

NATIONAL SCIENCE FOUNDATION
4201 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22230



OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

Date: August 30, 2002

To: Ms. Donna Fortunat, Director
Division of Contracts and Oversight (CPO)

Ms. Mary Santonastasso, Director
Division of Grants and Agreements (DGA)

From: *Deborah Cureton*
Ms. Deborah Cureton
Associate Inspector General for Audit

Subject: Audit Report No. 02-1017
Houston Independent School District

Attached for your information is a copy of the subject final financial and compliance audit report. The report prepared by McBride, Lock & Associates, an independent public accounting firm under contract with NSF, is for the audit of NSF Cooperative Agreement ESR-9816227.

The auditors did not report any financial, internal controls, or compliance findings. Also, we are providing a copy of this memorandum to the Division of Educational System Reform (ESR) for their information.

We thank you and your staff for any assistance that you may have extended to the OIG staff in regards to this audit.

Attachments

cc: Dr. Costello Brown, Division Director, EHR/ESR

Houston Independent School District,
3830 Richmond Avenue
Houston, Texas 77027

National Science Foundation Cooperative Agreement Number ESR-9816227

Financial Schedule:

and

Independent Auditor Reports

For the period-September 1999 to June 2001

McBRIDE LOCK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

AUG 23, 2002

Houston Independent School District
3830 Richmond Avenue
Houston, Texas, 77027

National Science Foundation Cooperative Agreement Number ESR-9816227

Financial Schedule

and

Independent Auditor's Reports

For the period September 1, 1999 to June 30, 2001

Houston Independent School District

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SECTION I

INTRODUCTION AND AUDIT RESULTS

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

BACKGROUND

We audited the funds awarded by the National Science Foundation (NSF) to the Houston Independent School District (HISD) under Cooperative Agreement No. ESR-9816227, for the period September 1, 1999 through June 30, 2001. This award to HISD, a citywide school district, supports HISD's project to advance significantly the educational system in mathematics, science, and technology for all of its students through the Houston Urban Learning Initiatives in a Networked Community (HU-LINC). The purpose of the award is to stimulate dramatic improvement in (1) teaching and learning that leads to high achievement in challenging science and mathematics by all students, enabling significantly more students to pursue careers in science, mathematics, and technology (SMT); (2) establish and expand a unified system of coalitions that link students, teachers, families, and community members in Houston's educational institutions with the city's vast and diverse resources in meaningful ways; and (3) establish an infrastructure that aligns the district's policies, procedures, organizational structures, curricula, professional development and evaluation systems, and resources in order to sustain the highest quality of student learning of rigorous SMT.

The award is granted for the period from September 1, 1999 through August 31, 2004. NSF intends to provide up to \$15,000,000 and HISD agreed to provide cost sharing in the amount of \$8,418,483 to support the project for the entire award period. Under the agreement, NSF through March 31, 2001 has agreed to provide HISD a total of \$4,265,390, which HISD agreed to match with \$2,984,875. From September 1, 1999 through June 30, 2001, HISD has claimed costs aggregating \$2,346,274, as NSF funding and \$5,453,461, as its cost sharing.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

- Costs charged to the NSF award by HISD are allowable, allocable, and reasonable, in accordance with the applicable Federal cost principles and award terms and conditions; and
- HISD's systems of internal controls are adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.

Our audit was made in accordance with generally accepted auditing standards, the *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Consequently, we planned and performed the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the schedule of award costs (Schedule A), are free of material misstatement. Our

audit also assessed the accounting principles used and significant estimates made by the Awardee and evaluated the overall financial schedule presentation.

To achieve our audit objectives, we examined, on a test basis, evidence supporting the amounts and disclosures in Schedule A. Based on an assessment of risk, we selected a nonstatistical sample of costs claimed under the award to test for compliance with Federal award requirements. Based upon this sampling method, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total costs claimed, based on the relationship of costs tested to total costs. However, we believe our audit provides a reasonable basis for our opinion.

SUMMARY OF AUDIT RESULTS

Our audit of the financial report submitted by HISD to NSF on the following award did not disclose any questioned costs. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the Awardee or which require interpretation of allowability by the NSF - Division of Contracts, Policy and Oversight.

| <u>NSF Award Number</u> | <u>Award Budget</u> | <u>Claimed Costs</u> | <u>Questioned Costs</u> |
|-------------------------|---------------------|----------------------|-------------------------|
| ESR-9816227 | <u>\$4,265,390</u> | <u>\$2,346,274</u> | <u>\$ -0-</u> |

The audit also found HISD's systems of internal controls to be reasonably adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.

FOLLOW-UP OF PRIOR AUDIT FINDINGS

There was no prior audit of NSF awards to the HISD. HISD's Fiscal Year 2000 Office of Management and Budget Circular A-133 audit did not include this award as a major program and did not have any internal control or compliance findings.

EXIT CONFERENCE

An exit conference was held on January 18, 2002 at HISD's office located at 3830 Richmond Avenue, Houston, Texas. HISD was informed that no findings or recommendations would be reported.

