

**SAN DIEGO INDEPENDENT SCHOOL DISTRICT  
AUDIT ENGAGEMENT LETTER**

**FISCAL YEAR AUGUST 31, 2018**

**SUBMITTED BY**

**ERNEST R. GARZA AND COMPANY, P.C. CPA'S**



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## Engagement Letter for the Audit of the Basic Financial Statements

May 8, 2018

San Diego Independent School District  
San Diego, Texas

Dear Board of Trustees:

We are pleased to serve as independent auditors for San Diego Independent School District (the "District") for the year ended August 31, 2018. This letter confirms our understanding of the audit and non-audit services which you have engaged us to perform.

Mr. Ernest R. Garza, CPA will be the partner in charge of all work we perform for you. We believe that frequent and timely communication throughout the year facilitates the conduct of the annual audit; we may be able to assist you in resolving current problems as they arise. Please call Mr. Garza whenever you feel that he/she can be of assistance.

Professional standards promulgated by The American Institute of Certified Public Accountants (AICPA), the Government Accountability Office (GAO), and others require that auditors be independent of the clients for whom they perform attest services and that they document their independence. These standards apply to the services we will be providing San Diego Independent School District. They may restrict some of the non-audit services we can do for you (such as your bookkeeping), but they allow us to provide numerous other services as long as you agree to perform the following functions:

- Make all management decisions and perform all management functions;
- Designate an individual (preferably in senior management) who possesses suitable skill, knowledge, and/or experience to oversee the preparation of suggested adjustments and the draft of financial statements, including the adjustments needed to convert fund information to government-wide information in the annual financial statements, and to oversee the filing of statements with appropriate regulatory or funding agencies;
- Evaluate the adequacy and results of the services performed by us;
- Accept the responsibility for:
  - o The District's accounting and information systems;
  - o Adjustments we have suggested and you have approved;
  - o The financial statements and other reports we have helped you prepare and you have approved, such as the audit data feed;
  - o The submission of those financial statements and reports to TEA and other appropriate oversight or granting agencies;

- Establish and maintain internal controls over the budgeting and bookkeeping process and over the data and report submission processes required by TEA, the Municipal Advisory Council, the Office of Management and Budget, and others.

This agreement is limited to the audit of financial statements for fiscal year 2018 and any of the non-audit services discussed below.

### **Objectives of this Engagement**

#### ***Report on the Audit of Basic Financial Statements (5a)***

The first objective of our engagement is to perform procedures in accordance with U.S. generally accepted auditing standards issued by the AICPA so that we can express an opinion on the fairness of the presentation of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information (which collectively comprise the District's basic financial statements) as of and for the year ended August 31, 2018, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The following supplementary information accompanying the basic financial statements is required by generally accepted accounting principles (GAAP) and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund (and all major special revenue funds with legally adopted budgets), the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions.

In addition to the required supplementary information (RSI) listed above, the following supplementary information accompanying the basic financial statements will be subjected to limited auditing procedures. We will provide an opinion on this supplementary information in relation to the basic financial statements taken as a whole but not on the information itself.

- 1) Schedule of Delinquent Taxes Receivable
- 2) Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – National School Breakfast and Lunch Program
- 3) Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund
- 4) Schedule of Expenditures of Federal Awards

We will not subject the following additional information accompanying the basic financial statements to any auditing procedures. Accordingly, our auditor's report will disclaim an opinion thereon.

- 1) Fund Balance and Cash Flow Calculation Worksheet



If our opinion is other than unqualified, we will discuss the reasons therefore with you in advance.

***Other Reports (5b-5e)***

The second objective is to perform additional procedures enabling us to issue three more reports. We will test and report on the District's internal controls over financial reporting and the District's compliance with laws and regulations and other matters as required by ***Government Auditing Standards***. Related to federal financial assistance, we will issue a third report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with ***OMB Uniform Guidance***. In connection with the ***Government Auditing Standards*** and the ***OMB Uniform Guidance*** reports, we will prepare a ***Schedule of Findings and Questioned Costs***.

We will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will request certain written representations from the members of the Board of Trustees, the Superintendent, about the financial statements, internal controls, compliance and other matters. Such representations will include assertions relating to compliance with state and local laws and regulations and compliance with the requirements governing the federal financial assistance programs administered by the District.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. However, because we will not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by us.

Our audit will also include the performance of certain audit procedures for the purpose of reviewing the accuracy of fiscal information provided by the District through the Public Education Information Management System (PEIMS), as required by Section 44.008(b) of the Texas Education Code. Other audit requirements that affect the PEIMS data (the agreed-upon procedures audits for State Compensatory Education and for Dropout records) are covered with other proposals and engagement letters.

