

2016 SINGLE AUDIT REPORT

For the fiscal year
ended June 30, 2016

Houston • Texas



FINANCIAL EXCELLENCE
SUPPORTING
ACADEMIC SUCCESS

HOUSTON INDEPENDENT SCHOOL DISTRICT

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Houston Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Houston Independent School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* 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 and correct, 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 entity'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 attention by those charged with governance.

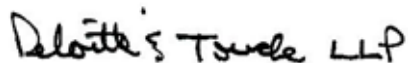
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink that reads "Deloitte Touche LLP". The signature is written in a cursive, flowing style.

November 10, 2016



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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

The Board of Education
Houston Independent School District

Report on Compliance for Each Major Federal Program

We have audited Houston Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and conditions to its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 10, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of

federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deloitte's Touche LLP

November 10, 2016

HOUSTON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I — Summary of Auditor's Results:**Financial Statements**

Type of auditor's report issued:	Unmodified
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Internal control over financial reporting:	
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Material weakness(es) identified?	No
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Significant deficiency(ies) identified not considered to be material weaknesses?	No
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Noncompliance material to financial statements noted?	No
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Federal Awards

Internal control over major programs:	
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Material weakness(es) identified?	No
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Significant deficiency(ies) identified not considered to be material weakness(es)?	No
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Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.165A	Magnet Schools Assistance
84.010A	Title I Grants to Local Educational Agencies
84.365A	English Language Acquisition State Grants
84.367A	Improving Teacher Quality State Grants
84.374A, 84.374B	Teacher Incentive Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes

Section II – Findings Related to the Financial Statements

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

HOUSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Pass-Through Grantor's Number	Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Total Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE—FOOD AND NUTRITION SERVICE</u>			
Pass-Through Texas Department of Agriculture:			
Non-Cash Assistance:			
N/A	National School Lunch Program	10.555	\$ 6,506,287
N/A	Summer Food Service Program for Children	10.559	355,943
	Non-Cash Assistance Subtotal		6,862,230
Cash Assistance:			
N/A	School Breakfast Program	10.553	35,995,580
N/A	National School Lunch Program	10.555	67,601,956
N/A	Child and Adult Care Food Program	10.558	1,759,279
N/A	Summer Food Service Program for Children	10.559	3,698,336
	Cash Assistance Subtotal		109,055,151
	Total U.S. Department of Agriculture—Food and Nutrition Service		115,917,381
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct Program:			
N/A	JROTC Career Academy	12.000	1,991,635
	Total U.S. Department of Defense		1,991,635
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through City of Houston/Department of Housing and Community Development			
4600013614/2016-0093	Community Development Block Grant	14.218	85,044
4600013091/2015-0081	Community Development Block Grant	14.218	(8,134)
	Total U.S. Department of Housing and Urban Development		76,910
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct Program:			
U165A130045	Magnet Schools Assistance	84.165A	3,702,587
S215G140125	Fund for the Improvement of Education	84.215G	427,855
U350A090044	Transition to Teaching Program	84.350A	40,549
U351C120100	Arts in Education	84.351C	1,248
U363A090171	School Leadership Program	84.363A	83,142
S374A100018	Teacher Incentive Fund	84.374A	3,193,600
S374B120011	Teacher Incentive Fund	84.374B	4,190,260
B416A140166	Race to the Top - District	84.416A	7,364,981
	Total Direct Program		19,004,222
Pass-Through Texas Education Agency:			
16610112101912000	Title I Grants to Local Educational Agencies	84.010A	4,816,921
15610112101912001	Title I Grants to Local Educational Agencies	84.010A	1,133
15610112101912006	Title I Grants to Local Educational Agencies	84.010A	4,077
15610112101912007	Title I Grants to Local Educational Agencies	84.010A	24,410
15610112101912009	Title I Grants to Local Educational Agencies	84.010A	141,682
15610112101912011	Title I Grants to Local Educational Agencies	84.010A	479
15610112101912014	Title I Grants to Local Educational Agencies	84.010A	3,789
15610112101912017	Title I Grants to Local Educational Agencies	84.010A	286
15610112101912019	Title I Grants to Local Educational Agencies	84.010A	88,755
15610112101912023	Title I Grants to Local Educational Agencies	84.010A	336
15610112101912024	Title I Grants to Local Educational Agencies	84.010A	106
15610112101912041	Title I Grants to Local Educational Agencies	84.010A	6,267
15610112101912042	Title I Grants to Local Educational Agencies	84.010A	6,672
15610112101912045	Title I Grants to Local Educational Agencies	84.010A	64
15610112101912046	Title I Grants to Local Educational Agencies	84.010A	725
15610112101912047	Title I Grants to Local Educational Agencies	84.010A	92

HOUSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Pass-Through Grantor's Number	Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Total Expenditures
15610112101912052	Title I Grants to Local Educational Agencies	84.010A	61
15610112101912053	Title I Grants to Local Educational Agencies	84.010A	12,715
15610112101912054	Title I Grants to Local Educational Agencies	84.010A	562
15610112101912056	Title I Grants to Local Educational Agencies	84.010A	21,192
15610112101912058	Title I Grants to Local Educational Agencies	84.010A	1,132
15610112101912059	Title I Grants to Local Educational Agencies	84.010A	3,436
15610112101912072	Title I Grants to Local Educational Agencies	84.010A	2,515
15610112101912078	Title I Grants to Local Educational Agencies	84.010A	3,209
15610112101912082	Title I Grants to Local Educational Agencies	84.010A	3,552
15610112101912094	Title I Grants to Local Educational Agencies	84.010A	57,006
15610112101912102	Title I Grants to Local Educational Agencies	84.010A	50,990
15610112101912104	Title I Grants to Local Educational Agencies	84.010A	138
15610112101912110	Title I Grants to Local Educational Agencies	84.010A	35,710
15610112101912115	Title I Grants to Local Educational Agencies	84.010A	1,828
15610112101912123	Title I Grants to Local Educational Agencies	84.010A	2,119
15610112101912125	Title I Grants to Local Educational Agencies	84.010A	4,105
15610112101912127	Title I Grants to Local Educational Agencies	84.010A	305
15610112101912132	Title I Grants to Local Educational Agencies	84.010A	9,952
15610112101912140	Title I Grants to Local Educational Agencies	84.010A	28,806
15610112101912144	Title I Grants to Local Educational Agencies	84.010A	-
15610112101912154	Title I Grants to Local Educational Agencies	84.010A	13,630
15610112101912155	Title I Grants to Local Educational Agencies	84.010A	184
15610112101912163	Title I Grants to Local Educational Agencies	84.010A	2,723
15610112101912168	Title I Grants to Local Educational Agencies	84.010A	39,907
15610112101912170	Title I Grants to Local Educational Agencies	84.010A	9,225
15610112101912174	Title I Grants to Local Educational Agencies	84.010A	(33)
15610112101912179	Title I Grants to Local Educational Agencies	84.010A	25,899
15610112101912180	Title I Grants to Local Educational Agencies	84.010A	17,539
15610112101912185	Title I Grants to Local Educational Agencies	84.010A	55,211
15610112101912187	Title I Grants to Local Educational Agencies	84.010A	4,368
15610112101912194	Title I Grants to Local Educational Agencies	84.010A	191
15610112101912210	Title I Grants to Local Educational Agencies	84.010A	96
15610112101912223	Title I Grants to Local Educational Agencies	84.010A	6,429
15610112101912225	Title I Grants to Local Educational Agencies	84.010A	691
15610112101912227	Title I Grants to Local Educational Agencies	84.010A	4,343
15610112101912232	Title I Grants to Local Educational Agencies	84.010A	17,832
15610112101912243	Title I Grants to Local Educational Agencies	84.010A	86,627
15610112101912247	Title I Grants to Local Educational Agencies	84.010A	18,017
15610112101912257	Title I Grants to Local Educational Agencies	84.010A	527
15610112101912262	Title I Grants to Local Educational Agencies	84.010A	881
15610112101912271	Title I Grants to Local Educational Agencies	84.010A	250
15610112101912283	Title I Grants to Local Educational Agencies	84.010A	1,008
15610112101912298	Title I Grants to Local Educational Agencies	84.010A	307
15610112101912300	Title I Grants to Local Educational Agencies	84.010A	5,469
15610112101912310	Title I Grants to Local Educational Agencies	84.010A	259
15610112101912329	Title I Grants to Local Educational Agencies	84.010A	313
15610112101912340	Title I Grants to Local Educational Agencies	84.010A	8,125
15610112101912349	Title I Grants to Local Educational Agencies	84.010A	91,540
15610112101912358	Title I Grants to Local Educational Agencies	84.010A	123
15610112101912369	Title I Grants to Local Educational Agencies	84.010A	1,549
15610112101912371	Title I Grants to Local Educational Agencies	84.010A	19,170
15610112101912378	Title I Grants to Local Educational Agencies	84.010A	23,761
15610112101912382	Title I Grants to Local Educational Agencies	84.010A	50
15610112101912383	Title I Grants to Local Educational Agencies	84.010A	197
15610112101912456	Title I Grants to Local Educational Agencies	84.010A	78,226
15610112101912470	Title I Grants to Local Educational Agencies	84.010A	3,165
15610112101912473	Title I Grants to Local Educational Agencies	84.010A	4,695
15610112101912475	Title I Grants to Local Educational Agencies	84.010A	7,599
15610112101912476	Title I Grants to Local Educational Agencies	84.010A	46,250
15610112101912477	Title I Grants to Local Educational Agencies	84.010A	15,645
15610112101912479	Title I Grants to Local Educational Agencies	84.010A	12,642
16610101101912	Title I Grants to Local Educational Agencies	84.010A	72,489,424
15610101101912	Title I Grants to Local Educational Agencies	84.010A	6,046,752
16615001101912	Migrant Education-State Grant Program	84.011A	416,915
15615001101912	Migrant Education-State Grant Program	84.011A	64,797
166600011019126600	Special Education-Grants to States	84.027A	32,977,943
156600011019126600	Special Education-Grants to States	84.027A	4,268,900
16660006101912	Special Education-Grants to States	84.027A	2,053,957

**HOUSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Pass-Through Grantor's Number	Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Total Expenditures
16420006101912	Career and Technical Education Basic Grants to State	84.048A	2,966,189
15420006101912	Career and Technical Education Basic Grants to State	84.048A	(3,087)
166610011019126610	Special Education-Preschool Grants	84.173A	616,838
156610011019126610	Special Education-Preschool Grants	84.173A	45,430
166950167110021	Twenty-First Century Community Learning Centers	84.287C	2,067,188
156950167110021	Twenty-First Century Community Learning Centers	84.287C	276,374
166950197110015	Twenty-First Century Community Learning Centers	84.287C	1,745,108
156950197110010	Twenty-First Century Community Learning Centers	84.287C	158,268
51061301	Advanced Placement Incentive Program	84.330B	1,670
16671001101912	English Language Acquisition State Grants	84.365A	4,379,530
15671001101912	English Language Acquisition State Grants	84.365A	1,196,597
16671003101912	English Language Acquisition State Grants	84.365A	1,080,546
15671003101912	English Language Acquisition State Grants	84.365A	473,596
156711037110027	English Language Acquisition State Grants	84.365B	33,631
16694501101912	Improving Teacher Quality State Grants	84.367A	8,094,039
15694501101912	Improving Teacher Quality State Grants	84.367A	4,670,173
69551602	Grants for State Assessments and Related Activities	84.369A	37,387
69551502	Grants for State Assessments and Related Activities	84.369A	133,011
146107107110006	School Improvement Grants	84.377A	1,498,137
136107257110002	School Improvement Grants	84.377A	164,483
136107257110003	School Improvement Grants	84.377A	262,434
Total Pass-Through Texas Education Agency			154,175,987
Pass-Through Education Service Centers:			
16-016	Education for Homeless Children and Youth	84.196A	177,519
15-058	Education for Homeless Children and Youth	84.196A	51,940
156600021019506674	Special Education-Grants to State	84.027A	9,959
166600111019506673	Special Education-Grants to State	84.027A	226,216
156600111019506673	Special Education-Grants to State	84.027A	17,105
163911011019503911	Special Education-Grants for Infants and Families	84.181A	2,538
Total Pass-Through Education Service Centers			485,277
Pass-Through Harris County Department of Education:			
166950197110013	Twenty-First Century Community Learning Centers	84.287C	151,678
146950217110014	Twenty-First Century Community Learning Centers	84.287C	630
Total Pass-Through Harris County Department of Education			152,308
Pass-Through the Ohio State University:			
60031733/U350C110001	Transition to Teaching Program	84.350C	122,961
Total Pass-Through the Ohio State University			122,961
Pass-Through Houston Community College System:			
P120A110109	Minority Science and Engineering Improvement Program -Astra STEM	84.120	10,057
Total Pass-Through Houston Community College System			10,057
Total U.S. Department of Education			173,950,812
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
5U87PS004142	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD and School-Based Surveillance	93.079	509,442
H17MC29438-01	Maternal and Child Health Federal Consolidated Programs	93.110	3,852
5U79SM060290	Substance Abuse and Mental Health Services	93.243	44,497
N/A	Medical Assistance Program	93.778	670,195
Total Direct Program			1,227,986

HOUSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Pass-Through Grantor's Number	Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Total Expenditures
0010382N/5TPIAH000072	Pass-Through the University of Texas Health Science Center at Houston: Teenage Pregnancy Prevention Program	93.297	113,350
	Total Pass-Through the University of Texas Health Science Center at Houston		113,350
529-15-0063-00003A	Pass-Through Texas Health and Human Services Commission: Refugee and Entrant Assistance - Discretionary Grants	93.576	104,473
529-15-0063-00003	Refugee and Entrant Assistance - Discretionary Grants	93.576	36,889
	Total Pass-Through Texas Health and Human Services Commission		141,362
2816CCMC24	Pass-Through Harris County Department of Education: Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	343,605
2814CCMC24	Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	44,234
2815CCMC24	Child Care Mandatory & Matching Funds of the Child Care and Development Fund	93.596	52,383
	Total Pass-Through Harris County Department of Education		440,222
2016-001350-00	Pass-Through Texas Department of State Health Services: Preventive Health and Health Services Block Grant	93.994	92,568
2015-001350-00	Preventive Health and Health Services Block Grant	93.994	19,232
	Total Pass-Through Texas Department of State Health Services		111,800
	Total U.S. Department of Health and Human Services		2,034,720
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
GF4236-3/12ACHTX0010007	Pass-Through the University of North Texas: AmeriCorps	94.006	12,485
GF4190-4/12ACHTX0010007	AmeriCorps	94.006	2,000
	Total Corporation for National and Community Service		14,485
	TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 293,985,943</u>

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

(Concluded)

HOUSTON INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

1. The Houston Independent School District (the "District") utilizes the funds specified in the Texas Education Agency Financial Accountability System Resource Guide.

The Special Revenue Fund is used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

National School Lunch Program, School Breakfast Program, Summer Food Program, and Child and Adult Care Food Program revenues are accounted for in the Food Services Enterprise Fund.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental funds are accounted for using a current-financial-resources measurement focus. All federal grant funds are accounted for in the Special Revenue Fund, a component of the governmental funds. With this measurement focus, only current assets and current liabilities, generally, are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified-accrual basis of accounting is used for the governmental funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (measurable and available) and expenditures in the accounting period in which the fund liability is incurred, except that principal and interest on general long-term debt are recognized when due.

Federal grant funds are considered to be earned when all eligibility requirements have been met. Any excess of revenues or expenditures is recorded as unearned revenues or accounts receivable, respectively.

3. The period of availability for federal grant funds for the purpose of liquidating outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, *Period of Availability of Federal Funds, Part 3, OMB Uniform Guidance*.
4. The disbursement of funds received under federal grant programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. In the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types or on the overall financial position of the District at June 30, 2016.

Federal financial expenditures are reported in the financial statements as follows:

Total federal sources per financial statements for Governmental Funds	\$ 178,068,562
Total grants from federal agencies per financial statements for Enterprise Funds	<u>115,917,381</u>
Total federal expenditures on Schedule of Expenditures of Federal Awards	<u>\$ 293,985,943</u>

HOUSTON INDEPENDENT SCHOOL DISTRICT

STATUS OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2016

Section II – Findings Related to the Financial Statements**Finding 2015-001:**

Finding: The District utilizes a form of construction contracting referred to as Job Order Contracting (“JOC”), which has a District imposed limit of use not to exceed \$1,000,000 per campus per year. In addition, according to Texas Government Code Section 2269.403, the Board of Education would be required to approve each job, task, or purchase order that exceeds \$500,000. We noted one instance in which the \$1,000,000 per campus limit was exceeded. In addition, the District is currently evaluating whether the \$500,000 limit per job, task, or purchase order was exceeded.

Recommendation: Evaluate existing internal controls to ensure compliance with internal policy and Texas Government Code.

