



## HISD Audit Committee – November 9, 2017

Because HISD receives federal funds, it is subject to a “single audit<sup>1</sup>” which we have to issue a separate report for. In addition, the Texas Education Code requires that an independent auditor audit the financial statements and issue an opinion which is the CAFR and the single audit and school districts must upload these reports and schedules by November 27, which is 150 days after our year end. That is why we are always pushing to get this done by the November board meeting, before Thanksgiving break.

We have a little more work to do on the TEA financial website to input schedules and to upload this document.

Financial Statements are prepared by two different methods.

- The Fund financial statements provide details for each fund: (page 20 of CAFR)
  - Major
    - General Fund
    - Special Revenue Fund
    - Debt Service Fund
    - Capital Renovation Fund
  - Non MAJOR
    - Capital Renovation Fund – PFC
  - Statement of Revenues, Expenditures and Changes in Fund Balances for governmental funds (page 22)
    - Same 5 funds as above
    - General Fund
      - Net change in fund balances: we have a decrease in our fund balance this year of \$36M
      - Two reasons for this decrease:
        - We spent a bigger percentage of our budget this year (departments/campuses spent more than in previous years)
        - Transfer out of \$52M includes \$28M transferred to the PFC fund for the North Forest High School
          - Two years ago we received \$28M from the TEA to fund the high school. It was in the fund balance. It was a midyear budget adjustment to transfer from General Fund to the Capital Renovation Fund for the High School.

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<sup>1</sup> The Single Audit, also known as the OMB Uniform Guidance, is a rigorous, organization-wide audit or examination of an entity that expends \$750,000 or more of Federal assistance (commonly known as Federal funds, Federal grants, or Federal awards) received for its operations.

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- Statement of Net Position – Proprietary Funds<sup>2</sup> (page 24)
  - Includes:
    - Enterprise Funds
      - Nutrition Services Funds
    - Non Major Enterprise Funds
      - Business Development
      - Medicaid
      - Marketplace
    - Governmental Activities – Internal Service Funds  
Used to account for operations related to the Print Shop, Alternative Certification Program, Athletics, University Interscholastic League (“UIL”), Shared Services, Virtual School, and risk financing activities of the District
- Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds (page 25) – pages 84-85 shows corresponding balance sheet and combining statement
- Government wide method which is a broader based overview of the district’s finances and is similar to a private business.
  - Depreciation expense is recognized.
  - Debt service payable is also shown.
  - Statements are a consolidation of all of our funds, except fiduciary funds. Fiduciary funds are our scholarship funds and student activity funds.
  - Government wide Statements
    - Statement of Net Position (Balance Sheet) page 17
      - “Governmental Activities” column includes:
        - General Fund
        - Special Revenue Fund
        - Debt Service Fund
        - Capital Renovation Fund
        - Internal Service Fund
      - “Business-Type Activities” Column are proprietary funds
        - Food Service
        - Business Development
        - Marketplace
      - Net Pension Liability (District's Share) - \$637,812,876
        - GASB 68 which started two years ago where we have to do a calculation recognize our portion of TRS.<sup>3</sup> It’s

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<sup>2</sup> Proprietary Funds are used to account for operations that are financed in a manner similar to those found in the private sector, where the determination of net income is appropriate for sound financial administration.

<sup>3</sup> GASB 68 defines how pension liabilities are calculated by plans and reported by employers and other non-employer contributing entities who prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

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a paper entry we have to make to government wide entries.

- The difference between Assets and Liabilities is reported at Net Position
- NET POSITION
  - Net Investment in Capital Assets: the value of our capital assets net of depreciation and less related debt
  - Restricted component is that amount that has legal constraints which in this sense is debt service.
  - Unrestricted is the difference between assets and liabilities that are not recorded as capital assets and not restricted.
- Statement of Activities (page 19) – details how the District’s net position changes over the year.
  - In a Statement of Activities for a Government Wide Statement, these are recognized when the exchange takes place regardless of when we exchange cash. Whereas on the Governmental funds, it’s more closely related to when we exchange cash.
- Management’s Discussion and Analysis (pp5-15)
- Independent Auditor’s Report -*Deloitte & Touche*- (pp 1-3)

ROSS JOHNSON: – It’s an unmodified opinion. A couple things to note. On page 99, Net Position by Component – Last 10 Years

- Governmental activities. In 2008, the net position was \$1.3B so it’s now grown to \$1.9B which is a good trend to see.
- Business-type activities. Remain fairly constant with \$33M in 2008 and \$39M in the current year.

