

October 27, 2011

VIA UNITED STATES CERTIFIED MAIL

rev-38-101-915-6-2011

Dr. James W. Cain
Superintendent
Klein Independent School District
7200 Spring-Cypress Road
Klein, TX 77379-3299

Subject: Final Letter of Observations and Findings

Dear Dr. Cain:

Auditors from the Division of Financial Audits conducted a review of the fiscal controls over federal grants awarded to Klein Independent School District (CDN: 101-915) (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 14, 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 Mike Scott 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 to Klein Independent School District (CDN: 101-915) 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 May 25, 2011 the subrecipient filed expenditure reports to claim a total of \$36,645,277.99 in expenditures from the total of \$45,483,921.00 ARRA funded grants awarded to the subrecipient (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to Klein ISD as of May 25, 2011			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001101915	IDEA B Formula – ARRA-LEA	\$8,235,303.00	\$6,970,192.65
10555001101915	IDEA B Preschool – ARRA-LEA	\$214,090.00	\$179,293.67
10551001101915	Title I, Part A – ARRA/STIMULUS	\$3,831,918.00	\$2,886,095.27
10553001101915	ARRA - Title II, D Technology	\$120,706.00	\$63,957.39
10557001101915	ARRA Title XIV SFSF	\$16,097,092.00	\$16,097,092.00
11557001101915	ARRA Title XIV SFSF	\$16,984,812.00	\$10,448,647.01
Total Amount Awarded		\$45,483,921.00	\$36,645,277.99

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 use of ARRA funds. Auditors observed that in certain instances the subrecipient did not maintain certain fiscal controls to ensure the proper administration of the grant and to

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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) and Office of Management and Budget (OMB) Circular A-87. Refer to Finding #1 and the auditor's observation in the body of the letter.

- 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 substantially demonstrated that it complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009. However, auditors noted an exception with one quarterly report for Title XIV SFSF. Refer to the auditor's observation in the body of the letter.
- 3. Observations on ARRA Infrastructure Expenditures:** The subrecipient was not awarded grant funds for infrastructure investment projects (modernization, renovation, and repair of public school facilities).

Overall Conclusion

Based upon their review of the subrecipient's records, auditors observed that the subrecipient, with two exceptions, generally implemented 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' observations and findings are discussed in the body of the letter.

Questioned Costs

\$0.00

Recommendations

Subsequent to the onsite visit, the subrecipient reclassified questioned costs to another funding source, as per auditors' recommendation. As a result the questioned costs were adjusted from \$6,600.00 to \$0.00.

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Auditors' Observations and Findings

Observations on Subrecipient's Administration of ARRA awards:

Finding # 1: In one instance, the subrecipient failed to maintain adequate and sufficient source documentation to support the expenditures charged to the grants and reported to TEA as the basis for its reimbursement from the applicable grant program.

Statements of Fact

Auditors selected a total sample of ten (10) non-payroll transactions including; four (4) transactions from IDEA-B Formula – ARRA (fund 283), one (1) transaction from IDEA-B Preschool (fund 284), four (4) transactions from Title I, Part A – ARRA (fund 285) and one (1) transaction from Title II, Part D, ARRA (fund 279) and examined the documentation in support of the expenditures charged to the applicable grant (refer to Appendix A).

Specifically, auditors observed the following instance of noncompliance and/or weakness in internal control.

- a. Auditors noted that the subrecipient expended grant funds for a three year maintenance agreement which extended two years past the grant period. Accordingly, auditors questioned the prorated amount of \$6,600.00 charged to the Title I, Part A – ARRA grant (refer to item #9 of Appendix A).

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the ten (10) non-payroll transactions tested, one (1) transaction failed various attributes that would have demonstrated compliance with 34 CFR 80.20 (b)(5) and 34 CFR 80.23 and Public Law 107-910.

Conclusion

The subrecipient's failure to implement an adequate system of internal controls may place grant funds at risk and may impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

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.

