

**SOUTH SAN ANTONIO INDEPENDENT SCHOOL DISTRICT**  
San Antonio, Texas

**REPORT ON CONDUCT OF AUDIT**

Year Ended August 31, 2019

***DRAFT***

Board of Trustees  
South San Antonio Independent School District  
San Antonio, Texas

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South San Antonio Independent School District (the District) for the year ended August 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 9, 2020. Professional standards also require that we communicate to you the information contained in parts I through VIII related to our audit.

We noted certain matters that are presented for your consideration. This letter does not affect our report dated January 9, 2020, on the basic financial statements of the District. Our comments and recommendations, which have been discussed with the appropriate members of management, are intended to improve internal control and business operations of the District. Our comments are summarized in part IX.

This report is intended solely for the use of the board of trustees and management of the South San Antonio Independent School District, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the District during the course of our audit.

January 9, 2020

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SOUTH SAN ANTONIO INDEPENDENT SCHOOL DISTRICT  
San Antonio, Texas

REPORT ON CONDUCT OF AUDIT

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## **I. The Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Uniform Guidance**

As stated in our engagement letter dated April 24, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that in our professional judgment are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

## **II. Qualitative Aspects of Accounting Practices**

### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note I to the financial statements. The application of existing policies was not changed during the year ended August 31, 2019 except for the allocation of certain General and Administration costs that have been allocated across various functions in fiscal year 2019.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions are recognized in the financial statements in the proper period.

### *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were as follows:

- foundation school program revenue based on estimates provided by the Texas Education Agency.
- depreciation and amortization of capital assets based on management's estimate of the useful lives.
- bond premiums and deferred charges for bond refunding amortized over the life of the respective bond issuance.
- fair value of investments is based on published market values; or, where necessary, information provided by a financial institution.
- the allowance for uncollectible taxes based on historical data.
- worker's compensation claims payable based on actuarially determined amounts.
- medical claims payable based on an estimate of Incurred but Not Reported claims (runoff).
- net pension and net OPEB liabilities are based on the District's proportionate share of TRS' actuarially determined net pension and net OPEB liability amounts as of the valuation date, and as adjusted for activity subsequent to the valuation date through the financial statement date.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

### *Financial Statement Disclosures*

The financial statement disclosures, as included in the financial statements, are neutral, consistent, and clear.

The most significant disclosures are related to deposits and investments; capital assets; long-term liabilities and the disclosures for the TRS Pension and OPEB activity and balances.

## **III. Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **IV. Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management.

We proposed an audit adjustment of \$357,333 to reduce revenues and increase unearned revenues in the State Textbook Fund (410) for funds received that had not been expended as of August 31, 2019. The adjustment has been adopted by the District and is properly reflected in the financial statements.

In addition, we assisted the District in the preparation of adjustments to convert the fund statements to entity-wide financial statements.

## **V. Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **VI. Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 9, 2020.

## **VII. Management Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" in certain situations. If a consultation involves the application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants in regards to the application of accounting principles.

## **VIII. Other Issues**

### *Matters Discussed with Management Prior to appointment*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

### *Required Supplementary Information*

We applied certain limited procedures to management's discussion and analysis; the budgetary comparison information for the general fund and the Teacher Retirement System (TRS) pension and OPEB information; which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and did not express an opinion or provide any assurance on the RSI.

### *Supplementary Information*

With respect to the other supplementary information, required Texas Education Agency (TEA) schedules, and the schedule of expenditures of federal awards, accompanying the financial statements; we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete which we were engaged to report on in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

*Other Information in Documents Containing the Audited Financial Statements*

We are not aware of any other documents that contain the audited financial statements and the auditor's report thereon. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.

**IX. Internal Control and Other Matters**

**General and Administration Expenditures and Indirect Costs**

School Districts in Texas are required to report all expenditures by function. A District may allocate payroll costs to the various functions as determined by a time study or other analysis. In prior years, the District reported all general administration and other intergovernmental expenditures in functions 41 and 99. These functional expenditures included indirect expenditures of other functions for the respective annual report.

During the current year, the District modified the allocation of payroll costs for 19 positions that were previously charged to function 41 General Administration, in the General Fund; however, we were not provided with a time study of the various positions or any other such analysis to support the allocation. The allocated costs had the effect of reclassifying approximately \$650,000 from function 41 General Administration to other functions.

