

July 15, 2011

VIA UNITED STATES CERTIFIED MAIL
VIA EMAIL

Dr. Duncan Klussmann
Superintendent
Spring Branch Independent School District
955 Campbell Road
Houston, TX 77024-2803

Subject: Final Letter of Observations and Findings

Dear Dr. Klussmann:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Spring Branch Independent School District (CDN: 101-920) (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 January 11, 2011 and during the onsite visit conducted by auditors on February 22, 2011 through February 23, 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: Yolanda Cantu, Director, Division of Formula Grants Administration
Rita Chase, Director, Division of Financial Audits

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Kathy Clayton, Senior Director, Division of IDEA Coordination
Cory Green, Senior Director, Division of NCLB Program Coordination
Earin Martin, Chief Grants Administrator

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Background:

As discussed in their notification letter dated January 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 Spring Branch Independent School District (CDN:101-920) 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 ARRA funded grants awarded to the subrecipient. As of January 26, 2011, the subrecipient filed expenditure reports to claim a total of \$20,562,414.35 in expenditures from the total of \$31,326,874.00 ARRA funded grants awarded to the subrecipient.

TABLE A			
NOGAs Awarded to Spring Branch Independent School District as of January 26, 2011			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001101920	IDEA B Formula – ARRA-LEA	\$6,410,098.00	\$4,991,020.42
10555001101920	IDEA B Pre-School – ARRA-LEA	\$166,649.00	\$85,691.72
10551001101920	Title I, Part A – ARRA/STIMULUS	\$6,477,949.00	\$3,725,198.98
10553001101920	ARRA - Title II, D Technology	\$204,056.00	\$38,090.79
10557001101920	ARRA Title XIV SFSF	\$9,301,762.00	\$9,301,762.00
11557001101920	ARRA Title XIV SFSF	\$8,766,360.00	\$2,420,650.44
Total Amounts		\$31,326,874.00	\$20,562,414.35

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 the subrecipient generally implemented

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adequate 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) and Office of Management and Budget (OMB) Circular A-87. However, auditors observed certain instances where the subrecipient did not have sufficient controls and/or maintain specific documentation to comply with certain federal requirements and standards of financial management. Refer to Observation #1 through Observation #3 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 adequately demonstrated that it 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' 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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Internal Controls: General Observations

Auditors noted that the subrecipient did not maintain adequate policies and procedures and/or maintain specific documentation to comply with the standards for financial management systems promulgated at 34 CFR 80.20 and OMB A-87. Specifically, auditors observed weakness in controls for the following.

Observation #1: Auditors noted that subrecipient's policies and procedures did not require each employee to have a signed and dated job description which describes the work performed by the employee for each program/fund source.

Observation #2: Auditors observed that the subrecipient did not use supplemental pay agreements for employees working extra-duty or performing supplemental work.

Observation #3: Auditors observed that purchase orders were always created after the date of the invoice for professional & contracted services.

Recommendation #1. Auditors recommend that the subrecipient 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 agreement.

Recommendation #2. Auditors recommend that the subrecipient create a purchase order upon signing any professional and contracted services contract. The initial date of the open purchase order should coincide with the agreement date or at a minimum prior to receiving any invoice.

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Summary of Audit Scope, Objectives and Methodology

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 A below for the grant periods indicated.

TABLE A Individual NOGAs Selected for Audit			
NOGA ID	NOGA Description	Begin Date	End Date
10554001101920	IDEA B Formula – ARRA-LEA	08/10/2011	09/30/2011
10555001101920	IDEA B Pre-School – ARRA-LEA	08/10/2009	09/30/2011
10551001101920	Title I, Part A – ARRA/STIMULUS	08/05/2009	09/30/2011
10553001101920	ARRA - Title II, D Technology	10/02/2009	09/30/2011
10557001101920	ARRA Title XIV SFSF	09/25/2009	09/30/2011
11557001101920	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 February 22, 2011 through February 23, 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.

1. Auditors researched the federal and state laws and rules and the grant and program requirements applicable to the grants listed in Table A.

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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