Views of Responsible Officials: See Corrective Action Plan

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

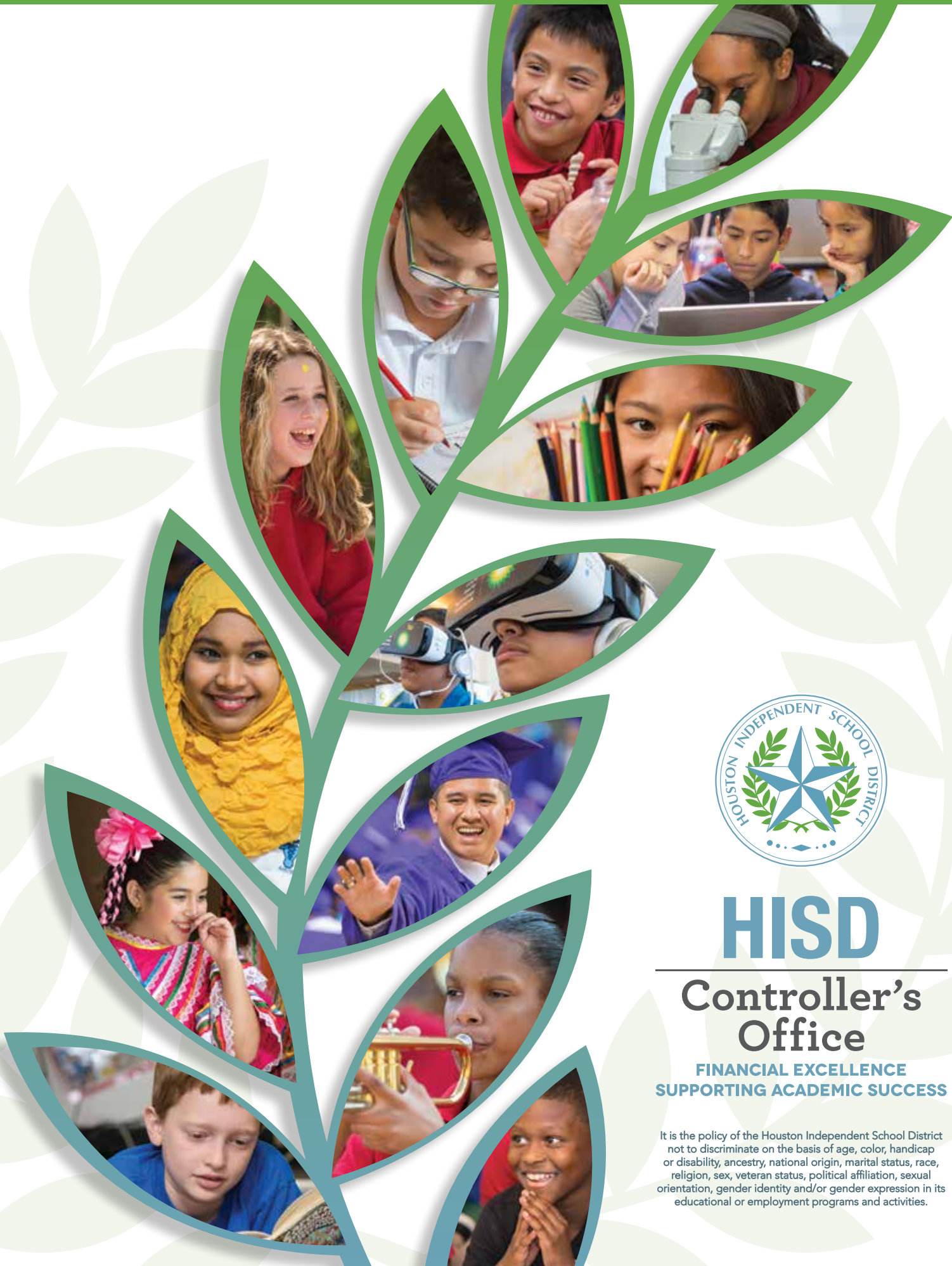
Section IV - Corrective Action Plan**2015-001: Noncompliance and Significant Deficiency in Internal Controls over Job Order Contracting**

Corrective Action Plan: As per the recommendation, existing internal controls were evaluated and new policies and procedures were implemented along with process improvement techniques. In addition, a training session covering Job Order Contracting ("JOC") was conducted in October 2015.

Estimated Completion Date: October 2015

Management Contact: Sundaresh Kamath, Officer of Construction and Facility Services

Status: Complete



HISD

Controller's Office

**FINANCIAL EXCELLENCE
SUPPORTING ACADEMIC SUCCESS**

It is the policy of the Houston Independent School District not to discriminate on the basis of age, color, handicap or disability, ancestry, national origin, marital status, race, religion, sex, veteran status, political affiliation, sexual orientation, gender identity and/or gender expression in its educational or employment programs and activities.