ROBINSON: The business type activities would be food services, business development and Medicaid.

- Page 102 Governmental Funds Fund Balance – Last Ten Years
  - 2008 General Fund Balance \$523M
  - 2017 General Fund Balance \$701M
- [Single Audit](#)<sup>4</sup>
  - First five pages are different opinions we (D&T) render.
  - Report on Internal Control over Financial Reporting and on Compliance and other Matters

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<sup>4</sup> The **Single Audit**, also known as the OMB Uniform Guidance, is a rigorous, organization-wide **audit** or examination of an entity that expends \$750,000 or more of Federal assistance (commonly known as Federal funds, Federal grants, or Federal awards) received for its operations.

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- Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance
  - Two findings related to Food Service
    - **Related to Free or Reduced Lunch Eligibility**: 1 out of 80 selections of submitted applications for Free or Reduced Meals was recorded incorrectly with status of Reduced rather than Paid
    - **Related to Procurement**: We noted that 2 out of 10 vendor selections that we made related to adherence to procurement standards for the program did not go through the appropriate procurement process.

### 3. **AUDIT PLAN STATUS**

- Operations and Financial Audits [Garland Blackwell]
- Construction Audits [John Gerwin]
- Reviewed the process for a construction audit and where bottlenecks could occur.
  - Waiting on approval from legal regarding issues.
  - A substantial amount of work is done but we are just waiting on a final close out change order. The construction can be done and they can drag out on closing them out for 3-6 months and it's 5% of the work we need to look at in the close out documents. CFS doesn't get to them for some reason or another because they are working on something else that's more important and mutually agree with contractor when to close the project out. A couple of these like Condit and Delmar have been done. We are just waiting on final documentation to sew this thing up. That would be between the contractors and CFS.
- Educational Program Audits [Stephanie Sandifer]

LUNCEFORD: What are you doing with POWERUP?

SANDIFER: The objectives on that one is looking at funding. If the expenditures are appropriate. We are also looking at the supports (CSRs and CITs), the two support positions that should be on campus that are supported by IT and by curriculum. To make sure the support structure is adequate to support the program. Another objective is parental access to the HUB. We are in the process. We are near completion and should start reporting soon.

## HISD Audit Committee – November 9, 2017

- Open Alertline Reports by Departments [Debbi Fincher]
  - Color coded by Department
    - School Offices (12)
    - Human Resources (2)
    - Misc. (8)
    - Internal Audit (4)
    - Ethics & Compliance (13)
    - Not Assigned (0)

Ethics and Compliance is working on 17, including the internal audit. The remaining cases have been triaged out to the school offices. 32 cases have come in over the hotline in October. On Monday, November 6, we have received 8 additional. All those received in November have been triaged out because they dealt with personnel issues.

BLACKWELL: One of the things that Debi and I are working on is trying to look at things from a systemic point of view. If we just do a case by case by case basis, we're never going to fix anything. We want to find out what's happening out there in terms of volume. What are the causes? Then we can address the cause and fix things as opposed to individual case.

#### **4. CAMPUS CHANGE IN PRINCIPAL AUDITS**

The Superintendent and CFO asked us if we would take on this task of looking at campuses who had a change in principal. There were 50 schools we've identified that fit into that category. Additional resources were provided to our department in order to get this additional work done.

As of 11/08/17, 27 of 50 scheduled campus audits or 54% have been completed. Some are in draft or in various stages of audit process. On Track to Complete the Audits by 12/31/2017.

For next year we have an auditing plan where we take a sample of schools and one of the objectives I'd like to see is the relationships between booster funds and activity funds. I sense that there is no true separation all the time.

**ADJOURNED TO CLOSED SESSION 1:17 P.M.**

**RECONVENE: 1:52 P.M.**

**ADJOURN 1:52 P.M.**