



2017 SINGLE AUDIT REPORT

For the fiscal year ended June 30, 2017

Houston • Texas

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*

The 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, 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, 2017, 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 9, 2017.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questions costs that we consider to be a material weaknesses and is listed as finding 2017-03.

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*.

Management's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Deloitte's Touche LLP

November 9, 2017



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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 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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-1 and 2017-2. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the District as of and for the year ended June 30, 2017, and have issued our report thereon dated November 9, 2017, 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 Tsvetle LLP

November 9, 2017

HOUSTON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**Section I — Summary of Auditor's Results:****Financial Statements**

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes |
| Significant deficiency(ies) identified not considered to be material weaknesses? | None Reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | Yes |

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------------|---|
| 10.553, 10.555, 10.559 | Child Nutrition Cluster |
| 84.027A, 84.173A | Special Education 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 Major Program**2017-01: Noncompliance and Deficiency related to Eligibility**

Program: Child Nutrition Cluster
10.553 – School Breakfast Program
10.555 - National School Lunch Program
10.559 - Summer Food Service Program for Children
U.S. Department of Agriculture

Criteria/Requirement: The District is responsible for ensuring compliance with all applicable provisions of the Child Nutrition Cluster as prescribed by the U.S. Department of Agriculture. According to requirements included in the Uniform Grant Guidance, households applying for free or reduced meals must submit an income application. Children whose households fall below specified nationwide income eligibility requirements may receive meals at no charge or at a reduced price. Children who have been determined ineligible for free or reduced price school meals are required to pay the full price for their meals.

Condition: As part of our eligibility testing, we noted that 1 out of 80 selections of submitted applications for Free and Reduced Meals was inappropriately recorded with a status of Reduced rather than Paid according to USDA Income Guidelines. The difference between the Reduced reimbursement rate and the Paid reimbursement rate for the number of meals served to the student resulted in a difference of approximately \$444 total known questioned costs.

Cause: Applications are scanned into the system and then manually reviewed by Nutrition Service employees to ensure the scan read the application accurately. During the review process, an employee did not identify the scanned version's omission of an income line item, resulting in the total income appearing lower.

Effect: The selected student was incorrectly identified as qualifying for Reduced status and the District received the incorrect amount of reimbursement.

Questioned Costs: \$444 total known questioned costs related to the one incorrect eligibility selection.

Perspective: The violation in program eligibility requirements could result in revocation of current funds or denial of future funds due to noncompliance with the program agreement.

Recommendation: The District should review all submitted applications in closer detail for accuracy and completeness to ensure that they adhere to the eligibility requirements as required by the U.S. Department of Agriculture.

View of responsible officials: See Corrective Action Plan

2017-02: Noncompliance related to Procurement

Program: Child Nutrition Cluster
10.553 – School Breakfast Program
10.555 - National School Lunch Program
10.559 - Summer Food Service Program for Children
U.S. Department of Agriculture

Criteria/Requirement: The District is responsible for following Federal and State statutes and District policy related to procurement, suspension, and debarment for the Child Nutrition Cluster as prescribed by the U.S. Department of Agriculture.

Condition: We noted that 2 out of 10 vendor selections that we made related to adherence to procurement standards for the program did not go through the appropriate procurement process.

Cause: The District previously used a third party food management service which would make purchases for the program on behalf of the District. During the current year, the agreement with the third party was terminated. As a result, the purchases previously made by the third party through the termination date were paid directly by the District. As these vendors were selected by the third party and not the District, the vendors did not go through the District's procurement process.

Effect: Vendors were used by the District without going through the approved procurement process. As a result, there was not an equal opportunity for businesses to respond to procurement requests of the District.

Questioned Costs: Not Applicable

Perspective: The violation in program procurement, suspension, and debarment requirements could result in revocation of current funds or denial of future funds due to noncompliance with the program agreement.

Recommendation: The District should review all vendors used, including those used by third party management services, to ensure the District adheres to Federal and State statute and District policy related to procurement, suspension, and debarment

View of responsible officials: See Corrective Action Plan

Section III: Findings Related to the Financial Statements**2017-03: Material Weakness related to General Information Technology Controls**

Program: Not Applicable

Criteria: The District is responsible for maintaining access controls over general information technology systems.