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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. Subsequent to the onsite visit, the subrecipient reclassified the questioned costs to another funding source, as per auditors' recommendation. As a result, the questioned costs were adjusted from \$6,600.00 to \$0.00.

Observation: In several instances, auditors observed weaknesses in the subrecipient's internal controls over payroll support documentation.

Statements of Fact

Auditors selected a total sample of ten (10) payroll transactions including; three (3) IDEA-B Formula – ARRA (fund 283), one (1) transaction from IDEA-B Preschool (fund 284), three (3) transactions from Title I, Part A – ARRA (fund 285), one (1) transaction from Title II, Part D, ARRA (fund 279), and two (2) transactions from Title XIV SFSF – ARRA (fund 266) and examined the documentation in support of the payroll expenditures charged to the applicable grant (refer to Appendix B)

Specifically, auditors observed the following instances of weakness in internal controls.

- a. Auditors observed that the semi-annual certifications for employees' payroll charged to IDEA B Formula (fund 283) and IDEA B Preschool (fund 284) were non-compliant with the requirements as promulgated in OMB A-87. The subrecipient's periodic certifications only identified the general time periods such as "Fall 2010" and/or "May 2010" and are not dated along with employees' signatures (refer to items #1, #2, #3, and #4 of Appendix B).

Conclusion

The subrecipient's failure to implement and comply with the time and effort requirements promulgated in OMB A-87 may impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

Recommendation

The subrecipient should update and/or implement adequate internal controls to ensure reasonable assurance that it is complying with reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements

Observation on ARRA Reporting Requirements:

Observation: Auditors examined the documentation in reference to the subrecipient's Quarterly Reports and noted that the subrecipient did not comply with the requirements promulgated in

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Section 1512 of ARRA.

Statements of Fact

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

- a. The subrecipient failed to accurately report FTEs for the September 30, 2010 Section 1512 Quarterly Report in ARRA Title XIV SFSF 2009-2010 and ARRA Title XIV SFSF 2010-2011 Fund 266. The subrecipient mistakenly included an entire quarter's FTEs for both grants when actually two thirds of the FTEs should have been recorded for the 2009-2010 grant and one third for the 2010-2011 grant.

Conclusion

The subrecipient's failure to implement and comply with the reporting requirements promulgated in Section 1512 of the American Recovery and Reinvestment Act of 2009 may impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

Recommendation #1. The subrecipient should update and/or implement adequate internal controls to ensure reasonable assurance that it is complying with reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements.

Recommendation #2. The estimate of the number of jobs required by the ARRA should be expressed as FTEs, which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient within the reporting quarter. These FTEs are then adjusted to count only for the portion of the job funded by ARRA. Refer to the following web-link for Section 1512 reporting requirements of ARRA.
<http://www.tea.state.tx.us/arrastimulus/reporting/>

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Summary of Audit Scope, Objectives and Methodology

Objectives, Scope, Methodology and Timeline

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
10554001101915	IDEA B Formula – ARRA-LEA	6/11/2009	9/30/2011
10555001101915	IDEA B Pre-School – ARRA-LEA	6/11/2009	9/30/2011
10551001101915	Title I, Part A – ARRA/STIMULUS	6/17/2009	9/30/2011
10551003101915	Title I, Part D, SP2 – ARRA/STIMULUS	6/17/2009	9/30/2011
10553001101915	ARRA - Title II, D Technology	10/7/2009	9/30/2011
10557001101915	ARRA Title XIV SFSF	9/25/2009	9/30/2010
11557001101915	ARRA Title XIV SFSF	9/01/2010	9/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on Wednesday, June 14, 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

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performed the following audit procedures.

