

TEXAS EDUCATION AGENCY
Division of Financial Audits
Grant Audits Section

**Report on an Investigation of the Administration of Federal Awards by the
Cleburne Independent School District
July 11, 2008**

- j) Auditors discussed their observations with and solicited legal or technical advice from agency personnel from the Office of Legal Services, the Division of Formula Grants Administration, the Division of Discretionary Grants Administration, the Division of NCLB Program Coordination and the Division of IDEA Coordination, as necessary and appropriate.
- k) Auditors documented the results of their work in this preliminary report.

The auditors' comments and recommendations discussed in this report pertain to the grants and periods noted above in Table C unless otherwise indicated. Refer to Appendix B, Schedule of Transactions Examined, for a summary of the work performed by auditors.

Summary of Findings, Questioned Costs and Effect

Based on their work as described above, auditors identified the following issues.

Compliance with Federal Regulations

- Finding 01 The grantee did not maintain an effective system of internal controls to ensure the appropriate expenditure of grant funds for the purposes stipulated and costs allowed in federal law and rules.
- Finding 02 In two instances, the grantee charged costs to the grants that did not meet the terms and conditions of the applicable federal award.
- Finding 03 In various instances, the grantee charged costs to the grants that were not allowed by federal law and rules and other grant requirements.
- Finding 04 In various instances, the grantee did not provide adequate source documentation (i.e., third-party itemized invoice or receipt) to support its expenditure of grant funds.
- Finding 05 In several instances, the grantee did not adequately demonstrate how its expenditure of federal funds for the purchase of goods acquired prior to the end of the school year directly benefited the students during the grant period.
- Finding 06 In several instances, the grantee did not expend grant funds within the grant period.
- Finding 07 In several instances, the grantee did not support the expenditure of grant funds for payroll costs.
- Finding 08 The grantee failed to develop and implement comprehensive administrative procedures that identified the processes and forms that it would use to ensure compliance with federal requirements, including administrative procedures that addressed the time and effort requirements promulgated in OMB Circular A-87.

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Compliance with State Regulations

Finding 09 In most travel transactions selected for testing, the district did not comply with the State of Texas Travel Allowance Guidelines.

Finding 10 In several instances, the grantee paid for sales tax.

Based on the results of their investigative procedures and as noted in Table D below, auditors questioned \$362,304.31 in costs charged to certain federal grants awarded to the grantee by the TEA. This amount represented 43.8% of the total costs examined by auditors and 7.0% of the total costs charged to the grants. The questioned costs constitute a material amount in total and to each individual grant and effectively illustrate the degree to which the grantee failed to comply with law, rules and grant requirements and to maintain internal control over Federal programs that provided reasonable assurance that it managed Federal awards in compliance with laws, regulations, and the provisions of grant agreements.

TABLE D				
NOGA ID/ NOGA Description	Costs Charged to Grant	Costs Examined	Questioned Costs	%
04610101126903 No Child Left Behind Act of 2001, Title I, Part A – Improving Basic Programs	\$ 1,484,985.24	\$ 143,571.66	\$ 13,270.84	9.2
05610101126903 No Child Left Behind Act of 2001, Title I, Part A – Improving Basic Programs	\$ 1,635,425.18	\$ 315,094.26	\$ 127,648.49	40.5
04694501126903 No Child Left Behind Act of 2001, Title II, Part A – Teacher & Principal Training & Recruiting	\$ 357,294.65	\$ 74,762.10	\$ 16,632.14	22.2
05694501126903 No Child Left Behind Act of 2001, Title II, Part A – Teacher & Principal Training & Recruiting	\$ 440,711.67	\$ 45,223.37	\$ 18,649.42	41.2
04671001126903 No Child Left Behind Act of 2001, Title III, Part A – LEP	\$ 52,455.55	\$ 17,787.52	\$ 13,730.68	77.2
05671001126903 No Child Left Behind Act of 2001, Title III, Part A – LEP	\$ 70,223.67	\$ 33,774.16	\$ 31,323.32	92.7

