

January 22, 2019 Q&A

Questions from Connie Prado:

Ms. Sendejo, I am submitting the following questions to the January 22, 2020 agenda items: (I realize some of the questions can only be answered by the Auditors, however, many of the questions can be answered by district staff).

## **DISCUSSION AND POSSIBLE ACTION**

Item #1 (AFR) 2019 Report on Conduct of Audit Responses

### Internal Control and Other Matters

#### **General and Administrative Expenditures and Indirect Costs**

The district auditors have discovered the reclassification issues among functions 41 and 11 for this audit year. Since the same firm conducted the annual audit last year (period ending 08-31-18) did they discover these reclassification issues at that time? What was the reason or motivation for the reclassification of 19 positions (\$650,000) in functions 41 and 11? Can the auditors ascertain how long these reclassification issues have persisted? Under whose administration (Saavedra-Flores-Sendejo) did these reclassification issues evolve?

The reclassification of 19 positions in function 41 during the 2018-2019 fiscal year was completed during Dr. Flores' administration. Although no current staff are aware of specific reasons, it is believed that the motivation behind the reclassification was due in part to the Financial Integrity Rating System of Texas (FIRST) to comply with reducing the Administrative cost ratio. According to the minutes from the May 15, 2019 Regular Board meeting, the potential reclassification of personnel was discussed during DPA #1. Minutes show that no action was taken at that point. A review of

historical data shows that the actual reclassification process actually began in April of 2019.

The Board of Trustees has not approved a detailed annual budget since SY 16-17. Since then the Board of Trustees has approved a brief (2-3 pages) annual budget. Is it possible that unbeknownst to the Board of Trustees that these reclassification issues would have been included in the annual budget without their knowledge or approval?

TEA requires that a Board of Trustees adopt the budget at the Fund and Function level. Staff, then has the ability to reclassify both revenue and expenditures within the fund realm so long as it is coded within the guidelines set forth by the Financial Accountability System Resource Guide, while also being in-line with the total amount first allocated, or later amended at the function level. In developing the budget, it should be discussed at both the function and object level. All indications are that the District is in compliance with the budgeting approval process.

### **Compliance with the District Investment Policy**

The district auditors conducted the annual audit last year (period ending 08-31-18). What was the school district's investment (percent) in the Lone Star Pool in last year's annual financial report? Is there a Portfolio Investment Team/Committee appointed by Board to oversee our investment portfolio? Who was on this Portfolio Investment Team/Committee during this audit finding? Under whose administration (Saavedra-Flores-Sendejo) did this audit oversight occur? Is it the Board of Trustees responsibility to oversee the daily/monthly assignment of assets to the various investment vehicles? Is the Board expected to know, develop or update the District's Investment Policy? The Quarterly Investment Report provided to the Board does not include percentages for each investment vehicle. Is that financially correct?

We are unsure when changes were last made to the Investment Policy. The district has been operating without the services of a Business and

Fiscal services director since April 2019, and without the services of a Chief Financial Officer since August 2019. Business staff are currently filling multiple roles in the interim to ensure operations continue without disruptions in order to comply with federal and state law, as well as local policies.

According to the quarterly investment report that was presented in October of 2018, the August 31<sup>st</sup> balance of General Fund Investments in the Lone Star Fund was \$20.3MM. There were no other General Fund Investments in any pools. When all funds were considered, there were \$39.4MM invested in the Lone Star Fund, while there were only \$277.7K and \$35.8K invested in Texas Term and TexPool, respectively.

In accordance with CDA (Local), no investment pool or issuer shall hold more than 50% of the District's total investments.

CDA (Local) was most recently updated in November of 2019, but the language remains synonymous with the last update prior, that occurred in November of 2017. The last end of year Investment report that indicates compliance with CDA (Local) regarding diversity amongst a single provider occurred in August of 2016.

There is currently no Portfolio Investment Team or Committee assembled. The responsibilities as Investment Officer typically reside with the Chief Financial Officer, but in the absence of such, duties could be carried out by either the Superintendent or the Finance Director. Currently, the Interim Superintendent is functioning as the Investment Officer, while the Interim Director of Business serves in a supporting role.

It is recommended that a comprehensive review of the District's Investment Policy be completed to insure that it both supports and requires proper asset allocation. In consideration of findings by both the staff and auditors alike, it is recommended that particular attention be paid by the Board in the process of reviewing the District's Quarterly Investment Report.

As it relates to the Quarterly Investment Report, this is a locally defined report that meets all of the requirements of the Public Funds Investment Act. Should the board desire that actual percentages be stated on the Quarterly Investment Report, staff can adapt the format to include such.

### **Procurement of Purchases less than \$50K**

Did the district auditors encounter similar violations of the District Operating Procedures in last year's annual audit (period ending 08-31-18)? **None that have been identified.**

Are District Operating Procedures included in the school district's Board Policy (Legal or Local)? **Not at this time.** If so, please identify the Board Policy.