We recommend that the District perform a time study or other analysis to support the assignment of the affected positions to functions other than General Administration or that the District otherwise refrain from allocating general administration costs to other functions in future periods.

**Compliance with the District Investment Policy**

The District's Investment Policy states that "no issuer of US Government Securities or Public Funds Investment Pool shall compose more than 50 percent of the District's investment portfolio", however as of yearend the District's investment in the Lone Star Pool comprised approximately 95% of the District's investment portfolio.

We recommend that the District monitor its investments to ensure that no Public Funds Investment Pool shall compose more than 50% of the District's Investment Portfolio as require by the District's Investment Policy.

**Procurement of Purchase less than \$50K**

The District requires a minimum of 3 quotes or the use of a purchasing cooperative for purchases less than \$50,000. However, in the procurement of a vendor for the promotion of District activities management did not ensure that the vendor and services were properly included in a purchasing cooperative and/or obtain 3 quotes as required.

We recommend that the District ensure compliance with the District Operating Procedures which requires obtaining 3 quotes or the use of an approved purchasing cooperative for purchases between \$5,000 and \$49,999.

### **Information Technology Strategic Planning and Risk Assessment**

Current best practices recommend that an entity implement a strategic planning and risk management process that includes a steering committee responsible for reviewing and approving Information Technology (IT) plans and priorities. In addition, IT security policies typically require that all users are identified uniquely (i.e.; no shared IDs are used except for limited, read-only access, and that access rights of any generic IDs are limited).

We recommend that the District establish a strategic planning and risk management process. The District should conduct regular risk assessments and continue the development of an IT security policy that defines information security objectives and documents security standards and procedures including the requirement that all users be identified uniquely.

### **Accounting for Capital Assets**

The District purchases, builds and maintains numerous capital assets as reported in the financial statements. The District's capital assets should be accounted for in a timely and efficient manner to meet annual financial and reporting requirements, including tracking annual purchases and additions, and computing and tracking the associated depreciation of the capital assets. The District did not complete the accounting and reporting of its capital assets in a timely fashion which caused a delay in the audit process. In addition, under certain grant agreements the District is required to identify the funding source of existing capital assets as well as to document the existence and location through a physical count of the assets at least every two years.

We recommend that the District develop a process to use the Skyward accounting system to track its capital assets as they are acquired to facilitate accounting and reporting of capital assets under generally accepted accounting practices. In addition, the District should initiate a physical count of the capital assets at least every two years.

### **PRIOR YEAR COMMENTS**

Prior year comments were satisfactorily resolved.

## **X. Immaterial Instances of Non-Compliance with State Requirements**

### **State Allotment Expenditure Requirements**

The District is required to annually spend between 52% and 58% of certain State allotments included in the State Foundation School Program (FSP) Summary of Finance on certain programs. The District is required to spend 52% on the State Compensatory Education; Bilingual Education and on Special Education; 55% on the Gifted and Talented and 58% on the Career and Technology programs. However, the District is estimated to have spent only 51.8% and 35.6% for the State Compensatory Education and Bilingual Education programs of the state allotment for the year ended August 31, 2019.

The Texas Education Agency (TEA) monitors the expenditures on these programs over a three-year period and the District is able to include unallocated expenditures under Program Intent Code (PIC) 99 within the various expenditures used to meet the threshold for a particular program.

We recommend that the District determine if allocation of certain PIC 99 expenditures can be assigned to the State Compensatory Education and Bilingual Education programs or otherwise ensure that the District meets the required expenditure levels on an annual basis.



**Prevailing Wages Required on Construction Contracts**

During the year, the District entered into construction contracts which were procured through government purchasing cooperatives. The purchasing cooperatives generally ensure that contract terms and conditions to awarded companies include terms, conditions and certifications which are meant to ensure compliance with the applicable laws and regulations; including the requirement for the payment of prevailing wages. However, the purchasing cooperatives recommend that the member districts “use an appropriate form of construction contract” as if the district procured construction services independently, using competitive sealed proposals.

We recommend that the District utilize construction contracts which document the terms, conditions and certifications including specific documentation that provides a listing of the applicable prevailing wages on all construction contracts, whether procured through a purchasing cooperative or through other procurement methods.

**PRIOR YEAR COMMENTS**

None