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TABLE D				
NOGA ID/ NOGA Description	Costs Charged to Grant	Costs Examined	Questioned Costs	%
066600011269036600 Individuals with Disabilities Education Improvement Act of 2004, Part B – Formula	\$ 1,105,410.69	\$ 196,738.64	\$ 141,049.42	71.7
Totals	\$ 5,146,506.65	\$ 826,951.71	\$ 362,304.31	43.8

Based on their observations, auditors concluded that the grantee failed to appropriately administer its grant funds in an efficient and effective manner to further the statutory purposes of the federal grant programs. Moreover, the grantee's inadequate internal controls and lapses in internal controls over federal awards resulted in the misuse of federal funds and in a greater probability (i.e., higher risk) that federal funds could be misused. By failing to use federal funds for the purposes authorized by federal law and rule and by implementing adequate internal controls over federal awards, the grantee may not have provided adequate instructional and instructionally-related services to its students in a manner permitted by federal law and rules. Consequently, the grantee may not have adequately addressed the instructional and instructionally-related needs of its students in accordance with applicable federal law and rules.

The auditors' findings are discussed in further detail in the body of this report.

Conclusion

The grantee did not adhere to the standards for financial management systems promulgated in 34 CFR 80.20 and the internal control principles, requirements and standards described in (A)(2) of Attachment A of OMB Circular A-87, §___300(b) of OMB Circular A-133, and §1.5 of the FASRG. Consequently, the grantee did not adequately adhere to the statutory purposes for the grants identified in Table C above as stipulated in P.L. 107-110 and 108-446. Specifically, based on their observations, auditors concluded that the grantee failed to maintain adequate financial accounting and other records that clearly and completely accounted for its expenditure of grant funds. Additionally, auditors noted that the grantee failed to maintain adequate controls over its federal awards, especially in regards to the review and approval of the costs charged to the grants, to ensure the appropriate expenditure of grant funds for the purposes stipulated and costs allowed in federal law and rules. Consequently, the grantee failed to demonstrate that it used federal funds for the purpose and intent of the enabling legislation and that it complied with the various fiscal and program requirements applicable to the grants identified above. The auditors' findings constitute material noncompliance with the terms and conditions of the federal awards to the grantee.

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Assessment of Risk

Based on their observations and for purposes of their audit and other monitoring activities, auditors assessed the risk that the grantee may fail to properly administer its federal awards and to comply with federal requirements as high.

Recommendations

Cleburne Independent School District

Based upon the results of their investigation as described above and in the body of this report, auditors recommend that the grantee review the contents of this report and prepare a complete and appropriate response to their findings and recommendations. For further guidance, the grantee should refer to the detailed findings and recommendations discussed in the body of this report.

Department of Accreditation

Based upon the results of their investigation, their conclusion and their assessment of risk, auditors' recommend an audit of the grantee's administration of its other federal awards during the 2003-2004, 2004-2005, 2005-2006, 2006-2007 and 2007-2008 school years. In this regard, auditors recommend that the agency consider requiring the grantee to acquire the services of a certified public accountant to conduct an audit of its federal programs pursuant to TEC 39.1331 and in accordance with agreed-upon procedures provided by the Division of Financial Audits. Additionally, auditors further recommend that the Division of Governance and General Inquiries consider appropriate administrative action pursuant to TEC 39.131.

Department of Planning, Grants and Evaluation

Based on their observations, auditors recommend that the Division of Formula Grants Administration and the Division of Discretionary Grants Administration consider administrative action pursuant to 34 CFR 80.12. Furthermore, auditors recommend that the Division of Formula Grants Administration also consider enforcement action pursuant to 34 CFR 80.43(a).

Grantee's Response

Refer to Attachment B.

Auditor's Addendum

Auditors reviewed the grantee's response received on May 14, 2008 and concurred with the grantee's corrective actions.

The grantee submitted adequate documentation to support its disagreement with finding 03(I). Auditors adjusted the questioned amounts of \$2,000 for the Title I Part A grant and \$2,723.33 for the Title III Part A grant decreasing the overall questioned cost of Finding 03 to \$ 25,627.23.