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	Trans. Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA B Formula – ARRA NOGA ID: 10554001101915 (Fund 283)						
1	142955	8/31/2009	Heffernan, Traci	\$1,100.00	\$0.00	
2	110312	11/30/2010	Corr. FY 09/FY 10Exp.	\$732,215.25	\$0.00	
3	471096	9/29/2009	Office Depot	\$198.38	\$0.00	
4	472886	11/3/2009	Walmart Community	\$3,150.93	\$0.00	
IDEA B Preschool – ARRA NOGA ID: 10555001101915 (Fund 284)						
5	143895	4/12/2011	Brown, Melissa	\$2,212.50	\$0.00	
Title I, Part A – ARRA, NOGA ID: 10551001101915 (Fund 285)						
6	490964	8/2/2010	Phillips, Sherry	\$643.04	\$0.00	
7	494098	8/31/2010	Walmart Community	\$266.40	\$0.00	
8	491355	8/11/2010	Charles A. Dana Center	\$3,500.00	\$0.00	
9	492182	8/26/2010	NWN Corporation	\$57,189.00	\$6,600.00	H
Title II, Part D – ARRA, NOGA ID: 10553001101915 (Fund 279)						
10	488291	6/7/2010	St. Edwards Catholic	\$538.00	\$0.00	
Total Questioned Costs					\$6,600.00	

Non-Payroll Attributes Tested

Test of Internal Controls

- A. The accounting record included an original and complete internal accounting document, i.e. executed contract, purchase order, payment authorization form, expense reimbursement form, travel reimbursement form, payroll schedule, payroll authorization form, Form W-4, employment contract, etc.
- B. The accounting record included an original and complete third party document, i.e. utility billing statement, itemized receipt, itemized invoice, bank deposit.
- C. The accounting record indicated that the transaction was approved by an authorized individual.
- D. The purchase order was issued prior to the date of the vendor's invoice.

Compliance with Law, Rule, and/or Regulation

- E. The item was approved in the budget.
- F. The activity was allowed as per the applicable program requirements.
- G. The activity was noted in District/Campus improvement plan as applicable.
- H. The amount was obligated within the grant period.
- I. Capital outlay: did the purchase comply with ARRA reporting requirements.

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Appendix B						
Item No.	Fund & Object Code	Transaction Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA B Formula – ARRA NOGA ID: 10554001101915 (Fund 283)						
1	283-6119	2/5/2010	Deborah Ann Barroso	\$2,434.21	\$0.00	G
2	283-6119	3/12/2010	Hazylen Marie Daniels	\$1,833.31	\$0.00	G
3	283-6129	8/20/2010	Selma Wilson	\$625.20	\$0.00	G
IDEA B Preschool – ARRA NOGA ID: 10555001101915 (Fund 284)						
4	284-6118	8/20/2010	Kim Marie Watrous	\$195.00	\$0.00	G
Title I, Part A – ARRA, NOGA ID: 10551001101915 (Fund 285)						
5	285-6119	12/17/2010	Judith Plimmer	\$1,854.17	\$0.00	
6	285-6125	9/20/2010	Andrea Schlottman	\$118.13	\$0.00	
7	285-6129	4/5/2011	Tammy Ta	\$1,430.55	\$0.00	
Title II, Part D – ARRA, NOGA ID: 10553001101915 (Fund 279)						
8	279-6118	4/20/2011	Katherine Land	\$375.00	\$0.00	
Title XIV SFSF – ARRA NOGA ID: 10557001101915 (Fund 266)						
9	266-6119	9/4/2009	Vivian May Smith	\$2,777.63	\$0.00	
Title XIV SFSF – ARRA NOGA ID: 11557001101915 (Fund 266)						
10	266-6119	9/3/2010	Josie Mestayer Mallery	\$2,884.00	\$0.00	
Total Questioned Costs					\$0.00	

Payroll Attributes Tested

- A. Position(s) approved in the budget.
- B. Position supported by laws rules regulations and grant application.
- C. Signed and dated job description provided.
- D. Salary authorization and Personnel Action form provided.
- E. Time sheet provided for extra duty/substitute pay claimed.
- F. Signed supplemental contract that stipulated 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 Report provided for Split funded employees.
- I. After-the-fact distribution of work performed. Payroll records match with activity reports.