
**Hays
Maggard
& Hood, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

October 17, 2016

Board of Education
District Administrative Staff
San Juan County (Silverton) School District No. 1
Silverton, Colorado 81433

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and each fiduciary fund type, of the San Juan County (Silverton) School District No. 1 as of and for the year ended June 30, 2016 and have issued our report thereon dated October 17, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 21, 2016, our responsibility as described by professional standards, is to express an opinion 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. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal controls of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the overall audit fieldwork according to the planned scope and timing previously communicated to you during the planning stages of our audit procedures. The final report was delayed due to delays in receiving CDE data transmittal reports from the District for inclusion in the audit.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of the existing policies was not changed during the year under audit. We noted no transactions entered into by the District during the year that were both significant and unusual or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Qualitative Aspects of Accounting Practices – continued

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

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements are:

- The disclosure of the measurement focus and basis of accounting in Note 1 of the financial statements.
- The disclosure of capital assets in Note 4 of the financial statements.
- The disclosure of long-term obligations in Note 5 of the financial statements.
- The disclosure of compliance in Note 14 of the financial statements.

We evaluated the key factors and underlying information used to develop the disclosures above in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2016.

Management Consultations 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" on certain situations. If a consultation involves 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 relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including 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 to our retention.

COMMUNICATIONS WITH MANAGEMENT: INTERNAL CONTROLS COMMUNICATIONS

In planning and performing our audit of the financial statements, we considered internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on internal control. Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control system that we consider to be material weakness as defined above. However, we did note the following items which we believe merit your attention:

- 1) Due to the limited size of the staff, there is a lack of proper segregation of duties for the accounting and reporting functions (i.e., the functions of initiating, recording and processing payments) which results in an inherent risk that a misstatement that is more than inconsequential *could* occur and not be prevented or detected by the internal control system.
- 2) Management does not prepare its own year-end financial statements, inclusive of note disclosures. As such, management requested our firm to assist in the preparation of the draft financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in entities of your size and is a result of management's cost-benefit decision to use our accounting expertise rather than to incur additional costs.

Comments and Recommendations

Our audit provides an opportunity to observe operations and identify potential areas where improvements can be made and also areas that are functioning well. We found the books and records to be in sufficient working order. The balance sheet accounts were reconciled, prior year-end adjustments were properly recorded, and all transactions were adequately explained. We noted good awareness and compliance with sound business practices and controls, and no unusual adjustments to the financial records were necessary.

In the spirit of continually improving the efficiency and cost-effectiveness of the District's operations, we offer the following comments and recommendations.

General Accounting System

We noted significant improvements in the documentation and approval process for the District's transactions. The general accounting system's overall reporting capabilities revealed no inherent limitations that would preclude access to specific information in order to fulfill internal and external reporting requirements. We recognize the efforts of the staff to maintain sufficient internal controls and other operating procedures and noted the implementation of prior year recommendations.

Governmental Accounting Standards Board Statement No. 68

Fiscal year 2015 was the implementation year for Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement relates to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited external financial reports. The implementation of this standard is the largest change to governmental reporting since the implementation of GASB Statement No. 34.

While there has been a close relationship between how governments fund pensions and how they account and report information until now, the new guidance establishes a decided shift from a funding-based approach to an accounting-based approach. This shift is designed to improve pension reporting and increase the transparency, consistency and comparability of pension information across governments. Historically, GASB viewed an unfunded pension obligation as a liability to be reported in future financial statements, rather than as an existing liability of the employer or plan, and information about the total liability was disclosed in the required supplemental information of the plan. GASB has adopted a formal definition of a liability for purposes of governmental financial reporting, known as the Net Pension Liability, which now shows on each participating employer's balance sheet as a proportionate share of the total net pension liability (unfunded liability) of the pension trust fund at PERA.

It is important to note that this new reporting requirement does not necessarily reflect the financial condition of a governmental entity because a pension liability cannot be made immediately due and payable. Additionally, the implementation of GASB Statement No. 68 has no impact on the District's fund level financial statements which are used for internal and budgetary use; rather, the change only effects the District's government-wide financial statement reporting in the year-end audited financial statements. The District's government-wide Statement of Net Position now reflects the District's share of the State PERA pension liability in the amount of \$2,689,463 which is the District's 0.0175847469% proportionate share of the State PERA overall pension liability of \$13,553,359,000 for the School Division Trust Fund. Other pension related amounts considered as deferred inflows and deferred outflows are also now reflected on the government-wide Statement of Net Position.

Disbursements

During our tests of transactions, one paid invoice in the amount of \$175 could not be located. We also recommend that all invoices be signed off as approved (even if the check is being signed by the superintendent).

Employee Payroll Files

During our tests of transactions we noted there should be an Employer signoff for verification of I-9 documentation in each employee file. We also note that one employee did not have the required I-9 documentation in their file (only one form of identification was provided and I-9 documentation requires two).

Payroll Benefits

During our procedures on the Food Service Fund, we noted that although food service salaries were a consistent amount from month-to-month, that the payroll allocation for benefits fluctuated (the expectation would be for this amount to be consistent as well). Although immaterial to the financial statements taken as a whole, we recommend that future payroll benefit allocations be reviewed to ensure that proper amounts are being recorded in each applicable fund.

Risk Assessment Process

We have also included a document entitled "Risk Assessment". It defines what is meant by Internal Control as well as provides a general definition and overview of Fraud. The document can be used by the Board to support Best Practices of organizational monitoring and oversight, as well as supporting the Board's 'Due Diligence' duties which should include an overall risk assessment of an organization to identify areas of weakness in internal controls or where improvements can be made. In Section 1 of the document there is a checklist that the Board can use in their overall Risk Assessment process. *[Note: These items have been assembled from resources provided to us by the American Institute of Certified Public Accountants, the Committee of Sponsoring Organizations of the National Commission on Fraudulent Financial Reporting, and other resources available for our use.]* The document is broken down as follows:

- Section 1: Internal Control
- Section 2: The Fraud Triangle
- Section 3: Fraud and Audit Committees
- Section 4: Internal Audit – Best Practices

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We have provided these and other general recommendations related to accounting for the District's activity; however, management is ultimately responsible for the selection and use of appropriate accounting policies and for oversight, thereof.

We would again like to congratulate the District on CDEs commendation for the overall quality of presentation of the prior several year's audits and submissions of data through the Automated Data Exchange. It is apparent to us that the District strives for continual improvements in financial recordkeeping and reporting.

We are available at your convenience to clarify or assist you with any items discussed above or other concerns you may have.

This report is intended for the information and use of the Board of Education of the San Juan County (Silverton) School District No. 1, District management and others with the organization. This restriction is not intended to limit distribution of the report, which, upon acceptance by the Board of Directors, is a matter of Public Record.

We wish to thank the Board for engaging us to be your independent auditors and would like to extend a special thank you to the District staff for their assistance and cooperation in completing the audit.



HAYS, MAGGARD & HOOD, P.C.