

October 7, 2011

Rev-40-084-910-6-2011

VIA UNITED STATES CERTIFIED MAIL

Dr. Gregory Smith
Superintendent
Clear Creek Independent School District
2425 E. Main Street
League City, TX 77573

Subject: Final Letter of Observations and Findings

Dear Dr. Smith:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Clear Creek Independent School District (CDN: 084-910) (the subrecipient). The review focused on the grants awarded to the subrecipient pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). The review was limited to the representations and records provided by the subrecipient in response to the auditors' formal correspondence dated May 11, 2011 and during the onsite visit conducted by auditors on June 15, 2011. Although the records submitted by the subrecipient remain subject to review by appropriate federal and/or state oversight entities, auditors consider this review closed. You will be notified in the event a follow up to the review is scheduled.

Should you have any questions, please contact Lance McMillan at (512) 463-9095

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Janice Hollingsworth, Interim Director, Division of Financial Audits

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Background

As discussed in their notification letter dated May 11, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded Clear Creek Independent School District (CDN:084-910) pursuant to ARRA. Due to heavy emphasis on accountability and transparency on ARRA funded Grants, the primary focus of this review was to inquire about the subrecipient's fiscal controls in effect over ARRA funded awards and about the activities, functions, programs and services implemented by the subrecipient to provide a reasonable assurance of compliance with laws, rules, regulations, and guidance pertaining to the ARRA grants awarded to the subrecipient. Generally, auditors limited their review to the subrecipient's records supporting its compliance with grant requirements and accounting for its receipt and expenditures of grant funds of ARRA funded grants awarded to the subrecipient. As of June 7, 2011 the subrecipient filed expenditure reports to claim \$24,956,790.19 in expenditures from a total of \$29,664,461.00 ARRA funded grants awarded to the subrecipient (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to Clear Creek ISD as of June 7, 2011			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001084910	IDEA B Formula – ARRA-LEA	\$6,730,555.00	\$5,630,123.52
10555001084910	IDEA B Pre-School – ARRA-LEA	\$174,964.00	\$162,537.23
10551001084910	Title I, Part A – ARRA/STIMULUS	\$2,205,270.00	\$1,948,206.49
10553001084910	ARRA - Title II, D Technology	\$69,466.00	\$59,472.57
10557001084910	ARRA Title XIV SFSF	\$10,503,347.00	\$1,0503,347.00
11557001084910	ARRA Title XIV SFSF	\$9,980,859.00	\$6,653,103.38
Total Amount Awarded		\$29,664,461.00	\$24,956,790.19

General Observations

Based upon their review of the subrecipient's records, auditors observed the following:

1. **Observations on Subrecipient's Administration of ARRA awards:** Auditors examined financial records created and maintained by the subrecipient and assessed the subrecipient's internal controls over policies and procedures, quality of data, budgetary control of ARRA grants, cash management, time and effort reporting requirements and the

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use of ARRA funds. Based on their examination, auditors noted that in certain instances the subrecipient did not have adequate controls and/or maintain documentation to comply with certain federal requirements and standards of financial management. (Refer to Observations #1, #2, and #3)

2. **Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports filed by the subrecipient and the documentation in support of the data accumulated and reported to TEA and noted that the subrecipient complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.
3. **Observations on ARRA Infrastructure Expenditures:** The subrecipient did not have any budgeted expenditures for infrastructure projects budgeted from ARRA funds.

Overall Conclusion

Based upon their review of the subrecipient's records, auditors observed that the subrecipient generally implemented certain fiscal controls to ensure the proper administration of the grant and to facilitate its compliance with the requirements promulgated by the United States Department of Education in Section 80.20 of Title 34 of the Code of Federal Regulations (34 CFR 80.20), Office of Management and Budget (OMB) Circular A-87 and American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' findings and observations are discussed in the body of the letter.

Questioned Costs

\$0.00

Recommendations

The subrecipient should review this letter and implement the recommendations provided in the body of the letter.

