for EPC accounts,
- Evaluated MCAD’s and CID’s monitoring and reconciliation of EPC accounts payable transactions,
- Determined if EPC is complying with the budget and reporting requirements of the Children’s Museum Agreements.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

**Finding 1**

**The El Paso Children’s Museum (EPC) Budget/Reporting Requirements**

City of El Paso Strategic Plan:

- Goal 6.6 *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*

El Paso Children’s Museum Funding Agreement, effective April 3, 2018. (Abbreviated version of the Agreement requirements.)

- Section 2.4 *Museum Budget. (A) Five-Year Projected Budget. Requires a five-year Museum Operating Budget prior to the commencement of construction.*
- Section 2.4 *Museum Budget. (B) Annual Budget. Requires an annual budget be adopted by EPC prior to the beginning of each fiscal year.*

Children’s Museum Management & Operating Agreement, effective July 23, 2018. (Abbreviated version of the Agreement requirements.)

- Section 2.3 *Budget. (a) Reports; Audit Rights. (ii) Requires quarterly Donor Contribution Reports.*
- Section 2.4 *Museum Updates. (a) Requires EPC to make periodic, but no less than quarterly, updates to the City’s governing body on the status of the design, development, budget and construction until the Museum is open to the public.*
- Section 2.4 *Museum Updates. (iii) Requires EPC to develop and present a five-year Museum Operating Budget to the City and to the City’s governing bodies.*
- Section 3.3 *Sources for Operational Funding. (c) Operating Stipend. Requires the City to provide EPC a stipend equal to thirty-three percent (33%) of the Approved Museum Budget each year.*
- Section 3.3 *Sources for Operational Funding. (c) Operating Stipend. (iii) The Stipend may be used for any Museum operational expenses, including salaries, Museum Exhibits, and repairs.*
- Section 4.5 *Conditions to Funding. Indicates that the City shall not be obligated to continue to provide Museum Funding if EPC has not secured annual Donor Contributions in accordance with the minimal targets established.*

During the course of the audit, we determined that the El Paso Children’s Museum (EPC) Budget and Donor Contribution Reports are not being provided to the Museum and Cultural Affairs Department (MCAD). These reports are required to be submitted periodically to MCAD per the requirements of the Children’s Museum Funding Agreement and the Children’s Museum Management & Operating Agreement. The required reports are as follows:

- A five (5) year Museum Operating Budget prior to the commencement of construction.
- An annual budget adopted by EPC prior to the beginning of each fiscal year.
- Quarterly Donor Contribution Reports.
- Quarterly updates to City Council on the status of the design, development, budget, and construction until the Museum is open to the public.

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In addition, we also identified the following requirements specific to EPC's Operating Stipend. MCAD should:

- Document how the Operating Stipend is calculated and used for.
- Establish a list of operating expenses paid from the Operating Stipend.
- Document how often EPC is required to submit invoices for payment.

**Recommendation**

Ensure EPC is providing the following required reports to MCAD:

- A five (5) year Museum Operating Budget prior to the commencement of construction.
- An annual budget adopted by EPC prior to the beginning of each fiscal year.
- Quarterly Donor Contribution Reports.
- Quarterly updates to City Council on the status of the design, development, budget and construction until the Museum is open to the public.

In addition, MCAD should document the requirements specific to EPC's Operating Stipend. MCAD should:

- Document how the Operating Stipend is calculated and used for.
- Establish a list of operating expenses paid from the Operating Stipend.
- Document how often EPC is required to submit invoices for payment.

**Management's Response**

MCAD will ensure EPC is providing the following required reports:

- A five (5) year Museum Operating Budget prior to the commencement of construction.
- An annual budget adopted by EPC prior to the beginning of each fiscal year.
- Quarterly Donor Contribution Reports.
- Quarterly updates to City Council on the status of the design, development, budget and construction until the Museum is open to the public.

In regards to the operating stipend, MCAD will continue to document the calculation of the Operating Stipend as is the current practice and formalize the current practice of Quarterly Invoices. In addition, MCAD will establish a list of operating expenses to be paid from the Operating Stipend.

**Responsible Party**

Ben Fyffe, Director of Cultural Affairs & Recreation, will oversee the submission of required reports. Claudia Cardoza, Administrative Services Manager, will oversee the requirements relating to the Operating Stipend.

**Implementation Date**

September 1, 2021

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**Finding 2**

**Invoice Review**

City of El Paso Strategic Plan:

- Goal 6.6 *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*
- Goal 6.12 *Maintain systems integrity, compliance and business continuity.*

*City of El Paso Accounts Payable Policy* dated September 2018 and September 2019:

- Section 5.4.4 *The document should also be footed and cross-footed to ensure the accuracy of the calculations made by the vendor.*

During the period of September 1, 2018 to August 31, 2020, a sample of 10 invoices processed by the Museum and Cultural Affairs Department (MCAD) and the Capital Improvement Department (CID) were selected for review. The objective of our review was to ensure compliance with the Children’s Museum Agreements and with the applicable *City of El Paso’s Accounts Payable Policy* dated September 2018 and September 2019.

- Four (4) out of 10 (40%) invoices processed by MCAD had no evidence that mathematical accuracy of quantities and dollars spent was confirmed. Evidence of mathematical accuracy can entail any form of check mark, symbol, initial or note. The following are the four (4) voucher numbers we reviewed: 19054734, 20000804, 20031041 and 20073253.

**Recommendation**

MCAD should ensure compliance with the *City of El Paso’s Accounts Payable Policy* by documenting evidence of mathematical accuracy of quantities and dollars spent on invoices.

**Management’s Response**

MCAD has already implemented and will continue to ensure compliance with the City of El Paso’s Accounts Payable Policy by documenting evidence of invoice review on EPC invoices.

**Responsible Party**

Claudia Cardoza, Administrative Services Manager

**Implementation Date**

Effective Immediately

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***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

***CONCLUSION***

We have concluded our work on the objectives of the El Paso Children’s Museum – Accounts Payable Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude whether the Museum and Cultural Affairs Department (MCAD) the Capital Improvement Department (CID) met the objectives of this audit. Based on our audit work, we have determined that:

1. MCAD and CID met the audit objectives in the following areas:
  - Processing accounts payable transactions in a timely manner and in accordance with the:
    - Funding, Operating, and Lease Agreements between the City and the El Paso Children’s Museum (EPC)
    - *City of El Paso Accounts Payable Policy*
    - Texas Prompt Payment Act
  - Maintaining appropriate documentation to support accounts payable transactions.
  - Ensuring accounts payable transactions are properly approved for payment by authorized personnel.
  - Implementing adequate controls to limit the exposure of unauthorized accounts payable transactions.
  - Ensuring EPC is operating within budgetary limits.
  
2. MCAD did not meet the audit objectives in the following areas:
  - Ensuring EPC is providing the required Budget and Donor Contribution Reports.
  - Documenting the requirements specific to EPC’s Operating Stipend.
  - Documenting evidence of mathematical accuracy of quantities and dollars spent on EPC invoices.

We wish to thank MCAD and CID for their assistance and courtesies extended during the completion of this audit.

Signature on File  
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA  
Chief Internal Auditor

Signature on File  
Lyz Parra, CGAP, MBA  
Auditor II

Signature on File  
Liz De La O, CFE, CIA, CGAP, MPA  
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