### ***Non-Audit Services***

We will assist you in preparing the financial statements that TEA requires for fiscal year 2018 including the Electronic Annual Financial Report (AFR pdf File) submission and the GASB Audit Data Feed (TXT File). In addition we will assist in developing and maintaining the appropriate adjustments and worksheets that convert and consolidate the fund financial statements to government-wide financial statements. (To do this, we may ask your business office and other parties (such as your human resources department) for information that has not been required in prior years. The request for information may involve queries on your computer and data processing system, and the support of your information technology personnel.)

We will also assist you in preparing statements or reports that are primarily the responsibility of the District's administrators, such as management's discussion and analysis and the letter of transmittal. While these reports are not covered in audited information, we are required to review them for consistency with the statements we audit and reasonableness of claims.

### **Responsibility of San Diego Independent School District's Administration**

It is our understanding that you will provide us with all of the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about accounting principles and preparation of your financial statements, but the responsibility for the financial statements remains with you. This responsibility includes the maintenance of adequate records and related controls relevant to an audit of financial statements, the selection and application of appropriate accounting principles, and the safeguarding of assets.

You, the District, will be responsible for ensuring that the audit report is received by the Texas Education Agency within 150 days of the close of the fiscal year. The District is further responsible for ensuring that other appropriate governmental agencies receive copies of the audit report according to instructions in the *Texas Education Agency Financial Accountability System Resource Guide*.

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud, or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud, or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

We understand that your employees will prepare all cash or other confirmations that we request and will locate any invoices selected by us for testing.



Because, in addition to our report on the basic financial statements, the scope of the engagement includes an audit in accordance with *Government Auditing Standards* and the requirements of the Single Audit Act, we are required to issue reports on compliance with federal and state/local laws and regulations, including legal compliance and reports on your systems of internal control. These reports may be accompanied by observations (findings) on your compliance or on your systems of internal control and a schedule of questioned costs, if the results of our audit procedures require such observations or schedule of questioned costs. If any observations or findings are reported to you, you must provide a written corrective action plan under the requirements of the Single Audit Act.

#### **Other Communications Arising from the Audit**

We will maintain the working papers for a minimum of five years from the date of our reports. These working papers will be available to representatives of the oversight or cognizant audit agency (or its designee), other government audit staffs, and/or the United States Government Accountability Office upon their request and after they have properly notified you of their request to review the working papers.

We will provide copies to school district officials (preferably the superintendent or his designee, such as the chief business official) of all adjusting entries and closing entries that were suggested by our firm in the course of the audit engagement and approved by your personnel. These persons are responsible for entering the adjustments into your accounting system so that PEIMS data will be consistent with the annual financial report. We will provide this information to the district in both written (hard copy) and electronic form, including a formatted spreadsheet file. The adjusting entries will be provided to the district no later than 60 calendar days after presentation of the annual financial report to the board of trustees of the school district and at least 15 days prior to the PEIMS filing date.

In connection with the planning and the performance of our audit, generally accepted auditing standards require that we communicate certain matters to the Board of Trustees. We will communicate to the Board irregularities and illegal acts that are clearly not inconsequential, and significant deficiencies in the design or operation of the internal control system that could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

In addition, to the extent they are applicable, we will communicate to the Board certain other matters related to the conduct of our audit, including:

- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments (recorded and unrecorded)
- Consultation by management with other accountants on significant matters
- Difficulties encountered in performing the audit
- Major issues discussed with management prior to our retention as auditor

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of your operations or other recommendations concerning the internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters prior to their communication to senior management and/or the Board.

**Schedule of the Audit**

Our audit is tentatively scheduled for performance and completion as follows:

Begin - July 15, 2018

Completion - December 5, 2018

Audit Performance Schedule:

Planning - August 2018

Interim September to December 2018

Year-end - December 2018

Audit Communications:

Report on Audit of Financial Statements - December 8, 2018

Other Communications:

Significant deficiencies or material deficiencies in internal controls over financial reporting, if any

Conduct of the Audit Matters

Other Management Comments

Assistance to be supplied by your personnel, including preparation of schedules and analyses of accounts, is to be approximately the same as that which you have planned to provide in the past. Timely completion of this work will facilitate the conclusion of our audit.

**Fees**

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses (travel, typing, telephone, etc.). We estimate that our total fees for this audit will be **\$32,500** for 2018. We will notify you immediately of any circumstances we encounter which could significantly affect our estimate.

This fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to the District, and we believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

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Sincerely submitted,



Ernest R. Garza and Company, P.C.

RESPONSE:

This letter correctly sets forth the understanding of the San Diego Independent School District.

Management (Superintendent) signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Governance (Board) signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_