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Attachment A: Summary of Auditors' Findings

Observations on Subrecipient's Administration of ARRA awards

Observation #1: The subrecipient generally complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(3) but noted the following instances of weakness in internal controls.

Statements of Fact

Auditors selected a total sample of twenty (20) non-payroll transactions including six (6) transactions from IDEA-B Formula – ARRA (fund code 283), three (3) transactions from IDEA-B Preschool – ARRA (fund code 284), seven (7) transactions from Title I, Part A – ARRA (fund code 285), two (2) transactions from Title II, Part D – ARRA (fund 279), and two (2) transactions from Title XIV SFSF – ARRA (fund code 266) and examined the documentation in support of the expenditures charged to the applicable grant.

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

- a) Auditors also noted that two (2) transactions had invoices with dates prior to an approved purchase order being issued. (Refer to Items #1 and #9 in Appendix A)

Recommendation

The subrecipient should monitor the effective implementation of its internal controls over federal awards by ensuring that the individual responsible for the final approval of expenditures (i.e. purchase order, travel itineraries) and disbursement reviews the accounting records for each individual transaction to ensure that the subrecipient's internal controls were properly maintained. Specially, the subrecipient should ensure that purchases are pre-approved prior to payment request through an approved purchase order.

Observation #2: The subrecipient expended grant funds for payroll costs that were not reconciled with the personnel activity reports and/or timesheets as promulgated in OMB A-87.

Statements of Fact

Auditors selected a total sample of nine (9) payroll transactions including four (4) transactions from IDEA-B Formula – ARRA (fund code 283), three (3) transactions from Title I, Part A – ARRA (fund code 285), and two (2) transactions from Title II, Part D – ARRA (fund code 279), and examined the documentation in support of the expenditures charged to the applicable grant.

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

- a) In four (4) transactions tested, the employees did not adequately complete the hours

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worked for each day worked on the timesheet (paysheet) to comply with time and effort reporting requirements promulgated in OMB A-87. (See Items #4, #5, #8 and #9)

- b) In most instances, the subrecipient did not reconcile the after the fact time and effort records with the payroll cost charged to the grant as per the requirements promulgated in OMB A-87.

Recommendation

The subrecipient should review its existing policies and procedures and update and/or implement adequate internal control policies and procedures to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements. Specifically, the subrecipient should maintain time and effort documentation to support the payroll charges and reconcile the time allocations to the cost allocation. (Personnel Activity Reports for split funded employees or Timesheets for Extra Duty).

Observation #3: The subrecipient's policies and procedures should describe if the subrecipient permits the use of corporate accounts (e.g., VISA) and/or revolving lines of credit (e.g., Office Depot account) for the purchase of supplies and materials and miscellaneous operating costs, including travel expenses and how the cards/accounts are safeguarded and reconciled.

Recommendations

The subrecipient should review its existing policies and procedures and update and/or implement adequate internal control policies and procedures to provide reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

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Summary of Audit Objectives, Scope and Methodology

Objectives

The review focused on the following objectives.

- Whether the subrecipient developed written policies and procedures for the effective control of ARRA funds.
- Whether the subrecipient's financial records accurately and completely accounted for the obligation, receipt, expenditure, and use of the ARRA grant funds.
- Whether financial, program, and other reports filed by the subrecipient were fairly presented and properly supported by the subrecipient's source documentation.

Scope

Consistent with the objectives of the review identified above, auditors limited the scope of their work to the subrecipient functions and activities implemented in support of the intent and objectives of the grant noted in the Table B below for the grant periods indicated.

TABLE B Individual NOGAs Selected for Audit			
NOGA ID	NOGA Description	Begin Date	End Date
10554001084910	IDEA B Formula – ARRA-LEA	05/13/2009	09/30/2011
10555001084910	IDEA B Pre-School – ARRA-LEA	05/13/2009	09/30/2011
10551001084910	Title I, Part A – ARRA/STIMULUS	06/30/2009	09/30/2011
10553001084910	ARRA - Title II, D Technology	11/10/2009	09/30/2011
10557001084910	ARRA Title XIV SFSF	09/30/2009	09/30/2011
11557001084910	ARRA Title XIV SFSF	09/01/2010	09/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on June 15, 2011. Subsequent to their onsite visit, auditors continued to perform desk audit procedures. Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. In general, auditors performed the following audit procedures.