For Houston Independent School District

For McBride, Lock & Associates

SECTION II

INDEPENDENT AUDITOR'S REPORTS

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL SCHEDULE

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

We audited the costs claimed by the Houston Independent School District (HISD) to the National Science Foundation (NSF) on the Federal Cash Transactions Report - Federal Share of Net Disbursements for the NSF award listed below. This Federal Cash Transactions Report, as presented in the schedule of award costs (Schedule A) is the responsibility of HISD's management. Our responsibility is to express an opinion on this schedule based on our audit.

| <u>Award Number</u> | <u>Award Period</u> | <u>Audit Period</u> |
|---------------------|---------------------|---------------------|
| ESR-9816227 | 9/1/99 - 8/31/04 | 9/1/99 - 6/30/01 |

We conducted our audit in accordance with generally accepted auditing standards, the *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared for the purpose of complying with the requirements of the *NSF Audit Guide* as [described in](#) Note 1, and is not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the costs claimed on the Federal Cash Transactions Report - Federal Share of Net Disbursements as presented in the schedule of award costs (Schedule A), for the period September 1, 1999 to June 30, 2001 in conformity with the *NSF Grant Policy Manual*, the award agreement, and basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2002 on our consideration of HISD's internal control structure and a report dated January 18, 2002 on its compliance with laws and regulations.

This report is intended solely for the information and use of the NSF, the HISD's management, the NSF's Office of Inspector General, the Office of Management and Budget, and the Congress of the United States, and is not intended to be, and should not be used by anyone other than these specified parties.

McBride, Lock & Associates
McBride, Lock & Associates

January 18, 2002

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

We audited the schedule of award costs, as presented in Schedule A which summarizes the financial reports submitted by the Houston Independent School District (HISD) to the National Science Foundation (NSF) for the award listed below, and have issued our report thereon dated January 18, 2002.

| <u>Award Number</u> | <u>Award Period</u> | <u>Audit Period</u> |
|---------------------|---------------------|---------------------|
| ESR-9816227 | 9/1/99 - 8/31/04 | 9/1/99 - 6/30/01 |

We conducted our audit in accordance with generally accepted auditing standards, the *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

Compliance with applicable laws and regulations and the provisions of the award applicable to HISD is the responsibility of HISD's management. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of HISD's compliance with certain provisions of applicable laws, regulations, and the provisions of the award. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedule. Accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *NSF Audit Guide*.

This report is intended solely for the information and use of the NSF, the HISD's-
management, the NSF's Office of Inspector General, the Office of Management and Budget, and
the Congress of the United States, and is not intended to be, and should not be used by anyone
other than these specified parties.

McBride, Lock & Associates
McBride, Lock & Associates

January 18, 2002

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

We audited the schedule of award costs, as presented in Schedule A which summarizes the financial report submitted by the Houston Independent School District (HISD) to the National Science Foundation (NSF) for the award listed below, and have issued our report thereon dated January 18, 2002.

| <u>Award Number</u> | <u>Award Period</u> | <u>Audit Period</u> |
|---------------------|---------------------|---------------------|
| ESR-9816227 | 9/1/99 - 8/31/04 | 9/1/99 - 6/30/01 |

We conducted our audit in accordance with generally accepted auditing standards, the *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and the *NSF Audit Guide* (September 1996). Those standards and the *NSF Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

HISD's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with accounting principles prescribed by NSF. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of Schedule A for the period September 1, 1999 through June 30, 2001, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect HISD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. However, because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

This report is intended solely for the information and use of the NSF, the HISD's management, the NSF's Office of Inspector General, the Office of Management and Budget, and the Congress of the United States, and is not intended to be, and should not be used by anyone other than these specified parties.

McBride, Lock & Associates
McBride, Lock & Associates

January 18, 2002

SECTION III
FINANCIAL SCHEDULE

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Houston Independent School District
Notes to the Financial Schedules
From September 1, 1999 - June 30, 2001

1. Summary of Significant Accounting Policies:

Accounting Basis

The accompanying financial schedule has been prepared in conformity with National Science Foundation (NSF) instructions. Schedule A has been prepared from the reports submitted to NSF. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess of cash received from NSF over final expenditures is due back to NSF.

B. Equipment

Equipment purchases were not provided for in the NSF award.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedule.

2. Income Taxes

Houston Independent School District is a local governmental entity and is exempt from income taxes under the Internal Revenue Code.

3. NSF Cost Sharing

As set forth in the grant award, the approved cost sharing was as follows:

| Cost Sharing | National Science Foundation | Total Project Budget |
|-----------------|-----------------------------------|----------------------------|
| \$2,984,875 | \$4,265,390 | \$7,250,265 |

4. Indirect Cost Rate:

- Type of rate authorized for award - predetermined fixed rate of 2.523%.
- Period of rates - September 1, 1999 to August 31, 2004.
- Indirect cost rate used to claim cost - based on total direct costs.

HOW TO CONTACT
THE OFFICE OF INSPECTOR GENERAL

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