Condition and Cause: During our testing of general information technology ("IT") controls, we observed that the District did not have effective access security controls in place to cover the SAP environment, including SAP ECC, SAP SRM, and SAP GRC. Inappropriate users with privileged access to SAP existed which gave them the ability to manage security, import changes to production, execute all transactions, modify programs and tables, open/close the SAP client, and make changes directly in the production instances. Additionally, the District did not have controls in place to monitor the use of highly privileged accounts and the opening/closing of the SAP client which allows changes to be made directly in production.

Effect: Individuals had the ability to maintain access they no longer required for their job function, had access to make inappropriate changes to the system, including access to directly modifying data in tables, execute and modify programs, process transactions outside of normal duties, and bypass automated controls.

Questioned Costs: Not Applicable

Recommendation: The District should review the controls related with general IT controls and remove inappropriate access and reconfigure settings. Further, management should implement a process for monitoring controls.

View of responsible officials: See Corrective Action Plan

Section IV – Corrective Action Plans

Corrective Action Plan - 2017-01 Noncompliance and Deficiency related to Eligibility

Corrective Action Plan: All employees responsible for processing of student eligibility applications will be retrained to avoid future errors.

Estimated Completion Date: November 30, 2017

Management Contact: Jennifer Boesch, General Manager of Nutrition Services

Status: In process

Corrective Action Plan - 2017-02 Noncompliance related to Procurement

Corrective Action Plan: Nutrition Services staff will work with the Procurement Department to ensure that all purchases adhere to Federal and State statute and district policy related to procurement, suspension, and debarment.

Estimated Completion Date: On-going

Management Contact: Rene Barajas, Chief Financial Officer

Status: In-Process

Corrective Action Plan - 2017-03 Material Weakness related to General Information Technology Controls

Corrective Action Plan:

1. On June 29, 2017 Management completed a change control and removed inappropriate access and appropriately configured settings. Additionally, management implemented a monitoring control for standard SAP accounts, privileged profiles, and SCC4/SE06 setting.
2. As per the recommendation, the District put systematic controls in place to monitor the use of highly privileged accounts and the opening/closing of the SAP client which allows changes to be made directly in production.

Estimated Completion Date:

1. June 30, 2017
2. October 2017

Management Contact: Lenny Schad, Chief Technology Officer

Status: Resolved

HOUSTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| 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 | \$ 7,038,835 |
| N/A | Summer Food Service Program for Children | 10.559 | 360,929 |
| Non-Cash Assistance Subtotal | | | <u>7,399,764</u> |
| Cash Assistance: | | | |
| N/A | School Breakfast Program | 10.553 | 37,040,463 |
| N/A | National School Lunch Program | 10.555 | 70,774,415 |
| N/A | Child and Adult Care Food Program | 10.558 | 2,174,821 |
| N/A | Summer Food Service Program for Children | 10.559 | 3,629,092 |
| Cash Assistance Subtotal | | | <u>113,618,791</u> |
| Total U.S. Department of Agriculture—Food and Nutrition Service | | | <u>121,018,555</u> |
| <u>U.S. DEPARTMENT OF DEFENSE</u> | | | |
| Direct Program: | | | |
| N/A | JROTC Career Academy | 12.000 | 1,999,429 |
| Total U.S. Department of Defense | | | <u>1,999,429</u> |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Pass-Through City of Houston/Department of Housing and Community Development: | | | |
| 4600014230/2017-0076 | Community Development Block Grant | 14.218 | 50,339 |
| Total U.S. Department of Housing and Urban Development | | | <u>50,339</u> |
| <u>U.S. DEPARTMENT OF ENERGY</u> | | | |
| Pass-Through State Energy Conservation Office: | | | |
| CM1606/CM1607 | State Energy Program | 81.041 | 160,000 |
| Total U.S. Department of Energy | | | <u>160,000</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Direct Program: | | | |
| U165A130045 | Magnet Schools Assistance | 84.165A | 3,475,317 |
| S215G140125 | Fund for the Improvement of Education | 84.215G | 139,080 |
| S374A100018 | Teacher Incentive Fund | 84.374A | 283,490 |
| S374B120011 | Teacher Incentive Fund | 84.374B | 3,353,881 |
| B416A140166 | Race to the Top - District | 84.416A | 5,996,491 |
| Total Direct Program | | | <u>13,248,259</u> |
| Pass-Through Texas Education Agency: | | | |
| 17610112101912000 | Title I Grants to Local Educational Agencies | 84.010A | 5,272,969 |
| 16610112101912000 | Title I Grants to Local Educational Agencies | 84.010A | 591,956 |
| 176101101101912 | Title I Grants to Local Educational Agencies | 84.010A | 80,304,701 |
| 166101101101912 | Title I Grants to Local Educational Agencies | 84.010A | 8,168,161 |
| 17610103101912 | Title I Grants to Local Educational Agencies | 84.010A | 160,714 |
| 17615001101912 | Migrant Education-State Grant Program | 84.011A | 456,287 |
| 16615001101912 | Migrant Education-State Grant Program | 84.011A | 71,559 |
| 176600011019126600 | Special Education-Grants to States | 84.027A | 32,487,086 |
| 166600011019126600 | Special Education-Grants to States | 84.027A | 4,306,675 |
| 176600061019126680 | Special Education-Grants to States | 84.027A | 1,470,512 |
| 16660006101912 | Special Education-Grants to States | 84.027A | 226,840 |
| 17420006101912 | Career and Technical Education Basic Grants to State | 84.048A | 2,457,377 |

HOUSTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| 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 | 68,360 |
| 176610011019126610 | Special Education-Preschool Grants | 84.173A | 395,448 |
| 166610011019126610 | Special Education-Preschool Grants | 84.173A | 51,217 |
| 176950197110015 | Twenty-First Century Community Learning Centers | 84.287C | 1,894,728 |
| 166950197110015 | Twenty-First Century Community Learning Centers | 84.287C | 323,952 |
| 176950247110016 | Twenty-First Century Community Learning Centers | 84.287C | 1,614,458 |
| 166950167110021 | Twenty-First Century Community Learning Centers | 84.287C | 297,050 |
| 51061201 | Advanced Placement Incentive Program | 84.330B | 34,860 |
| 17671001101912 | English Language Acquisition State Grants | 84.365A | 4,493,934 |
| 16671001101912 | English Language Acquisition State Grants | 84.365A | 640,500 |
| 17671003101912 | English Language Acquisition State Grants | 84.365A | 931,733 |
| 16671003101912 | English Language Acquisition State Grants | 84.365A | 504,070 |
| 156711037110027 | English Language Acquisition State Grants | 84.365B | 214,552 |
| 17694501101912 | Improving Teacher Quality State Grants | 84.367A | 5,865,226 |
| 16694501101912 | Improving Teacher Quality State Grants | 84.367A | 2,414,074 |
| 69551702 | Grants for State Assessments and Related Activities | 84.369A | 225,510 |
| 69551602 | Grants for State Assessments and Related Activities | 84.369A | 185,113 |
| 166107307110005 | School Improvement Grants | 84.377A | 255,987 |
| 146107107110006 | School Improvement Grants | 84.377A | 1,418,869 |
| 136107257110002 | School Improvement Grants | 84.377A | 1,430,676 |
| 136107257110003 | School Improvement Grants | 84.377A | 1,292,822 |
| | Total Pass-Through Texas Education Agency | | 160,527,976 |
| | Pass-Through Education Service Centers: | | |
| 176600111019506673 | Special Education-Grants to State | 84.027A | 258,640 |
| 166600111019506673 | Special Education-Grants to State | 84.027A | 35,963 |
| 173911011019503911 | Special Education-Grants for Infants and Families | 84.181A | 1,277 |
| 16-016 | Education for Homeless Children and Youth | 84.196A | 40,591 |
| 17-024 | Education for Homeless Children and Youth | 84.196A | 182,425 |
| | Total Pass-Through Education Service Centers | | 518,896 |
| | Pass-Through Harris County Department of Education: | | |
| 176950197110013 | Twenty-First Century Community Learning Centers | 84.287C | 200,679 |
| 166950197110013 | Twenty-First Century Community Learning Centers | 84.287C | 20,140 |
| | Total Pass-Through Harris County Department of Education | | 220,819 |
| | Pass-Through the Ohio State University: | | |
| 60031733/U350C110001 | Transition to Teaching Program | 84.350C | 84,153 |
| | Total Pass-Through the Ohio State University | | 84,153 |
| | Pass-Through Children's Literacy Initiative: | | |
| U411A150002 | Education Innovation and Research | 84.411A | 18,238 |
| | Total Pass-Through Children's Literacy Initiative | | 18,238 |
| | Total U.S. Department of Education | | 174,618,341 |
| | <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 | 282,166 |
| H17MC29438 | Maternal and Child Health Federal Consolidated Programs | 93.110 | 24,858 |
| N/A | Medical Assistance Program | 93.778 | 506,539 |
| | Total Direct Program | | 813,563 |
| | Pass-Through Texas Health and Human Services Commission: | | |
| 529-15-0063-00003A | Refugee and Entrant Assistance - Discretionary Grants | 93.576 | 11,258 |
| | Total Pass-Through Texas Health and Human Services Commission | | 11,258 |

HOUSTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| Pass-Through Grantor's Number | Federal Grantor/ Pass-Through Grantor/ Program Title | CFDA Number | Total Expenditures |
|-------------------------------|--|-------------|-----------------------|
| | Pass-Through Harris County Department of Education: | | |
| 2817CCMC24 | Child Care Mandatory & Matching Funds of the Child Care and Development Fund | 93.596 | 211,706 |
| 2816CCMC24 | Child Care Mandatory & Matching Funds of the Child Care and Development Fund | 93.596 | 18,122 |
| 2815CCMC24 | Child Care Mandatory & Matching Funds of the Child Care and Development Fund | 93.596 | 8,446 |
| | Total Pass-Through Harris County Department of Education | | <u>238,274</u> |
| | Pass-Through Gateway to Care: | | |
| 1Z0CMS331531-00 | Children's Health Insurance Program (CHIP) | 93.767 | 51,512 |
| | Total Pass-Through Gateway to Care | | <u>51,512</u> |
| | Pass-Through Texas Department of State Health Services: | | |
| 2016-001350-00 | Preventive Health and Health Services Block Grant | 93.994 | 114,486 |
| | Total Pass-Through Texas Department of State Health Services | | <u>114,486</u> |
| | Total U.S. Department of Health and Human Services | | <u>1,229,093</u> |
| | <u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u> | | |
| | Pass-Through the University of North Texas: | | |
| GF40025-4/15ACHTX0010005 | AmeriCorps | 94.006 | 28,470 |
| GF4190-4/12ACHTX0010007 | AmeriCorps | 94.006 | 16,527 |
| | Total Corporation for National and Community Service | | <u>44,997</u> |
| | <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | |
| | Pass-Through Texas Department of Public Safety: | | |
| 4269 | Disaster Grants - Public Assistance | 97.036 | 183,342 |
| | Total U.S. Department of Homeland Security | | <u>183,342</u> |
| | TOTAL FEDERAL FINANCIAL ASSISTANCE | | <u>\$ 299,304,096</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, 2017

1. The Houston Independent School District (the "District") utilizes the funds specified in the Texas Education Agency Financial Accountability System Resource Guide. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

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, 2017.

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

| | |
|--|-----------------------|
| Total federal sources per financial statements for Governmental Funds | \$ 178,285,541 |
| Total grants from federal agencies per financial statements for Enterprise Funds | <u>121,018,555</u> |
| Total federal expenditures on Schedule of Expenditures of Federal Awards | <u>\$ 299,304,096</u> |

5. The District has elected not to use the 10-percent de minimis indirect cost rate per Uniform Guidance (2.CFR.200.414).

HOUSTON INDEPENDENT SCHOOL DISTRICT

STATUS OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2017

Section V – Findings Related to the Financial Statements

No matters were reported.

Section VI – Federal Award Findings and Questioned Costs

No matters were reported.



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.