How many instances were delineated by the district's auditors where the school district did not obtain three (3) quotes or the vendor was not included in a purchasing cooperative for purchases less than \$50K? **In conversation with district staff, it was determined that one instance of not receiving three quotes was identified.**

For those instances, is the school district in possession of the pertinent purchase orders where we did not comply with the DOP's? **Yes**

Who are the individuals who approved these particular purchase orders? **The Director of Purchasing is the final approval authority for all purchase orders initiated in the District.**

## Information Technology Strategic Planning and Risk Assessment

The district auditors are recommending that the school district implement a strategic planning and risk management process that includes a steering committee responsible for reviewing and approving Information Technology plans and priorities. Did the auditors discover any security violations?

None that were identified. The Technology department has a security policy in development to comply with state requirements. Prior to the new state requirements, security standards already in place included password policies that required all staff to change their passwords twice yearly, as well as processes to maintain account security when staff left the district, limiting access to generic ID to specific machines (used for testing purposes or only at primary grade levels). One of the biggest security changes moving forward will be to eliminate as many generic (classroom or testing) accounts as possible. This will be accomplished by allowing students at the primary level to log in to Chrome devices using a QR code that is unique to the user. All students in K-12 have had unique accounts for several years, however, at the primary level, it is very time consuming for young children to log in with their full ID and password, which has led to the proliferation of generic accounts. We anticipate the QR code login will eliminate this challenge. At the secondary level, where there were generic accounts for testing in labs, we are seeing widespread adoption of using student chrome devices for testing. By utilizing kiosk mode on Chrome devices, we eliminate the need for a universal log in for Windows devices.

If so, could the auditors delineate those violations? Did the auditors discover any security violations in last year's annual audit (period ending 08-31-18)? None that were identified.

## Accounting for Capital Assets

Since the auditors conducted last year's annual audit (period ending 08-31-18), did they encounter any delays in the audit process due to the school district not accounting and reporting of its capital assets during that audit? **None that were identified to staff.**

Who at our school district is in charge of cataloging capital assets as they are acquired? **All fixed assets will be inventoried through the Finance department. The items must be included at the time of entry: funding source, cost basis, acquisition date, location of items.**

Who is in charge of maintaining an accounting of all the school district's assets? **The administrator of each District location is required to prepare an annual inventory of the location's fixed assets. The administrator may delegate the inventory responsibilities as deemed necessary to accurately complete the inventory within the allowable time limitations. The administrator shall exercise reasonable caution to assure that all physical areas of his or her school or department have been included in the inventory and that the inventory has been made in accordance with instructions. The date of the inventory, instructions, and reporting forms will be furnished to the schools and departments by the District in the spring of each year. Inventory items must actually be observed and counted. The inventory should be completed and submitted to the Finance Department for items over \$5,000.**

Who is in charge of properly disposing capital assets pursuant to Board Policy? **Board Policy CI (Local) states "The Superintendent is authorized to declare District materials, equipment, personal property such as vehicles, and supplies to be unnecessary and shall dispose of unnecessary materials, equipment, personal property such as vehicles, and supplies for fair market value. If the unnecessary property has no value, the Superintendent may dispose of such property according to administrative discretion. Instructional materials shall be disposed of in accordance with**

law. [See CMD(LEGAL)] Property obtained with federal funds or as federal surplus shall be managed in accordance with federal law.

Can the auditors determine when the last physical count of capital assets was conducted? Saavedra, Flores or Sendejo administration? **The last physical count of capital assets was completed in 2016 in conjunction with the annual financial audit.**

### Immaterial Instances of Non-Compliance with State Requirements

#### **State Allotment Expenditures Requirements**

Who is responsible for managing the State Compensatory budget for our school district? Who is responsible for managing the Bilingual budget for our school district? Who is responsible for managing the Special Education budget for our school district? Who is responsible for managing the Gifted and Talented budget for our school district? Who is responsible for managing the Career and Technology budget for our school district? In particular, why did we not meet the FSP budgetary guidelines for the State Compensatory and Bilingual Education budgets? Did the auditors discover similar violations in last year's (period ending 08-31-18) annual audit for any of the budget funds as stated in their findings?

**The Chief Financial Officer is responsible for monitoring all budgets in collaboration with the heads of each division listed. With respect to our budgeting process, we will improve to insure that all required levels of effort are met in order to comply with TEA requirements. We will also monitor expenditures throughout the year to insure that targets are adjusted to keep pace with revenue.**

**This will be a particularly challenging year as it relates to State Comp. Staff are working in conjunction with our consultants to ensure that all revenue is identified and sourced to properly serve our students while also remaining**

compliant with State requirements. There were no stated violations in last year's audit.

### **Prevailing Wages Requirement on Construction Contracts**

Did the auditors identify any particular construction contract(s) under the auspices of government purchasing cooperatives which did not state/mention a prevailing wage requirement? In conversation with District staff, the auditors identified a job order contract with LMC for renovation projects at Athens Elem, Kazen MS, and West Campus HS which did not mention a prevailing wage requirement in the proposal. LMC was awarded a job order contract (JOC) by the TASB Buyboard purchasing cooperative. Vendors must certify in writing they are in compliance with the Davis-Bacon Act (40 U.S.C. 3141-3148) prior to award of a contract with a purchasing cooperative. The proposal submitted in conjunction with the renovation projects does not have a statement of compliance with "prevailing wage". However, the contract documents available through the Buyboard purchasing cooperative certify compliance with the Davis-Bacon Act.

If so, can the auditors inform the Board of the instances where these requirements were not met?