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1. Auditors researched the federal and state laws and rules and the grant and program requirements applicable to the grants listed in Table B.
2. Auditors reviewed organizational charts and local policy and procedure manuals and other authoritative records to understand the subrecipient's organizational structure and identify internal controls and processes.
3. Auditors reviewed financial and accounting records created and maintained by the subrecipients to ensure that included budgetary data consistency with budget approved by TEA for each grant and maintained financial accounting system that enabled the subrecipient personnel to compare budgeted amounts for each grant to the expenditures incurred and outlays of grant funds.
4. Auditors examined the documentation in support of quarterly reports filed by the subrecipient pursuant to Section 1512 of ARRA reporting requirements to ensure accuracy of data reported to TEA.
5. Auditors examined documentary evidence for post-payment of selected ARRA fund expenditures including, but not necessarily limited to; payroll records, time and effort records, financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, contracts, and policies and procedures.
6. Auditors examined the documentation in support of Infrastructure project (if applicable) paid with ARRA funds to ensure that the subrecipient complied with certification requirements pursuant to section 1511 of ARRA, Buy American provisions of ARRA pursuant to section 1605 of ARRA and Davis Bacon Act pursuant to section 1606 of ARRA.
7. Auditors interviewed subrecipient personnel and other agents about the activities, functions, programs and services implemented for the grant and the records created and maintained for the grant.
8. Auditors conducted an onsite visit and completed work programs and the related working papers.
9. Auditors applied certain criteria including, but not necessarily limited to, the requirements discussed in the Financial Accountability System Resource Guide, Title 34 Code of Federal Regulations 80.20, the American Recovery and Reinvestment Act of 2009, PL-111-5 (Recovery Act), OMB Circulars A-87, and A-133, and the applicable request for application and approved grant application, as amended.

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Acronyms and Abbreviations Used In This Letter

Acronym	Acronym Description
ARRA	American Recovery and Reinvestment Act of 2009
CDN	County District Number
CFR	Code of Federal Regulations
34 CFR	Title 34 of the CFR Note: This acronym is usually followed by the section of the CFR referenced in the report. For instance, section 80.20 of 34 CFR is referenced as 34 CFR 80.20.
FASRG	Financial Accountability System Resource Guide
ID	Identification
IDEA	Individuals with Disabilities Education Improvement Act of 2004
ISD	Independent School District
NCLB	No Child Left Behind Act of 2001
NOGA	Notice of Grant Award
OMB	Office of Management and Budget
P.L.	Public Law
SFSF	State Fiscal Stabilization Fund
TEA	Texas Education Agency
TEC	Texas Education Code
Title I, Part A	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended

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Appendix A						
Item No.	Ref. Number	Transaction Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001084910						
1	P1010943	6/9/10	Math Perspective	\$5,600.00	\$0.00	F
2	P1004148	2/11/11	Troxell Communication	\$20,965.00	\$0.00	
3	P1005652	2/18/10	Pulse Data Human	\$7,750.00	\$0.00	
4	P1007121	5/27/10	W. Oscar Neuhaus	\$7,235.00	\$0.00	
5	P1007121	9/7/10	W. Oscar Neuhaus	\$32,355.00	\$0.00	
6	P1101553	2/23/11	Harris County	\$16,105.00	\$0.00	
IDEA-B Preschool - ARRA, NOGA ID: 10555001084910						
7	337934	9/21/10	Emily Browder	\$120.00	\$0.00	
8	P1106275	2/23/11	Troxell Communications	\$4,491.00	\$0.00	
9	348168	1/19/11	Region IV ESC	\$1,798.94	\$0.00	F
Title I, Part A – ARRA, NOGA ID: 10551001084910						
10	300074	7/13/09	Houston Museum	\$375.00	\$0.00	
11	P1002507	10/27/09	Dell	\$13,656.00	\$0.00	
12	P1002505	12/1/09	Solid IT Network	\$2,211.00	\$0.00	
13	P1002933	11/11/09	Generocity Serv	\$3,600.00	\$0.00	
14	P1104015	11/16/10	Heinemann Workshop	\$3,500.00	\$0.00	
15	P1105863	2/15/11	Lori G. Squires	\$1,500.00	\$0.00	
16	20111374	4/6/11	District Buses	\$811.20	\$0.00	
Title II, Part D – ARRA, NOGA ID: 10553001084910						
17	P1006616	3/3/10	Achieve 3000 INC	\$12,483.35	\$0.00	
18	313390	12/9/09	Texas Computer	\$6,115.00	\$0.00	
Title XIV SFSF - ARRA, NOGA ID: 1x557001084910						
19	20101661	3/10/10	Electricity	\$2,493,368.10	\$0.00	
20	20110785	1/21/11	Electricity	\$2,875,859.00	\$0.00	
Total Non-Payroll Questioned Cost					\$0.00	

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Non-Payroll Attributes Tested

- A – Use of funds was reasonable and necessary to further the statutory purpose of the grant.
- B – Costs were chargeable or assignable to the grant in accordance with the relative benefits received.
- C – Goods or services purchased were supported by the DIP/CIP.
- D – Did the purchase comply with ARRA requirements including prohibited costs (Section 14003), Buy American (Section 1605), Davis Bacon (Section 1606), and Web Posting (Section 1511) (capital outlay, if applicable).
- E – Accounting record included an original and complete internal accounting document (e.g.: executed contract, purchase order, payment authorization form, expense reimbursement, Form W-4, etc).
- F – The purchase order was issued prior to the date of the vendor's invoice.
- G – The accounting record included an original and complete third party document (e.g.: invoice, itemized receipt, utility bill, bank deposit, etc).
- H – The accounting record indicated the transaction was approved by authorized individuals.
- I – The item was approved in the program budget, as amended. (Note: if the costs and/or activity was approved on a specific line item or schedule).
- J – The purchase adhered to the comparative bidding requirements (if applicable).
- K – Determine if the costs were incurred and good/services were received after the start and before the end of the grant period.

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Appendix B						
Item No.	Ref. Number	Payroll Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001084910						
1	283-6119	10/31/2009	Lee Ann Taylor	\$2,294.96	\$0.00	
2	283-6119	07/31/2010	Lori Nelson	\$1,858.31	\$0.00	
3	283-6129	06/30/2010	Barbara Dowell	\$863.57	\$0.00	
4	283-6118	09/29/2010	Kristen Wood	\$1,000.00	\$0.00	I
Title I, Part A - ARRA, NOGA ID: 10551001084910						
5	285-6119	07/31/2009	Dana Bryant Bidy	\$3,657.48	\$0.00	I
6	285-6119	02/12/2010	Diana Pairbairn	\$2,178.40	\$0.00	
7	285-6129	02/28/2011	Mary Schoonaert	\$1,238.93	\$0.00	
Title II, Part D - ARRA, NOGA ID: 10553001084910						
8	279-6118	08/30/2010	Gerald Oliver	\$1,000.00	\$0.00	I
9	279-6118	08/30/2010	Tracy Pattat	\$1,000.00	\$0.00	I
Total Payroll Questioned Cost					\$0.00	

Payroll Attributes Tested

- A - Position(s) approved in the budget.
- B - Signed and dated job description provided.
- C - Position supported by laws, rules, regulation, and grant application.
- D - Salary authorization and personnel action forms provided.
- E - Time sheet provided for extra duty/substitute pay claimed.
- F - Signed supplemental contract that stipulated the program (e.g. Title I work activities) performed by the teacher for tutoring/extra duty pay.
- G - Periodic Certification provided for 100 % funded employee.
- H - Activity Reported provided for split funded employees.
- I - Time worked does not agree to cost allocated to the grant.